The African Growth and Opportunity Act and Economic Growth in Sub-Saharan Africa

by James S. Guseh and Emmanuel O. Oritsejafor

Since most sub-Saharan African countries gained independence from colonial rule in the 1960s and 1970s, achieving economic growth and development has been a central objective of governments in the region, as well as international donor organizations. The Organization of African Unity—now the African Union—was established (among other initiatives) to promote development at the economic, social, and cultural levels, and to foster the integration of African economies.[1] In order to address specific regional concerns, organizations such as the Economic Community of West African States, East African Community, and Southern African Development Community, were also established. At the same time, several international organizations, including the United Nations, African Development Bank, World Bank, and International Monetary Fund, expressed their commitment to improving economic conditions in sub-Saharan Africa (SSA) through billions of dollars worth of funding and various forms of policy consultation. In addition to the support from these international organizations, governments of many developed countries have also provided vast amounts of development assistance.

Despite the numerous institutions and substantial resources devoted to the development of SSA, success has been scattered and slow. Figure 1 presents economic growth trends in the region from 1960–2002. The average growth rate of per capita income was 2.6 percent in the 1960s, but declined to a modest rate of 0.8 percent in the 1970s. Growth was then negative for the next 15 years, until the mid-1990s. Then there was a modest recovery, reaching 3.1 percent around 2004. These figures highlight the sluggish long-term economic growth that has plagued the region and resulted in poverty, unemployment, and income inequality—issues that are central to development. In this region, the incidence of poverty and the rate of unemployment are among the highest in the world.[2] Although income inequality declined substantially between the 1960s and 1980s, it is still high relative to other regions, such as Eastern Europe, South Asia, East Asia, the Pacific, the Middle East and North Africa.[3] Only in Latin America did income inequality surpass that of SSA.

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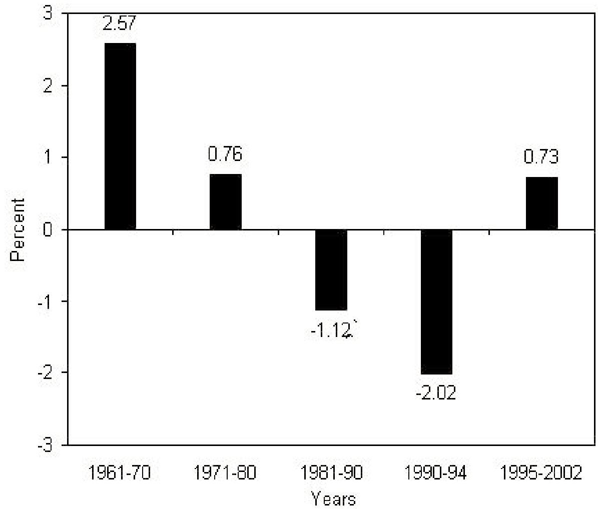
FIGURE 1: AVERAGE REAL PER CAPITA GDP GROWTH RATE IN AFRICA (1960-2002)



Problems in realizing long-term economic growth and development in the region can be attributed to the general paucity of investment resources,[4] the debt crisis, lack of political stability,[5] weak governance, and the HIV/AIDS pandemic.[6] According to the World Bank, gross domestic investment (GDI) accounted for only 17.9 percent of GDP in 2000, while foreign direct investment (FDI) in Africa declined from approximately 25 percent to 5 percent in 2003.[7] Additionally, the debt burden of most SSA countries has been a major factor in the economic decline of the continent as a whole. By the end of 2002, SSA countries alone owed foreign creditors $208.9 billion.[8] The HIV/AIDS pandemic also presents enormous social and economic development challenges. The incidence rate of HIV/AIDS in SSA is 8.4 percent, the highest in the world.[9] The impact of the disease on the most productive members of society—rural farmers, skilled workers, teachers and other professionals—will adversely affect the productive capacity of the economies in the region. The vulnerability of SSA to infectious diseases, such as HIV/AIDS, tuberculosis, and malaria, is further compounded by poverty. Nearly 50 percent of the people in SSA live on less than $1 per day. With a dearth of social infrastructure such as health care facilities and education, HIV/AIDS-related mortality rates are likely to soar.[10]

Many of the policies of the past that were adopted to address the problems of economic growth and development have not produced the desired results. In the 1980s, most SSA countries followed the World Bank Structural Adjustment Program (SAP) aimed at privatization and free markets; unfortunately, these reform programs failed to achieve the intended objectives. Loans from multilateral institutions (e.g. the

International Monetary Fund and the World Bank) and assistance from international donor organizations and other governments have not led to sustainable growth and development. Furthermore, SSA countries continue to face massive development challenges, such as military intervention in national politics, competition for participation in political and economic markets, dependence on the industrial market economies of the West for trade and loans, and corruption and plunder of state resources by African leaders.[11]

Given these economic and political problems, it is widely accepted that the future development of SSA will largely depend on good governance and the success of individual economies in attracting FDI for growth sectors,[12] as well as participation in regional and international trade. It is against this background that the Clinton Administration adopted the same development prescription that the US has employed in other developed countries. This paradigm is based on the principle that the US has profound interests in prosperity and peace worldwide and open trade helps to achieve these objectives. Therefore, US trade policy toward Africa must be shaped by the same principles as its policy toward other regions of the world. Concessions in the area of trade provide better long-term prospects for the economic development of developing countries than do concessions in aid.[13] If Africa is to develop and prosper, the region must be open to trade and investment with the United States, its regional neighbors,[14] and the rest of the world. Such openness will lead to growth, competition, and broadly based prosperity. Thus, in 2000, the Clinton Administration launched the African Growth and Opportunity Act (AGOA) with the aim of eliminating trade barriers in order to increase FDI and gain market shares in the industrial supplier sectors of SSA economies.[15]

If Africa is to develop and prosper, the region must be open to trade and investment with the United States, its regional neighbors, and the rest of the world.

The purpose of this article is to examine the extent to which the AGOA has benefited SSA. Promoting trade and development between the United States and SSA, as well as among SSA countries, are the ultimate objectives of the Act. This article will analyze the AGOA to determine the extent to which these objectives are being realized.

THE AFRICA GROWTH AND OPPORTUNITY ACT

The Clinton Administration

During the 1990s, the Clinton Administration sought to promote a stable, economically dynamic, and democratic Africa. One way in which the administration sought to achieve these goals was through trade partnerships with African countries. As stated by Witney Schneidman, Deputy Assistant Secretary of State for African Affairs during the Clinton Administration:

> *The Clinton administration has made it a priority of its foreign policy to support increased economic growth in Africa in order to accelerate/expedite the region's integration into the*

> *global economy through trade and investment. We believe that trade and investment is critical to Africa's long-term sustained development.16*

In June 1997, the Clinton Administration unveiled the Partnership for Economic Growth and Opportunity in Africa. The centerpiece of this program was the AGOA, which was signed into US law on May 18, 2000 as Title 1 of the US Trade and Development Act of 2000. This policy initiative was aimed at eliminating trade barriers in order to increase FDI and gain market share in the industrial supplier sector of the SSA economy.[17] The focus of the administration's policy under AGOA is spelled out in the following broadly stated objectives:

1. Strengthen and expand the private sector in sub-Saharan Africa, especially women owned businesses;
2. Encourage increased trade and investment between the United States and sub-Saharan Africa;
3. Reduce tariff and non-tariff barriers, as well as other obstacles to trade;
4. Expand United States assistance to sub-Saharan Africa's regional integration efforts;
5. Establish a United States and sub-Saharan Africa Trade and Investment Partnership;
6. Focus on countries committed to accountable government, economic reform, and the eradication of poverty;
7. Establish a United States-sub Saharan Economic Cooperation Forum; and
8. Support development assistance for those countries in sub-Saharan Africa attempting to build civil societies. [18]

The AGOA was also intended to be a major departure from the benefits that SSA's exports had attained under the Generalized System of Preferences (GSP). It is useful for the purpose of this study to examine the extent to which AGOA has led to changes in trade policies between the US and SSA countries when compared to the effect of GSP on these policies.

GSP is a program designed to promote economic growth in the developing world by providing preferential, duty-free entry for more than 4,650 products from 144 designated beneficiary countries and territories.[19] The program, which was authorized under the Trade Act of 1974 for a 10 year period, was instituted on January 1, 1976. It has been renewed periodically since then, most recently in 2002 when President George W. Bush signed legislation reauthorizing it through 2006. Under the GSP system, 48 SSA countries were granted preferential access to the US market. These countries were not expected to pay tariffs, but were subject to certain conditions for a range of exports under GSP. In 2000, the program covered about $4 billion of Africa's $23 billion in total exports. The margin of preference for SSA when compared with other Most Favored Nation (MFN) countries was estimated to be approximately 5 percent.[20] The AGOA is a change in policy direction from the GSP system in two major ways:

1. The existing preferential access that SSA countries enjoyed under the GSP system was extended in time.

2. AGOA also increased the range of products in which preferential access was granted. For instance, petroleum, apparel, and agricultural and industrial products were further granted preferential access.[21] Only two SSA countries, Mauritius and Kenya, faced quotas, with Mauritius being subject to quotas as high as 25 percent on its exports.

The eligibility criteria for GSP and AGOA substantially overlap, and countries must be GSP eligible in order to receive AGOA trade benefits including both expanded GSP and the apparel provisions. Although GSP eligibility does not imply AGOA eligibility, 47 of the 48 SSA countries are currently GSP eligible. Table 1 describes the coverage of products under GSP and AGOA and provides an assessment of benefits.

As indicated in Table 1, the benefits of AGOA for SSA countries are driven by compliance with the rules of origin under the GSP system. These rules are typified under two broad categories: rules of origin for non-apparel exports and rules of origin for apparel exports Under the first category, exporting countries of non-apparel products that are eligible for duty-free access under AGOA can meet the 35 percent value-added content by counting production or materials from other beneficiary countries and the US.[22] Under the second category, AGOA requires that apparel be assembled in eligible SSA countries and that the yarn and fabric be made in the US or an African country. Guidelines also state that this rule would not be applicable to the least developed countries until 2004. Furthermore, it instituted a cap of 1.5 percent of all US imports, which was expected to grow to 3.5 percent of all imports over an 8 year period.[23] The October 2000 version of AGOA (AGOA I) conferred quota-free and duty-free status to clothing articles directly imported to the US from beneficiary countries until September 30, 2008.[24] To command beneficiary status, countries were required to meet a series of political and economic conditions. As a result, 38 countries were given beneficiary status.

AGOA distinguishes between a Lesser Developed Beneficiary Country (LDBC) and other African countries with regard to clothing rules of origin. The Act defines LDBC as countries with a per-capita gross national product of less than $1,500 in 1998, as measured by the World Bank. The term, Former Beneficiary sub-Saharan African Country, means that after being designated as a beneficiary country, the country ceased to be designated as such by reason of its entering into a free trade agreement with the US. An eligible country is a country that is an eligible sub-Saharan African Country under AGOA.[25]

At least until September 30, 2004, LDBCs had preferential access on the basis of a single stage rule, meaning that only assembly and finishing of products in the country of origin was required. Non-LDBCs, such as Mauritius and South Africa, enjoy the same access on the basis of a three stage rule. The 3 stage rule states the following: (1) yarn spinning, (2) fabric weaving or knitting, and (3) assembly and finishing must take place in the country of origin, another beneficiary country, or the US. A cap of 3.5 percent by volume was applied to all US imports benefiting from AGOA preferences.[26] (See Appendix 1 for a summary of apparel rules of origin under AGOA.)

Table 1: The Africa Growth and Opportunity Act - Coverage of GSP and AGOA

Category of Import/Program	Number of Tariff Lines (8-digit HTS)	Average MFN Ad Valorem Rate[1]	SSA Exports in 2000 (million US$)	**Main Products**
Current GSP: Extended under AGOA				
Energy	10	1.5%	3,149	Energy and related products
Non-Energy	2,458 = A 1,071 = A* 1,603 = A+ Total = 5,259[2]	5.0%	776	Agricultural products, machine tools, minerals, metals, yarns and fabric, and chemicals
Subtotal GSP	6,159 (48%)		3,925 (17%)	
Already Duty Free Items				
Duty-free	3,404	0%	2,386	Fish, cocoa, fruits, juices, liquor products, tobacco, minerals, (uranium, aluminum, zinc), oils, rubber, wood, wool, stones and machine parts
AGOA: Incremental Coverage				
Energy	36	1.5%	15,569	Energy and related products
Apparel	622	12.8%	816	Apparel products
Non-energy non-apparel	1,978	9.4%	424	Agricultural products, minerals, plastics and metal products, articles of wood, watches and accessories, paper products, footwear
Subtotal AGOA	2,632 (21%)		16, 809 (73%)	
Exclusions from AGOA				
Duty between 0 and 5 percent	174	2.5%	14.5	Yarns, fabrics, agricultural products, textile footwear components, and glass fibers
Duty Greater than 5%	893	10.9%	25.4	Fibers, yarn, and other textile products
Subtotal Exclusions	1,067 (8%)			
Total	**12, 750**		**23,160**	

Table 1 Notes:

1. Includes ad valorem tariffs or the ad valorem equivalent of specific tariffs wherever applicable.
2. 'A' refers to GSP for all developing countries and 'A+' for least developed countries; 'A*' refers to GSP for all countries except those designated as ineligible under that product category.
3. This understates the true measure of protection because of the quotas on textile exporters under the MFA.

(Source: Aaditya Mattoo, Davesh Roy, and Arvind Subramanian "The Africa Growth and Opportunity Act and Its Rules of Origin: Generosity Undermined?" *World Economy* 26, no. 6, June 2003)

On October 2, 2000, President Clinton issued a proclamation designating 34 countries in sub-Saharan Africa as eligible for the trade benefits of AGOA. The proclamation was the result of opinions and suggestions offered during a public-comment period and extensive interagency deliberations of each country's performance against the eligibility criteria established in the act.[27]

The Bush Administration

The Bush Administration's policy on AGOA did not shift much from its original theme, maintaining the premise that beneficiary countries must continue to show commitment to building democratic market institutions, human rights, and good governance in return for the expanded trade with the US. Indeed, this falls in line with the notion that concessions in trade and investment provide better prospects for economic prosperity than concessions in aid. As stated by US Congressman Ed Royce, by increasing trade with African countries the US will increase the institutional building capacity of SSA governments and improve the standard of living for Africans. Such a relationship between the US and SSA countries will create an environment in which people can exercise their freedom and liberties, as well as an environment in which terrorists cannot thrive—a major concern of the US.[28]

The Bush Administration provided two amendments to AGOA: AGOA II and AGOA III. AGOA II, also known as the Trade Act of 2002, was signed by President Bush on August 6, 2002 and became effective immediately. It was designed to improve the operation of AGOA I and improve utilization of the AGOA program by SSA countries. AGOA II clarifies and narrowly expands the trade opportunities for SSA countries and encourages more investment in the region. AGOA II also proposed to increase the cap to 7 percent of all US imports benefiting from AGOA preferences and resolved problems of eligibility for certain knitwear and merino wool articles.[29] Finally, it provided additional congressional guidance to the executive branch on how to administer the textile provisions of the bill.

Although President Bush initially maintained the 34 SSA countries that had previously been declared AGOA eligible under the Clinton Administration, he later removed countries he declared ineligible and added other countries he declared eligible.[30] Currently, there are 41 AGOA eligible countries, and the US Government will work with eligible countries to institute policy reforms. The US will also help the remaining 8 SSA countries achieve eligibility.[31] Table 2 provides the list of AGOA eligible countries.

The second amendment to AGOA (AGOA III), also known as the Acceleration Act of 2004, was signed by President Bush on July 12, 2004. AGOA III, which was intended to strengthen AGOA I, approved the designation of 37 SSA countries as eligible for tariff preferences under AGOA. However, President Bush moved the Central African Republic and Eritrea from the list of beneficiary countries to the list of former beneficiary countries and accorded Angola an eligible beneficiary status.[32] AGOA III also provides the following:

1. Extension of preferential access for imports from beneficiary SSA countries

until September 30, 2015.

2. Extension of third country fabric provision for three years, from September 2004 until September 2007.
3. Additional Congressional guidance to the executive on how to administer the textile provisions of the bill.

Table 2: AGOA Eligible Countries, the Effective Date of Eligibility, and the Effective Date of Eligibility for AGOA Apparel Benefits if Applicable

	COUNTRY	DATE DECLARED AGOA ELIGIBLE	DATE DECLARED ELIGIBLE FOR APPAREL PROVISION	SPECIAL RULES FOR APPAREL
1.	Angola	December 30, 2003		
2.	Benin	October 2, 2000	January 28, 2004	Yes
3.	Botswana	October 2, 2000	August 27, 2001	Yes
4.	Burkina Faso	December 10, 2004	August 4, 2006	Yes
5.	Burundi	January 1, 2006		
6.	Cameroon	October 2, 2000	March 1, 2002	Yes
7.	Cape Verde	October 2, 2000	August 28, 2002	Yes
8.	Chad	October 2, 2000	April 26, 2006	Yes
9.	Comoros	July 1, 2008		
10.	Congo	October 2, 2000		
11.	Democratic Republic of Congo*	December 31, 2002		
12.	Djibouti			
13.	Ethiopia	October 2, 2000	August 2, 2001	Yes
14.	Gabon	October 2, 2000	March 20, 2002	No
15.	Gambia	December 31, 2002		
16.	Ghana	October 2, 2000		
17.	Guinea	October 2, 2000		
18.	Guinea –Bissau	October 2, 2000		
19.	Kenya	October 2, 2000	January 18, 2001	
20.	Lesotho	October 2, 2000	April 23, 2001	
21.	Liberia	December 29, 2006		
22.	Madagascar	October 2, 2000	March 6, 2001	Yes
23.	Malawi	October 2, 2000	August 15, 2001	Yes
24.	Mali	October 2, 2000	December 11, 2003	Yes
25.	Mauritania	June 2007		
26.	Mauritius	October 2, 2000	January 18, 2001	No
27.	Mozambique	October 2, 2000	February 8, 2002	Yes
28.	Namibia	October 2, 2000	December 3, 2001	Yes
29.	Niger	October 2, 2000	December 17, 2003	Yes
30.	Nigeria	October 2, 2000	July 14, 2004	Yes
31.	Rwanda	October 2, 2000	March 4, 2003	Yes
32.	Sao Tome and Principe	October 2, 2000		
33.	Senegal	October 2, 2000	April 23, 2002	Yes
34.	Seychelles	October 2, 2000		No
35.	Sierra Leone	October 2, 2000	April 5, 2004	Yes
36.	South Africa	October 2, 2000	March 7, 2001	No
37.	Swaziland	October 2, 2000	July 26, 2001	Yes
38.	Tanzania	October 2, 2000	February 4, 2002	Yes
39.	Togo	April 2008		
40.	Uganda	October 2, 2000	October 23, 2001	Yes
41.	Zambia	October 2, 2000	December 17, 2001	Yes

Table 2 Notes:
*AGOA trade preferences granted on October 31, 2003.

(Source: African Growth and Opportunity Act. Available at http://www.agoa.gov.)

The thrust of the Bush Administration policy objectives towards Africa was driven by 3 factors. First, there was a departure from the Clinton Administration's reliance on regional leaders to ensure regional stability. Instead, the Bush Administration emphasized a long-term approach that focuses on true regional powers that combine both economic and military capabilities. Second, the Bush Administration intended to build upon the Clinton administration's success in promoting US trade and investment with African countries as a reward for developing liberal, free market economies. This approach would serve as the basis for strengthening the AGOA. The third and final aspect of the Bush Administration's policy towards Africa, which is also consistent with the Clinton Administration's approach, is the view that African countries must become self-reliant and less dependent on the West.

African Governments and the business community believe that Obama's ascension will open doors and opportunities for Africa.

On December 20, 2006, President Bush signed another amendment to AGOA, known as the African Investment Incentive Act of 2006. This legislation, referred to as AGOA IV, extends textile and apparel provisions of the AGOA program until 2015. It also extends the third country fabric provision until 2012 and increases the cap to 3.5 percent beginning October 1, 2006.

The Obama Administration

Since assuming the office of President of the United States, Barack Obama has not defined his policy on AGOA. However, during his campaign for president in 2008, one of Obama's foreign policy advisers, Dr. Witney Schneidman, listed the following three fundamental objectives the Obama Administration would pursue in Africa, some of which are consistent with the objectives of AGOA:

1. Accelerate Africa's integration into the global economy;
2. Enhance the peace and security of African states; and
3. Strengthen relationships with those governments, institutions and civil society organizations committed to deepening democracy, accountability and reducing poverty in Africa.[33]

African Governments and the business community believe that Obama's ascension will open doors and opportunities for Africa. For instance, Kenya expects President Obama to support the current trade arrangements under AGOA. At the seventh AGOA forum held July 14-16, 2008 in Washington, D.C., Kenya's Deputy Prime-Minister, Uhuru Kenyatta, and chair of the African Consultative Group of Ministers on AGOA, said he would work closely with the new administration to expand the trade pact for the mutual benefits of their people.[34] Ministers from AGOA eligible countries at the forum requested that AGOA be made permanent and predictable in order to make the region more attractive to foreign investments, particularly from corporate America.

The challenges currently facing America and its new president are many and far more trying than they have been in recent history. It will take all of Obama's energy to reinvigorate the US economy, end the war in Iraq while shifting focus to Afghanistan, and fix America's schools and health care system, among many other pressing issues. Balancing these needs with those of SSA countries under AGOA presents a clear challenge for the Obama Administration.

ASSESSMENT OF AGOA

The passage of AGOA represented a shift from previous US trade policy towards Africa, which typically focused on aid rather than trade. It has been argued that this shift in policy, was influenced by the neo-classical paradigm that encourages economic growth through trade and investment, and through the emergent economic dynamism SSA countries appeared to have realized in the late 1990s and early 2000s.[35] Akech contends these factors, along with the realization of the size of the African market, prompted the Clinton Administration to pursue trade partnership with SSA.[36]

Table 3 presents the total monetary values and growth rates of exports and imports, and the trade balances between the US and AGOA beneficiary countries from 2000, when AGOA was adopted, to 2008. The combined values of exports of AGOA countries declined by 6.3 percent and 14.7 percent in 2001 and 2002 respectively, the first two years following the adoption of AGOA. Exports then increased very sharply, fluctuating between 15 percent and 40 percent from 2003 to 2008. Moreover, about 80 percent of AGOA exports to the United States in 2005 were petroleum products, indicating the need for more diversification of trade. On the other hand, US exports to SSA increased significantly by 23 percent in 2001, declined by 14 percent in the following year, and showed positive growth from 2003 to 2008, with the highest growth rate of 32.1 percent in 2008. Overall, the combined values of the exports of AGOA countries to the US have consistently exceeded the combined values of their imports from the US, indicating a positive trade balance in favor of the AGOA countries.

AGOA provides unrestricted access to exports for a wide range of products, such as energy and related products, as well as agricultural products and minerals to US markets.[37] Oil, consisting of crude and non-crude, continued to be the leading import from sub-Saharan Africa in 2007, with a value of $53.64 billion and accounting for 79.6 percent of all US purchases. The next leading imports were platinum (valued at $3.79 billion, accounting for 5.6 percent), and diamonds (valued at $1.53 billion, accounting for 2.3 percent). Other leading imports included: woven and knit apparel ($1.29 billion); petroleum gases and other gases ($1.10 billion); iron and steel (0.78 billion); ores, slag, and ash ($0.66 billion); motor vehicles and parts ($0.55 billion); cocoa ($0.50 billion); and organic chemicals ($0.49 billion). See Appendix 2. The leading US exports to SSA countries in 2007 were concentrated in motor vehicles, infrastructure-related machinery, agricultural commodities, and aircraft. The top three US exports were motor vehicles (valued at $1.44 billion, accounting for 10 percent of exports), oil and gas field machinery and equipment (valued at $1.30 billion, accounting for 9 percent), and oilseeds and grains—mostly wheat (valued at $1.18 billion, accounting for 8.2 percent). Other leading export categories included: aircraft and parts ($1.02 billion); construction and general purpose machinery ($0.91 billion); petroleum and coal products ($0.58 billion); other general purpose machinery ($0.45 billion); industrial chemicals ($0.41 billion); navigational, measuring, electromedical and control instruments ($0.40 billion); ships and boats, including platforms for offshore oil drilling ($0.37 billion); and resin, synthetic rubber and artificial and synthetic fibers and filament, including plastics materials ($0.37 billion). (See Appendix 3.)

Table 3: Total Trade between U.S. and AGOA Eligible Countries

Year	U.S. EXPORTS		U.S. IMPORTS		TRADE BALANCE*
	Value	Percent Growth	Value	Percent Change	
2000	5,305	-	21,874	-	16,569
2001	6,527	23.0	20,495	-6.3	13,968
2002	5,622	-13.9	17,475	-14.7	11,853
2003	6,101	8.5	24,404	39.7	18,303
2004	7,602	24.6	33,692	38.1	26,090
2005	8,164	7.4	47,006	39.5	38,842
2006	10,729	31.4	56,203	19.6	45,474
2007	12,967	20.9	64,533	14.8	51,566
2008	17,125	32.1	81,427	26.2	64,302

Table 3 Notes:
1. Based on 37 AGOA Countries (2000-2005) and 41 AGOA Countries (2006-2008)
2. US Customs Value in millions of dollars

(Source: US Department of Commerce Statistics 2006-2008)

While energy products, minerals and metals dominate US imports from SSA, textile and manufacturing industries constitute a growing share of U.S. imports under AGOA. As a result, most assessments of AGOA have focused on the apparel sector. These assessments show that the policy has produced mixed results with respect to US trade with SSA and economic growth in the region.

In their 2003 study, Mattoo, Roy, and Subramanian provided a detailed analysis of the impact of AGOA on the apparel sector. They examined both current trade and trade that would have resulted had all restrictions on SSA's exports been eliminated.[38] The restrictions focused upon were the exclusion of some products from the scope of AGOA and the imposition of stringent rules of origin requirements to qualify for the benefits under AGOA. With respect to current trade, the authors concluded that AGOA would raise the level of non-oil exports 8-11 percent, depending on the restrictiveness of the rules of origin in the non-apparel sector. Most of this increase is accounted for by the apparel sector, which is expected to see clothing exports rise by about 8.3 percent. In the case where there were no restrictions, non-oil exports would have been higher by about 43 percent. This means that AGOA, as it now stands, will yield only 19-26 percent of the benefits that could have been provided if access had been unconditional. Nearly 80 percent of the shortfall is accounted for by the rules of origin requirements in the apparel sector, which will significantly reduce exports below SSA's full potential.

Mattoo, Roy, and Subramanian also noted that while the increases in exports are a small share of these countries' GDP, the trading opportunities provided by preferential access can be harnessed in a way that promotes long-run growth. They argued that AGOA has been a significant factor in the growth of the clothing industry in sub-Saharan Africa, but the mandatory use of US fabrics (or limited regional fabric as inputs) raises SSA production costs, hence reducing the benefit of the preferences. Distance and relative efficiency considerations imply that China is likely the cheapest source of fabrics for SSA clothing producers. Clothing exports could have grown by close to 60 percent, had the rule of origin been removed.

While AGOA provides preferential access to US markets, the act clearly comes with strings attached—the principal problem being the rule of origin. The Economic Commission for Africa (ECA) presents problems associated with the rule of origin as follows:

> *To prevent third countries from passing their goods through AGOA beneficiary countries, a minimum amount of processing is necessary in the beneficiary country. However, the rules of origin for many products are difficult to meet. If production requires inputs that are not domestically available, they usually need to be imported from the preference-giving region, where they are more expensive than in third-world countries.*[39]

As a result, the rule of origin reduces the benefit of the preferences and could lead to disincentives.

The rule of origin for apparel under AGOA is a departure from the rule of origin under the Cotonou Agreement, which governs preferential access to the European Union. According to Mattoo, Davesh and Aryind:

> *The Cotonou rule of origin is based on the concept of 'double transformation,' i.e., whereby if two of the processing stages (weaving and assembly) are done in the beneficiary country, duty-free entry into the EU can be enjoyed. Under Cotonou, therefore, yarn can be sourced from anywhere in the world, whereas under AGOA the yarn must come from a beneficiary SSA country or from the United States.*[40]

Milan Vesely highlighted the economic payoff of AGOA with respect to textiles for the following countries: Madagascar, Kenya, Malawi, Mauritius and Swaziland. He noted that AGOA had achieved remarkable success in a short period of time.[41] Under AGOA, Africa supplies 3.5 percent of all US. textile imports, up from a low of 1.5 percent. As a result of AGOA, US imports from Africa have increased by 62 percent with textiles growing at a high rate of 25 percent. Furthermore, the Generalized System of Preference, which formed the basis of all AGOA regulations, has enabled US corporations to offer American consumers the benefits of lower prices and wider import choices.[42]

Ianchovichina, Mattoo, and Olarreaga assessed initiatives by the European Union, Japan and the United States to improve market access for the poorest countries. A sample of 37 SSA countries, many of which were AGOA beneficiaries, was analyzed. The study noted that improved market access for the poorest countries is widely seen as necessary to support their development efforts, a critical element for a new development round or multilateral trade negotiations.[43] Preferential access benefits the SSA-37 recipients and improves their welfare because it leads to higher prices and quantities of their exports. On the other hand, the initiatives would hurt those developing countries that are excluded, because they wold receive lower prices for their exports.[44]

AGOA is considered a unilateral position taken by the US to further strip Africans of their democratic rights to determine an effective economic policy that will serve their interests.

The apparel sector is likely to expand, with the share of real value-added generated in the sector increasing by a little over 3 percent. The reallocation of resources into apparel (and textiles) is likely to cause a small contraction in a range of these sectors. The welfare gains to SSA-37 are also small (0.02 percent) and the loss in tariff revenue for the US is also negligible, 0.06 percent of total tariff revenue. Even if the US were to grant duty free access to all SSA-37 products—the most generous interpretation of the Trade and Development Act—the impact on export revenue and welfare of SSA-37 remains small. The gains are only about twice the gains arising from free access for apparel. In terms of sector value-added, the expansion is still mostly in the apparel sector, with a small increase in the value-added in the sugar related sectors.[45] The results are not surprising given that these are really the only sectors where SSA-37 faces significant barriers in the US market.

The proposed liberalization of access to the EU market could, however, lead to much larger gains. An increase of around 2.8 percent of non-oil exports creates a 0.2 percent increase in welfare, 6 times larger than the gains from free access to the US market. The larger expansion is witnessed by the plant-based fibers, livestock, meat and dairy products sectors, followed by the sugar related sectors.[46]

The downside is that SSA-37 countries may be lured by current preferences to specialize in the production of products in which they do not have a global comparative advantage. As Most Favored Nation tariffs decline over time and preference margins are eroded, these countries could suffer significant adjustment costs, and be even worse off because they have foregone opportunities to learn-by-doing in areas where they do have a comparative advantage.[47]

AGOA is considered a unilateral position taken by the US to further strip Africans of their democratic rights to determine an effective economic policy that will serve their interests.[48] The policy, it is argued, would lead to severe reduction in government spending and provide new rights for foreign investors to buy African natural resources and state firms. Furthermore, the policy would also impose U.S.

monopoly and patent rules upon Africa.[49] By calling for minimal government interference in the economy, through measures such as less price control, AGOA suggests the kind of interference that is objectionable. This could plausibly lead to an objection to SSA countries' regulation of FDI, such as regulating the transfer of licensing necessary for promoting the benefits of investment.[50] Similarly, Kaba offered cautionary comments on the rise of this partnership, noting that U.S.–African trade partnership has the potential of supplanting Africa–European Union (EU) trade partnership, which, he argued, has not benefited African countries overtime. Nevertheless, he argued that the US–Africa trade partnership would only be realized if stakeholders such as African Americans continue to lobby for free trade between the US and Africa.[51]

The major goal of AGOA is to promote trade and FDI in SSA countries. In some countries, AGOA has increased exports to the US via textiles and garments. FDI has also increased in the export sectors. For example, in the two years since its inception, AGOA helped stimulate FDI of $12.8 million in Kenya and $78 million in Mauritius, and created approximately 200,000 jobs in the apparel industry of the beneficiary countries.[52] Moreover, the annual growth rate of exports from AGOA beneficiary countries to the US ranged from 38-40 percent between 2003 and 2008 (see Table 3). These high growth rates of exports are an indication of increased FDI.

Conclusion

Protectionist trade policies in industrial countries are among the factors that constrain exports and economic growth in developing countries. To assist African countries in their development efforts, US President Clinton adopted the development theory that open trade helps to promote prosperity and peace worldwide. This paradigm is supported by Gibbon's claim that "concessions in the area of trade provide better long-term prospects for developing countries' economic development than do ones in aid."[53] Thus, on May 18, 2000, the president signed into law the African Growth and Opportunity Act (AGOA) that provides for duty-free treatment of certain products exported to the United States from approved beneficiary countries of SSA. The general intention of AGOA is to provide the beneficiary countries increased access to US markets and to promote FDI in exchange for making progress toward establishing a market economy, democratic institutions, and adherence to the rule of law among others.

Thus far, AGOA has had mixed results. There have been increases and decreases in the growth in US exports to and imports from SSA beneficiary countries. Overall, both the US and SSA beneficiary countries appear to have benefited from AGOA. Moreover, the combined values of the exports of AGOA countries to the US have consistently exceeded the combined values of their imports from the US, indicating a positive trade balance in favor of the AGOA countries. At least in the case of trade in clothing, employment and wage income gains can be expected in the developing countries.[54]

Despite the above-mentioned benefits of AGOA, the policy still faces significant challenges, such as the expiration of the act itself, the rule of origin provisions, the need for diversification of trade in beneficiary countries, and the HIV/AIDS pandemic.[55] The frequent amendments and extensions of AGOA provisions may affect long-term investment in the region by creating uncertainty over the extent of future tariff preferences. However, the amendment extending the textile and apparel provisions of the AGOA program until 2015 may perhaps address the uncertainty for some time.

Moreover, the rule of origin provisions seems to reduce the benefits of AGOA. According to the rule, if production requires inputs that are not domestically available, they usually need to be imported from the preference-giving country, where they are more expensive than in uninvolved countries. Combined with complex administrative requirements and red tape, including documentation of origin, the effect is to reduce investment in activities that could, in principle, benefit from preferences. As a result, the potential benefits of AGOA have been reduced.

Diversification is also needed in the products and in the countries that benefit from AGOA. In 2007, about 80 percent of US imports under AGOA were petroleum products, indicating the need for more diversification of trade. These industries are very capital intensive and thus do not provide extensive employment opportunities for workers. Moreover, AGOA benefits are concentrated in a few countries with 87 percent of the AGOA imports by the United States originating in Nigeria, Gabon, and South Africa, with the first 2 being oil producing countries. There are several countries eligible for AGOA that do not export under the program, because they lack the technical capacity to produce some of the products. Hence, according to Hoekman, Ng, and Olarreaga, increased "market access without the ability to produce profitability for export is of limited use," and market access should be complemented by efforts to improve the capacity of AGOA beneficiary countries to use trade as part of a sustained growth strategy.[56]

Although it is not a result of AGOA, the HIV/AIDS pandemic is adversely affecting the supply of skilled manpower needed for the production of goods and services in AGOA beneficiary countries, as well as other SSA countries. The disease is reducing life expectancy in the region and is disproportionally striking some of the most highly needed skilled manpower for economic growth and development. Investors may be deterred from the region by the high medical costs associated with the treatment of the disease and by constant replacement of workers stricken with the disease and the attendant training costs.

Finally, the burden of external debt can be a major impediment to economic growth and poverty reduction in many of the poorest countries in the world. As discussed above, the burden of debt in most SSA countries has contributed to economic decline in the region. Having recognized the constraint of foreign debt, the United States Congress has been working toward making "comprehensive debt relief" available to SSA countries.[57] For instance, as of end-January 2009, the International Monetary Fund has granted debt relief to about twenty SSA countries through the Multilateral Debt Relief Initiative, which is intended to help certain low-income countries advance toward the United Nations' Millennium Development Goals of halving poverty by 2015.[58] Such relief will be designed to strengthen and expand the private sector, encourage increased trade and investment, support the development of free markets, and promote broad-scale economic growth in beneficiary countries."[59]

While AGOA may be benefiting SSA beneficiary countries through U.S. imports from these countries, this discussion has put forth the many challenges it still faces. Addressing these challenges would certainly increase the benefits of AGOA, thereby increasing the levels of economic growth and development, as well as the welfare of the sub-Saharan region.

Appendix 1: Summary of Apparel Rules of Origin Under AGOA

Description of the Rules of Origin Requirements	Conditions of Access
Apparel assembled from US formed and cut fabric from US yarn.	Unrestricted
Apparel assembled and further processed from US Formed and cut fabric from US yarn.	Unrestricted
Apparel cut and assembled from US fabric from US yarn and thread.	Unrestricted
Apparel assembled from regional fabric from US or African yarn. imports	Tariff rate quota that grows from a 1.5 to 3.5%of total US apparel
Apparel assembled in a Lesser Developed exports	Unrestricted for four years, but
Country using foreign fabric or yarn.	Counted against the 1.5 to 3.5% caps Specified above
Cashmere sweaters, knit to shape.	Unrestricted
Merino wood sweater, knit to shape, with Fibers 18.5 microns or finer.	Unrestricted

(Source: Aaditya Mattoo, Davesh Roy, and Arvind Subramanian, "The African Growth and Opportunity Act and Its Rules of Origin: Generosity Undermined?" *The World Economy* 26, no. 6, (June, 2003): 833.

APPENDIX 2: LEADING U.S. IMPORTS FROM SUB-SAHARAN AFRICA

Item	2007 Import Value ($ Millions)
Oil (Crude & non-Crude)	53,644.1
Platinum	3,788.3
Diamonds	1,531.3
Woven & Knit Apparel	1,293.4
Petroleum Gases & Other Gases	1,099.1
Iron and Steel	777.1
Ores, Slag, & Ash	655.4
Motor Vehicles and Parts	552.8
Cocoa	498.2
Organic Chemicals	491.8

(Source: US Department of Commerce, International Trade Administration)

APPENDIX 3 LEADING U.S. EXPORTS TO SUB-SAHARAN AFRICA

Item	2007 Export Value ($ Millions)
Motor Vehicles	1,444.1
Oil and Gas Field Machinery & Equipment	1,300.3
Oilseeds and Grains	1,184.2
Aircraft & Parts	1,016.6
Construction Machinery	913.1
Petroleum & Coal Products	583.0
Other General Purpose Machinery[1]	450.4
Industrial Chemicals	410.7
Navigational, Measuring, Electromedical & Control Instruments	399.9
Ships & Boats[2]	369.9
Resin, Synthetic Rubber & Artificial & Synthetic Fibers & Filiment	366.5

[1]Includes pumps and pumping equipment, air and gas compressors, and material handling equipment.
[2]Includes platforms for offshore oil drilling.

(Source: US Department of Commerce, International Trade Administration)

NOTES

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