



PRÍNOSY ZÁKONU O RASTE A PRÍLEŽITOSTIACH PRE AFRIKU DO MEDZINÁRODNÉHO OBCHODU SUBSAHARSKEJ AFRIKY

CONTRIBUTIONS OF AFRICAN GROWTH AND OPPORTUNITY ACT TO INTERNATIONAL TRADE OF SUB-SAHARAN AFRICA

Temitope Peter Ola¹

Relatívna neschopnosť krajín subsaharskej Afriky získať prístup k výhodám globálneho obchodu, napriek niekoľkým pokusom o rôzne medzinárodné ekonomické modely, je všeobecne známa. Autor podrobujú obchodné vzťahy medzi Spojenými štátmi a subsaharskou Afrikou v rámci zákona o raste a príležitostiach pre Afriku (AGOA) historickému, interpretačnému a analytickému skúmaniu, aby sa zistilo, aký prínos má preferenčná obchodná dohoda pre medzinárodný obchod krajín subsaharskej Afriky. Autor zistil, že obojsmerný nárast obchodu medzi Spojenými štátmi americkými a subsaharskou Afrikou v rámci AGOA zabezpečuje nepretržitý prístup USA k lacnej produkcii afrických krajín. Dospel k záveru, že krajiny subsaharskej Afriky budú aj naďalej závislé od preferenčných obchodných dohôd, pokiaľ ide o ich medzinárodný obchod.

Kľúčové slová: preferenčná obchodná dohoda, medzinárodný obchod, zákon o africkom raste a príležitostiach, subsaharska Afrika, Spojené štáty

The relative failure of Sub-Saharan African (SSA) countries to access the benefits of global trade despite several attempts at a variety of international economic models is common knowledge. This paper subjects the trade relations between the United States and SSA within the African Growth and Opportunity Act (AGOA) to a historical, interpretive, and analytical examination to ascertain the contributions of the preferential trade agreement to international trade of Sub-Saharan African countries. Paper finds that the two-way increases in the trade of the U.S. and SSA under AGOA safeguard the continuous access of the U.S. to cheap produce of African countries. The paper concludes that SSA countries would continue to depend on preferential trade agreements for their international trade.

Key words: preferential trade agreement, international trade, African Growth and Opportunity Act, Sub-Saharan Africa, United States

JEL: F13, F14, N77

¹ Temitope Peter Ola, PhD., Department of History and Diplomatic Studies, Faculty of Arts, Olabisi Onabanjo University, Nigeria, e-mail: ola.temitope@oouagoiwoye.edu.ng. ORCID: <https://orcid.org/0000-0003-0880-8971>

1 INTRODUCTION

The failure of economies in countries of Sub-Saharan Africa (SSA) despite several attempts at a variety of international economic models is common knowledge. Thus, as one of the countries of the Economic North with which countries of SSA trade, the United States (U.S.) introduced the African Growth and Opportunity Act (AGOA) to address the challenges of its trade with the region. In view of previous models that did not move SSA forward U.S.–SSA's trade under AGOA becomes a test case of whether AGOA should be encouraged as a trade model for North–South economic relations. Though scholars have demonstrated an acknowledgment of the organic link between the transnational trade agreement of nations and the vibrancy of their economic interactions the extent to which AGOA enhances SSA has not been adequately explored. To fill the gap, this paper provides insight into the contributions of AGOA on U.S.–SSA's international trade.

African countries in general and those of SSA in particular have been unable to reap the benefits arising from their membership of the World Trade Organisation (WTO). Asobie (2010) attributes this to the fact that the major trading nations of the world had failed to faithfully implement the 'development dimensions' of the various parts of WTO agreements. Additional obstacle is the paucity of technical and financial assistance that could enable Africa to take advantage of the available market access opportunities. Oche (2010) believes that the whole essence of the existence of WTO is to allow the capitalist core have greater access to the trade regimes of the periphery. That makes SSA countries to find themselves between the devil and the deep blue sea: they stand to become more marginalised within the world economy if they both open their trade regimes to the world economy or keep them closed. In that regard Nwoke (2007) asserts that WTO negotiations include four fundamentally offensive issues namely:

1. Trade in services, which exclude services in natural persons, accomplished through hostile immigration restrictions placed on Third World countries;
2. Trade-Related International Property Rights (TRIPs), which are measures which accord the advanced countries exploitative property rights to use patents, copyrights, trademarks, etc. to restrict technology transfer to African, and Third World countries;
3. Trade Related Investment Measures (TRIMS), which promote the monopoly of transnational corporations in the local markets of the Third World by opposing clauses that require minimum national content in production, minimal exports; and
4. Multilateral Agreement on Investment (MAI), which defines the foreign investor's rights in the local Third World economy to include 100 percent equity ownership, and same treatment as for nationals, freedom of capital and profit flows, as well as right to property and to changes in tax and company law.

Given the above there is little wonder why the Organisation for Economic Cooperation and Development (OECD, 2012) opines that there was only one loser in the Uruguay round of 1986–1994: Africa. With this, the OECD submits that Africa would benefit nothing from the WTO. Thus, in 2003 Kofi Annan submitted that *‘The rhetoric of global trade is filled with promise. We are told that free trade brings opportunity for all people, not just a fortunate few; we are told that we can provide a ladder to a better life and deliverance from poverty, but sadly the reality of the international trading system today does not match the rhetoric.’* (Cited in OECD 2012)

There is indeed a gap between rhetoric and practice. In fact, Schneidman and Lewis (2012) find that Africa’s exports dropped from 6 percent in 1980 to 4 percent in 2011 while its share of world import rose from 4.6 percent in 1980 to 9.6 percent in 2014, more than any other region. Schneidman and Lewis (2012) note that SSA’s heavy dependence on primary export as source of foreign earnings implies that the region is vulnerable to the vagaries of the global market for goods and services. Unfortunately SSA is schemed out of active participation in fixing the prices of the primary commodities it sells as the countries are still treated very much like colonies. Volumes of statistics have been churned out to show Africa’s relative disadvantage, vis-à-vis the Economic North, with respect to balance, and terms, of trade. Empirical studies have also shown the negative impacts of the practices of Western transnational corporations both as conduits of capital flight and as agents of neo-colonial and technological dependence in Africa but the structural bases of the constraints responsible for these phenomena of international political economy are not adequately explored.

Bhattacharyya (2009) posits that as Africa attempts to increase its exports; the industrialised countries importing those materials maintained and increased trade barriers. Mattoo, Olarreaga and Ianchovichina, (2001) estimate that if North America, Europe and Japan eliminate barriers to imports from SSA, Africa’s exports would rise by 14 percent, with an annual increase in revenue of \$2.5 billion. Meanwhile, in Thomson (2004) opinion, trade remains the only option for African industrial development; both investment and trade could be leading sector to others. This opinion resonates in a 2003 statement of former US President George W. Bush to delegates at the AGOA’s Forum in Mauritius: *‘All of us share a common vision for Africa. We look to the day when prosperity for Africa is built through trade and markets.’* In line with that the United States’ Congress Research Service (CRS) (2014) argues that SSA’s economic performance between 2000 and 2010 suggests it has achieved a milestone in the quest for sustainable growth. It further stated that SSA’s economic performance from 2001–2014 reversed the collapse of 1975–1985 and the stagnations of 1985–1995. Its growth averaged 5 percent between 2001 and 2014 compared with less than 1 percent during the early 1990s. In 2012, Gross Domestic Product (GDP) expanded by 5.3 percent in SSA followed by 5.7 percent in 2013 and 5.6 percent in 2014 (IMF 2014, World Bank 2013). The CRS however admits that despite the seemingly improved economic performance of Africa,

the economic challenges remain enormous. This is not unconnected with the fact that African countries are vulnerable to volatile weather conditions, commodity price fluctuations, poor road and other infrastructure maladies as well as political highhandedness. The United Nations Economic Commission for Africa (2013) asserts that the reason for this is because much of SSA's international trade is on primary product exports, such as oil and other mineral fuels, constituting 64 percent of its exports in 2014.

This paper is conceptual and qualitative in nature. It draws insights from secondary sources such as scholarly exegesis and empirical historical evidence. The outcome of this forms the substance of the descriptive analysis to fit a conceptual scheme of the paper. For convenience of systematic organisation of thought, the thrust of analysis in the paper is schematically presented under a number of select themes and carefully formulated to prosecute the paper's derived assumption to wit: preferential trade agreements are useful for international development. The following section two examines the literature to locate the place of AGOA in international trade. After that comes the third which speaks to the methods used to generate the data for the paper. With that accomplished the fourth section details the trade enhancement of the provisions of AGOA. Through the results of the application of AGOA to U.S.-SSA's trade the fifth section critique the contributions of AGOA to international trade of SSA countries through the two-way exchange of goods and services with the United States. The sixth section draws inference from the previous ones to conclude the work.

2 LITERATURE REVIEW

The weaknesses of international trade are enormous. The efforts to find solutions to some of the weaknesses necessitate the introduction of preferential trade treaties. Baier and Bergstrand (2009) are of the view that preferential treaties are undesirable because they limit the scope for substantial gains from multilateral liberalisation. Their argument is that for as long as such treaties are in place, developed nations will resist any attempt to lower tariffs because of the potential import penetration affecting domestic producers. This, they note is based on the notion that if tariffs are lowered across the board, the affected states will be unable to counter the penetration into their domestic markets. They further argue that the current operational rules of the special programmes allow the countries of the global North to sustain their struggle-hood on the underdeveloped countries through discretionary powers of inclusion and exclusion of states from preferential trade benefits. This goes with the explanation that the products included in the special preference trade agreements are likewise determined by the preference giving state(s). They therefore advocate multilateral tariffs reduction.

Bureau, Jean and Matthews (2006) cautioned against the 'erosion' of existing preferences which can be more detrimental for developing nations' agricultural exports. If states lower tariffs on a multilateral basis, beneficiaries of effective preferential agreements will be unable to supply the goods currently supplied under existing

preferences. While multilateral tariffs reduction may seem, on the surface, to favour the developing nations, such actions can have devastating effects on developing countries as they would be unable to out-compete relatively more developed states in the event of multilateral tariffs reduction. Therefore the safer course of action is continuing with the status quo but Baldwin and Murray (1977) admit that the question of the effectiveness of the GSP scheme has elicited mixed conclusions since the early years of the implementation of the preferences. Though, Baldwin and Murray (1977) accept that least developed countries are likely to be affected more if MFN tariff reductions are implemented across the board rather than selectively they submit that the poorest developing nations, whether they receive duty-free access for their products entirely or partially, their trade volumes would still be small.

Amiti and Romalis (2007); Francois, Hoekman and Manchin (2006) link the slowdown of multilateral liberalisation to the disagreements and uncertainty on possible effects of discontinuing trade preferences in favour of lowering tariffs by all developed nations. Ozden and Sharma (2006) point out that nations relying on trade preferences without focusing on improving their competitive positions will tend to be worse off when the preferences terminate and as such preferences should be viewed as transitional mechanisms for gaining a comparative advantage.

It is clear that preferential treatment programmes have been implemented since the mid-1960s with divergent views on its effectiveness in generating substantial gains to beneficiaries (UNCTAD 2002). The expected or potential outcome has often been cited as a justification for retaining the existing GSP programmes and preferential treatment agreements. Proponents of retention of the preferences focus on the erosion of the gains and opponents hold the strong view that preferential treatments associated with the preferences have limited marginal effects on export performance. The limited number of products covered, value limits, the few nations covered, and the small margins between some GSP rates and MFN rates remain are sources of divergent conclusions on the effectiveness of the GSP programmes. It is possible that both arguments for and against the retention of preferential trade agreement are valid explanations for the potential outcomes of lowering tariffs across the board. Notwithstanding, the implicit agreement that preferential trade agreements contribute to economic development might be mistaken in the same way. The thinking that preferential trade agreements contribute to development is part of the conventional wisdom about western-style economic development, but they might all be wrong.

Moreover, preference recipient states and producers of competing products in target markets have divergent arguments for and against preferences. Whereas recipient states consider the preferences as a way to increased market share for their products, domestic producers lobby for withdrawal because of the associated downward pressure on prices. The preference donor states are unlikely to give preferential treatment to products likely to cause significant negative effects on domestic competing industries.

Given such possibilities, the preference donor states consider the potential effects that the imports of products would have in the context of duty-free access.

3 THE AFRICAN GROWTH AND OPPORTUNITY ACT

Neumayer and Spess (2005) argue that international trade has now shifted towards developing countries signing Bilateral Investment Treaties (BIT) such as AGOA to improve socio-economic development through Foreign Direct Investment. And according to Elkins, Guzman and Simmons (2004), BITs have become 'the most important international legal mechanism for the encouragement and governance of FDI' and the improvement of socio-economic wellbeing. Theoretically, the market shares of African states' products into the U.S. can be explained using conventional demand theory. The quantities of products demanded from African countries are a sub-set of the total products imported into the U.S. from the world. U.S. consumers demand quantities of products to maximise their utilities subject to prevailing prices and budget constraints. Other relevant factors influencing demand include tastes and preferences, tariffs, and government policies among others (Armington 1969, Richardson 1971). U.S. consumers are assumed to be rational and have relevant information to allocate expenditure to imported products. Such pieces of information include but not limited to the price of the goods and substitutes, quality of the goods, taste and preferences, the source markets, and government policies such as AGOA. More importantly, U.S. consumers can quantify and rank their preferences and allocate their expenditures on the goods in view of relevant information. These factors are in line with the theoretical proposition (Armington 1969) that goods are differentiated according to their country of production. Table 1 shows the volume of trade between the U.S. and SSA prior to AGOA and within the considered factors determining the demand of products from different destinations.

Similarly, the changes in market shares can be explained regarding supply and demand side factors. According to the United State (U.S.) Congress, the formulation of AGOA was based on five key findings are: (1) the U.S. and SSA countries have a mutual interest in promoting stable economic growth in SSA; (2) SSA is rich in natural and human resources; (3) SSA is of economic and political significance to the U.S.; (4) trade represents a powerful tool for economic development; and (5) reduction of trade barriers will enhance SSA's commercial and political ties with the U.S. And for a SSA country to qualify the Act demands that such a country meet certain criteria. AGOA authorises the U.S. President to (1) designate a SSA country as 'eligible' if the President determines that the country meets specified eligibility requirements and (2) terminate a designation if the President elects that an eligible country is not making continual progress in meeting those requirements. Some of these criteria are: (a) established and making continual progress toward establishing a market-based economy, rule of law, elimination of barriers to U.S. trade and investment; (b) does not engage in activities that undermine U.S. national security or foreign policy interests; and (c) does not engage in gross violations of

internationally recognised human rights or provide support for acts of international terrorism and cooperates in international efforts to eliminate human rights violations and terrorists activities. In other would the U.S. monitors and evaluates SSA countries to determine which of them should remain eligible to AGOA.

AGOA's duty-free provisions cover about 6000 articles from countries of SSA including steel items, automotive components, handbags, gloves, footwear, iron, oil, petroleum, minerals, precious stones, textiles, apparel and a variety of food products (USTR 2015) from SSA countries. According to Schneidman and Lewis (2012) most of the tariff reduction under AGOA is for non-agricultural commodities such as oil, petroleum, minerals, precious stones, textiles, and apparel. Meanwhile, SSA countries' articles get to the U.S. market duty-free only when the product or manufacture of such a country is not import-sensitive in the context of imports from beneficiary SSA countries. For instance, duty-free applies to SSA countries' textile and apparel if (1) an effective visa system, domestic laws, and enforcement procedures to prevent unlawful importation to the U.S. exist; (2) enacted legislation to permit U.S. Customs Service verification teams to the country; (3) report promptly to the U.S. Custom Service's request on the country's total exports and imports; and (4) report timely to the U.S. Customs Service's request for document establishing the place of production, the number and identification of the types of production machinery used, number of workers employed in its production, and certification from the manufacturer and exporter of such articles.

4 RESULTS OF THE APPLICATIONS OF AGOA TO UNITED STATES–SUB-SAHARAN AFRICA'S TRADE

The United States Department of Commerce's International Trade Administration data shows that in 2014, U.S. total trade (exports and imports) with SSA total \$52.1 billion (see Table 2), a decrease of 18 percent compared to 2013. While U.S. exports to the world grew by 6 percent, its exports to SSA (mostly composed of machinery and aircraft) increased by 2.8 percent, reaching \$25.4 billion. In 2014, U.S. imports from SSA decreased by 32 percent, falling to \$26.7 billion. The decrease was largely due to 51 percent reduction U.S. imports of mineral fuel and oil from SSA. Total import from AGOA countries was \$14.2 billion, 47 percent less than the previous year, due to a 55 percent reduction in petroleum product imports. Petroleum products account for the largest portion of AGOA imports with a 69 percent share of overall AGOA imports. With fuel products excluded, AGOA imports – almost exclusively dominated by raw materials – were \$4.4 billion, reducing by 10 percent compared to 2013. AGOA imports of transportation equipment reduced by 34 percent while imports of energy products reduced by 55 percent.

Table 1: Sub-Saharan Africa's trade with U.S. 1960-1999, \$ million

<i>Year</i>	<i>Exports to the U.S.</i>	<i>Imports from the U.S.</i>	<i>Balance</i>	<i>Year</i>	<i>Exports to the U.S.</i>	<i>Imports from the U.S.</i>	<i>Balance</i>
1960	43.7	32.4	+11.3	1980	10,471.0	1,265.0	+9,206.0
1961	53.5	33.3	+20.2	1981	8,686.0	1,675.0	+7,011.0
1962	50.9	41.9	+9.0	1982	6,612.0	1,424.0	+5,188.0
1963	48.7	50.1	-1.4	1983	3,530.0	950.0	+2,580.0
1964	40.3	81.0	-40.7	1984	2,369.0	635.0	+1,734.0
1965	73.7	92.6	-18.9	1985	n/a.	n/a.	n/a.
1966	63.2	116.2	-53.0	1986	n/a.	n/a.	n/a.
1967	53.1	78.0	-24.9	1987	n/a.	n/a.	n/a.
1968	49.1	62.4	-13.3	1988	n/a.	n/a.	n/a.
1969	112.4	82.0	+30.4	1989	n/a.	n/a.	n/a.
1970	71.3	141.6	-70.3	1990	5,982.1	553.2	+5,428.9
1971	320.0	212.0	+108.0	1991	5,168	831.4	+4,336.6
1972	445.0	156.0	+289.0	1992	5,102.4	1,001.1	+4,101.3
1973	836.0	191.0	+645.0	1993	5,301.4	894.7	+4,406.7
1974	2,523.0	338.0	+2,185.0	1994	4,429.9	509	+3,920.9
1975	2,316.0	663.0	+1,653.0	1995	4,930.5	602.9	+4,327.6
1976	3,759.0	896.0	+2,863.0	1996	5,978.3	818.4	+5,159.9
1977	4,682.0	1,228.0	+3,454.0	1997	6,349.4	813	+5,536.4
1978	4,198.0	1,361.0	+2,837.0	1998	4,194	816.7	+3,377.3
1979	7,485.0	1,066.0	+6,419.0	1999	4,385.1	627.9	+3,757.2

Source: Direction of Trade (IMF).

However, imports of minerals and metals rose by 17 percent, imports of agricultural products rose by 5 percent, and imports of textiles and apparel rose by 9 percent. Up till 2013, the growth in U.S.–SSA trade was due to a significant increase of 31.9 percent in crude oil imports, accounting for 79.5 percent of total imports from SSA. The top five beneficiaries of the U.S. increased imports are Nigeria, Angola, South Africa, Chad and the Republic of Congo. On the other hand, of the top five African importers of U.S.' products, South Africa's import rose by 17.6 percent, Nigeria's import by 47.7 percent, Angola's import by 62.6 per cent, Benin Republic's import by 192.4 percent (due to large increase in the imports of non-crude oil and vehicles and parts) and Ghana's import by 46.1 percent. In Niall and Matthew's view (2011), AGOA had a positive impact on apparel exports from a handful of SSA countries. Outside the apparel sector, there is little or no evidence of AGOA induced gains. They also note that AGOA preferences did not cover all products and that tariffs on products excluded from AGOA, especially agricultural products, remain high and AGOA's broader economic impact could have been better if preferences were extended to all products. They conclude that exports from SSA to the U.S. rose substantially from 2000 with an increased share of the exports

utilising AGOA preferences and that at best a small share of these increased exports can be directly attributed to AGOA.

Table 2: Sub-Saharan Africa's trade in goods with U.S. 2001-2020, \$ million

<i>Year</i>	<i>Exports to the U.S.</i>	<i>Imports from the U.S.</i>	<i>Balance</i>
2001	8,774.9	955.1	+7,819.8
2002	5,945.3	1,057.7	+4,887.6
2003	10,393.6	1,016.9	+9,376.7
2004	16,248.5	1,554.3	+14,694.2
2005	24,239.4	1,619.8	+22,619.6
2006	27,863.1	2,233.5	+25,629.3
2007	32,770.2	2,777.9	+29,992.3
2008	38,068.0	4,102.4	+33,965.6
2009	19,128.2	3,687.1	+15,441.1
2010	30,515.9	4,060.5	+26,455.4
2011	33,854.2	4,911.6	+28,942.5
2012	19,014.2	5,028.6	+13,985.6
2013	46,400.0	15,078.0	+31,322.0
2014	26,768.0	25,332.0	+1,436.0
2015	21,200.0	23,400.0	-2,200.0
2016	28,774.9	955.1	+7,819.8
2017	n.a	n.a	n.a
2018	24,000.0	26,800.0	-1,800.0
2019	21,900.0	23,500.0	-1,600.0
2020	n.a	n.a	n.a

Source: U.S. Census Bureau.

Shapouri and Trueblood (2003) note the increasing levels of SSA exports to the U.S. under AGOA between 2001 and 2002. The share of AGOA exports in total SSA exports to the U.S. which was 43 percent (\$7.6 billion) in 2001 rose to 60 percent (\$8.2 billion) in 2002, despite the fact that the agreement was then in its infancy. However, a deeper analysis of the gains reveals a trend that consistently re-emerges: AGOA's participating countries' exports were concentrated by country and product grouping. They were dominated by previously low-tariff petroleum products. White (2012) analyses SSA–U.S. trade data from 2012 with the objective of assessing the extent of exports originating from the two sides. White (2012) further disaggregated the data by looking at the level of exports originating with or without AGOA apparel preferences. He finds that by 2013 AGOA exports from SSA countries to the U.S. had risen to \$33.2 billion with 90 percent of this figure from petroleum exports. However, oil exports dropped in 2014 to \$10.8 billion, with 55 percent decline due to a reduction in U.S. mineral fuel and oil imports. Similarly, Seyoum (2014) uses Praise—Wiston Gravity Model to assess the extent of the contribution of AGOA to exports from eligible countries from 2001 to 2014.

Seyoum (2014) used two models to assess different aspects of AGOA. The first measures the general effect of AGOA on trade by testing the impact of AGOA on total U.S. imports (excluding oil) from AGOA eligible countries and the second model tests the impact of AGOA on trade by testing on apparel imports. The first model, according to Seyoum (2014), results in a negative but non-significant coefficient for AGOA, the implication being that AGOA eligibility is found to have no significant impact on non-oil trade for eligible countries. The effect of AGOA on apparel exports was also found not to be statistically different from zero, though with a positive co-efficient.

Frazier and Van Biesebrucek (2014), Fayissa and Tadesse (2014) found that AGOA has had a more positive impact. Frazer and Van Biesebrocek, however, found that AGOA has had a small, albeit positive, impact on SSA exports to the United States. Frazer and Van Biesebrocek (2014) employ a variation of the traditional gravity model using a triple difference estimation regression model to assess the impact of AGOA over the period 2001-2014. Frazer and Van Biesebrocek (2014) found that there was absolute export increased in the period attributed to the total increase in non-oil exports from SSA during the period. Nogue (2014) employs a different method than the other studies by using a dynamic panel trade model to assess the impact of AGOA on aggregate exports from SSA to the U.S. up to 2014. Nogue (2014) premised his analysis on the assumption that the opportunities and benefits for exports arising from a preferential access scheme such as AGOA have positive spill-over effects and thereby raise the overall exports of a given country. To measure this effect, the total AGOA exports and total AGOA apparel exports as additional endogenous variables in an amplified gravity equation aimed at understanding the impact AGOA has on total overall SSA exports to the U.S. (i.e. AGOA and non-AGOA exports). The result is that AGOA has a strong positive effect on aggregate SSA exports to the U.S.

According to the United States Department of Commerce (2014), the highly specialised trade between the U.S. and SSA is restricted to very few countries. Imports from five countries (Nigeria, South Africa, Angola, Gabon and Equatorial Guinea) comprise 86 percent of total United States' imports from Africa and all, but South Africa is overwhelmingly oil exporter. According to Oyejide (2010) data on the impact of AGOA on agricultural exports shows that AGOA prompted gains in agricultural exports are found to be not statistically different from zero but Copper (2012) feels that is not unconnected with the criticisms which AGOA faced, especially from anti-globalisation movements and U.S. interest groups. Copper (2012) argues that U.S. textile lobby groups and labour unions are primarily apprehensive of the resultant American massive jobs losses due to the removal of trade barriers on textile and apparels. Copper (2012) submits that notwithstanding the fear of job losses in the U.S., many have identified the benefits of AGOA. Lucke (2010) explains that Swaziland credits AGOA with the creation of more than twenty-eight thousand jobs and thus, the small states of Swaziland and Lesotho attribute AGOA to providing jobs. AGOA seems to redirect SSA trade from traditional

markets, mainly the European Union, towards the United States. It appears that is result was an original goal of AGOA reinforced with the negotiations for a U.S./Southern African Customs Union Free Trade Area (FTA).

Phelps, Stillwell and Wanjiru (2009), McCormick (2006), Lall (2005), Ikiara and Ndirangu (2003) country-case studies analysed the themes associated with AGOA's implementation while Frazer and Biesebroeck (2010), Tadesse and Fayissa (2008), Collier and Venables (2007) and Seyoum (2007) country-group studies analysed the effects associated with AGOA's implementation. These studies assess various questions relating to the implementation of the policy for which they provide analytical and empirical findings. With the hope to investigate the extent to which clothing manufacturing activities had been invigorated in Kenya following the introduction of AGOA Phelps, Stillwell and Wanjiru (2009) discuss analytical results from a survey of AGOA-related manufacturing firms in Kenya and report that their study covered 23 out of an estimate of 35 manufacturing firms in Kenya in the year 2004. They discuss the characteristics of the firms, their ownership and affiliations to foreign or parent companies, employment, markets, material inputs, and the operating environment in general. Considering these factors, the study concludes that the establishment of the firms has resulted in a considerable increase in employment opportunities. The authors report that the 23 firms covered by their survey involved a total of 26,642 employees and posit that such a level of employment could not have been possible without the AGOA initiative though they find that the firms were affiliated with foreign companies of Asian origin with 17 percent of them affiliated to parent companies in India, Taiwan and the United Arab Emirates, 13 percent to Sri Lanka and 4 percent to Hong Kong and Singapore. The authors report that most of the firms they surveyed revealed that their supplies targeted specific customers in the U.S., mostly large retail outlets. The findings on the materials sourced in Kenya show that 'textiles' and 'other materials' accounted for averages of 0.6 percent and 25.1 percent of total materials used respectively but also reveal that not much is gained regarding local domestic supplies of materials. Yet, the outcome is not surprising given the conditions spelt out in AGOA on the textile rules of origin leading to the conclusion that the sustainability of the manufacturing firms cannot be guaranteed in the absence or lapse of AGOA. Thus, capital flight and a reverse of the gains including loss of employment are potential long-term outcomes of phasing out the AGOA incentives.

Like the study by Phelps, Stillwell and Wanjiru (2009), Lall's (2005) study investigates the characteristics of Lesotho's textile manufacturing firms and reveals that the firms' ownership characteristics are similar to those emerging from the Kenyan textile firms. Lall (2005) reports that even though Lesotho is the leading African exporter of textiles to the U.S. yet textiles firms in the country have no strong domestic linkage and are faced with low productivity and poor skills. Furthermore, Lall (2005) finds that the firms have Asian-affiliation, notably to Taiwan, and source their textile materials from

those countries. The firms take advantage of relatively lower costs and provision in the AGOA agreement on sourcing such materials from third party states. The weak domestic linkages may be related to similar reasons as those for the Kenyan case as Lall (2005) reports that the average minimum wage in Lesotho's textile sector range between US\$ 60 to US\$ 75 per month and the experienced employees receive up to US\$ 250 per month.

Ikiara and Ndirangu (2004) focus on the issue of lack of domestic supply of textile materials to textile manufacturing firms. Providing evidence from Kenya Ikiara and Ndirangu (2004) analyse the potential effect of the 30th September 2004 end period set in the AGOA legislation for SSA states' sourcing textile materials from third party nations as inputs to their AGOA eligible articles. They also examine Kenya's local capacity in supplying the materials after 2004. The authors point out that their findings show that the country's capacity to supply high-quality cotton is lacking due to insufficient production. They conclude that the gains from AGOA are likely to dissipate with the phase out of the Multi-fibre Agreement (MFA) after 2004. Meanwhile, Edwards and Lawrence (2015) note that when MFA quotas were lifted Asian producers – China in particular – moved into the markets in which AGOA sub-Saharan African states had specialised. Ikiara and Ndirangu (2004) suggest that the phasing out of the MFA which essentially eliminates quotas on textiles exports into the developed nations' markets by WTO will negatively affect SSA states while insisting that the economic prospects of participating SSA states in post-AGOA period are bleak. This would be due to competition coming from producers such as China. The United Nations Conference on Trade and Development (UNCTAD) data shows the cotton yield averaged 410kg/ha during 1990-2000 period and 390kg/ha in 2001-2014 years for the African nations. The yields average output at cotton ginneries averages 40 percent and 33 percent respectively. These statistics show that cotton production could indeed have been on a downward trend during the last 14 years for the African nations. During the same years, cotton crop yields averaged 840kg/ha and 1,280kg/ha in China and 300kg/ha and 430kg/ha in India. The statistics indicate large increases in cotton yield in China and India during 2001-2014 years. Given that China and India are large developing member-nations of WTO previously facing quotas on textile exports, the phase-out of the MFA has boosted their textiles penetration into the U.S. and other previously protected markets.

McCormick (2010) discusses the implications of AGOA and argues that its provisions create inhibitive legislative difficulties for substantial trade expansion. McCormick (2010) presents an assessment of the trade stimulation effect of the policy that was envisaged to be realised through its implementation. Citing the large increase in investment by foreign firms in Lesotho after the passage of AGOA, McCormick (2010) argues that the policy facilitated the entry of foreign firms with no focus on the country's long-term objectives. In the case of Lesotho, McCormick (2010) notes that between the years 2000 and 2002 employment in the textile firms more than doubled from 20,000 to 45,000 however, the productivity and skill development in the sector is low. McCormick

(2010) argues that states strategically placed to reap the AGOA duty-free benefits may achieve that objective but not many of the nations that have been declared as eligible for the benefits with Benin as one such disadvantaged state McCormick (2010) however states that AGOA's provisions protect the interests of the U.S. producers since the fabric; yarn and thread are sourced from the U.S.

The limitations imposed by AGOA's rules of origin are trade inhibitive rather than trade facilitating. Yet, the benefits of the incremental coverage under AGOA, the extension of access to apparel and other products-hinged crucially on the rules of origin those SSA exporters have to meet. The rules vary across two categories of exports. The first is rules of origin for non-apparel exports. Under the GSP scheme, duty-free treatment is applied to any designated commodities that pass the requirements of the basic GSP origin and related rules. The GSP rules of origin have a key requirement of 35 percent value addition within the customs territory claiming preference. However, for non-apparel articles eligible for duty-free access under AGOA, the 35 percent value added content could also be met by counting production or materials from other beneficiary states or the United States. The rules of origin clauses are supplemented with supplementation requirements. For example, an importer claiming duty-free treatment must make and maintain (for five years from the date of entry) the records validating facts like proof of production, value addition, shipping papers, etc. The second is rules of origin for apparel exports. AGOA's provisions on rules of origin relating to apparel required essentially that the apparel is assembled in eligible SSA states and that the yarn and fabric be made either in the United States or African nations. However, apparel imports made with African fabrics and yarn are subject to a cap of 1.5 percent of overall U.S. imports, growing to 3.5 percent of overall imports over a 14-year.

There is a world of difference between the rules of origin under the Cotonou Agreement, which governs preferential access to the European Union, and AGOA. The Cotonou rule of origin is based on the concept of 'double transformation', i.e., if two of the processing stages (yarn into fabrics-weaving; and fabrics into apparel-assembly) is done in the beneficiary state, duty-free entry into the EU can be enjoyed. Under Cotonou therefore, the yarn can be sourced from anywhere in the world, whereas under AGOA the yarn must come from a beneficiary SSA state or the United States. Mattoo, Roy and Subramanian's study (2003) shows how the rules of origin requirements limit the scope of the duty-free preferences since the face of the Rules of Origin, the African exporters would choose to import materials from the cheapest sources that fulfill the Rule of Origin by calculating the 'incremental transport costs' of sourcing materials.

Frazer and Biesebroeck (2010) study which focused on AGOA implementation report wide-ranging empirical results. Frazer and Biesebroeck (2010) use 6-digit Harmonised System (HS) data on U.S. imports from 41 AGOA-eligible countries and 166 non-AGOA countries. Applying triple difference-in-differences estimation, Frazer and Biesebroeck (2010) conclude that AGOA implementation resulted in large increases

in U.S. imports of apparel, agricultural products and manufactured goods. The triple difference-in-differences specifications they note are ‘most restrictive’ since country product combinations are lumped in exclusive groups namely: eligible products from eligible AGOA states and non-AGOA states. Accordingly, with the parameter of interest, the triple difference-in-differences estimator is the coefficient of the triple interaction between the three dummies in the equation. Frazer and Biesebroeck (2010) point out that they do not lump together the effect of the intervention on textile and non-textiles. Frazer and Biesebroeck (2010) argue that textile products face different restrictions unlike non-textile products and therefore the magnitudes of the effect differ. To allow for such differences, Frazer and Biesebroeck (2010) estimate the effect on textiles by adding a second triple interaction term for textile products which represents country-specific eligibility for apparel products. Meanwhile, Silva and Tenreyro (2006) had earlier criticised the approach adopted by Frazer and Biesebroeck (2010) as an inappropriate way of handling zeroes in data because more bias is introduced in the process leading to biased estimates. In its place Silva and Tenreyro (2006) propose a strategy to circumvent such limitations which could be done by estimating the equation with the dependent variable in levels without log transformation using the Poisson Pseudo Maximum Likelihood Estimator (PPML). They argue that such a solution applies to a wide range of applications involving type transformation.

The treatment-control literature highlights other difficulties in evaluating treatment effects involving the ‘treatment’ and ‘control’ groups which have not been addressed in AGOA impact evaluation. These include endogeneity, and selection bias. Furthermore, it has been shown that estimated treatment effects can be misleading (Wooldridge, 2005) if the issues raised are inadequately addressed. According to Bertrand, Duflo and Mullainathan (2004) the strict homogeneity of the ‘treatment dummy’ is a necessary condition for consistent estimation of the treatment effect. For instance, Tadesse and Fayissa (2008:993) explain in a footnote that their marginal effect estimate of U.S. imports of apparel remained unaffected by dropping South Africa from their sample. However, it is unlikely that their estimates will remain the same if for instance a sufficiently similar control group is used to address the un-attended selection bias, endogeneity issue due to measurement error arising from the use of nominal rather than real changes, and omitted variable due to correlated of U.S. import outcomes. These issues have not been addressed in the literature examining the impact of the AGOA intervention.

Seyoum (2007) reports contradictory findings on AGOA effect from monthly time series data analysis of U.S. imports from 36 AGOA eligible states during 1997-2004 years. Seyoum (2007) uses Wilcoxon signed rank and time series regression analysis using autoregressive integrated moving average (ARIMA) model. Contrary to the findings by Collier and Venables, Frazer and Biesebroeck, and Tadesse and Fayissa, Seyoum finds significant effects only for Lesotho among the 10 top exporters to the U.S.

namely: Angola, Congo (DRC), Congo (ROC), Gabon, Kenya, Lesotho, Madagascar, Mauritius, Nigeria, and South Africa. Seyoum (2007) concludes that the policy had positive marginal effects on the countries' exports except for U.S. imports of textiles from Lesotho. Seyoum (2007) observed that one-half of the states (Angola, Congo (DRC), Congo (ROC), Gabon and Nigeria) are predominantly oil-exporters and the other half (Kenya, Lesotho, Madagascar, Mauritius, and South Africa) are textiles-plus other products exporters. Therefore, Seyoum's insignificant results relate to U.S. imports of oil from the five oil-exporting countries significant for Lesotho among the remaining five states. The evolution of U.S. import pattern from the AGOA beneficiary countries seems to be characterised by sharp increases and decreases such as that which occurred in 2014. The pattern of U.S. imports from SSA countries from 2014 is worrisome which signals potential crumbling of SSA textile exports into the U.S. This shows that even with 'estimated positive significant increase of U.S. imports', further investigation is required to unearth the trickle down of such effects.

6 CONCLUSIONS

This paper established AGOA in the league of preferential trade programmes. It examines AGOA's potential to facilitate U.S.–SSA trade, looks at the provisions, the challenges, as well as the products covered by the Act. The empirical analysis of AGOA's implementation focused on the measurement of the impact of generalised exports from SSA to U.S. There is a paucity of convincing empirical data to see if AGOA has translated into improved trade outcomes among the participants thus helping to sustain the divergent views on the effectiveness of preferential trade programmes. More data is needed to show whether the shift of U.S.–SSA's economic relations from their initial guiding principles towards the signing of Preferential Trade Agreement (PTA) are steps in the right redirection. However, among others, things it is clear that the limited number of beneficiaries and selected number of products are issues of concern which limit the scope of benefits of AGOA to SSA countries.

One major reason why scholarship has been unable to make sense of the convoluted challenges bedevilling U.S.–SSA's trade relations is that it has not paid enough attention to germane issues. Issues like the impact of the evolution of synthetic materials as alternatives to the products covered by AGOA, the impacts of AGOA on industries and businesses in SSA and whether or not U.S.–SSA's trade relations improved as envisaged in AGOA. It is the interest of the U.S. to preserve the existing relations with SSA under the centre-periphery world capitalist system of inequality. Hence, U.S. 'aid and technical assistance' and 'preferential trade agreement' packages simply reflect the interest of preserving the status quo. That is why the structures and processes of dominance-dependence relationship between the U.S. and SSA adversely affect the impact of AGOA on U.S.–SSA's economic relations. With that, the following conditions subsist:

- SSA has a high level of economic interaction with the U.S.;
- That interaction is of significant importance to the economy of SSA;
- SSA is susceptible to the influence of events and actors in the U.S.

The U.S., on the other hand, does not have a high level of qualitatively important economic interaction with SSA and is not influenced by events and actors in SSA. Thus, SSA's dependence on the U.S. within the world capitalist system dovetails a highly unequal interaction and sensitivity in a relationship in which the U.S. systematically maintain dominance. The importance of the foregoing is that there exists a direct correlation between AGOA's provisions and the structure of economic relations between the U.S. and SSA. Thus, AGOA not only operate to cement U.S.–SSA's trade relations but also to justify SSA's dependent position vis-à-vis the U.S. The clear evidence for this could be found in the fact that some of AGOA's eligibility requirements persuade SSA to accept American economic over-lordship as beneficial. The acceptance of the persuasion has the effect of ensuring that SSA countries are unable to break-loose from the stranglehold of economic backwardness which could enable them to trade with ex-African economic powerhouses on equal terms. For as long as that is the case preferential treatment will always be needed by the countries of SSA.

REFERENCES:

1. AMITI, M. – ROMALIS, J. (2007): Will the Doha Round lead to Preference Erosion? In: *IMF Staff Papers*, 2007, 54, pp. 338-384.
2. ARMINGTON, P.S. (1969): A Theory of Demand for Products Distinguished by Place of Production. In: *International Monetary Fund Staff Papers*, 1969, 16, pp. 159-176.
3. ASOBIE, H.A. (2010): Nigeria's Foreign Policy, 1960-2010: An Overview. In: *Beyond 50 Years of Nigeria's Foreign Policy*. Ozita Eze (ed.). Lagos: Nigeria Institute of International Affairs, 2010.
4. BAIER, S.L. – BERGSTRAND, J.H. (2009): Estimating the Effects of Free Trade Agreements on International Trade Flows Using Matching Econometrics. In: *Journal of International Economics*, 2009, 77, pp. 63-76.
5. BALDWIN, R.E. – MURRAY, T. (1977): MFN Tariff Reductions and Developing Country Trade Benefits under GSP. In: *Economic Journal*, 1977, 87, pp. 30-46.
6. BERTRAND, M. et al. (2004): How Much Should we Trust Differences-in-Differences Estimates? In: *The Quarterly Journal of Economics*, 2004, 119, pp. 249-276.
7. BHATTACHARYYA, S. (2009): Root Causes of African Underdevelopment. In: *Journal of African Economies*, 2009, 18, 5, pp. 745-780.

8. COLLIER, P. – VENABLES, J.A (2007): Rethinking Trade Preferences: How Africa Can Diversify its Exports. In: *The World Economy*, 30, 8, pp. 1326–1345.
9. Congress Research Service (2014): U.S. Senate Foreign Relations Committee. [Online.] In: *Embracing Africa's Economic Potential: Recommendations for Strengthening Trade Relationships Between the United States and Sub-Saharan Africa* 3-4, 2014. [Cited 06.06.2015.] Available online: <<http://www.coons.senate.gov/embracing-africas-economic-potential/>>.
10. COPPER, H. (2002): Fruit of the Loom: Can Africa Nations Use Duty-free Deal to Revamp Economy? In: *Wall Street Journal*, 2002.
11. EDWARDS, L. – LAWRENCE, R. (2015): *AGOA rules: the intended and unintended development consequences of Special Fabric Provisions*. Draft Paper prepared for the meeting of NBER, Accra, Ghana, January 2015.
12. ELKINS, Z. et al. (2004): *Competing for Capital: The diffusion of Bilateral Investment Treaties 1960-2000*, working paper, University of Illinois, University of California at Berkeley and Harvard University.
13. FRANCOIS, J. et al. (2006): Preference Erosion and Multilateral Trade Liberalization. In: *World Bank Economic Review*, 2006, 20, 2, pp. 197-216.
14. FRAZER, G. – BIESEBROECK, J. V. (2010): Trade Growth under the Africa Growth and Opportunity Act. In: *The Review of Economics and Statistics*, 2010, 92, 1, pp. 128–144.
15. IKIARA, M.M. – NDIRANGU, L.K. (2004): 'Prospects of Kenya's Clothing Exports under AGOA after 2004', KIPPRA Discussion Paper no. 24.
16. International Monetary Fund (2014): *Regional Economic Outlook: Sub-Sahara Africa Back to High Growth?* Washington, D.C.
17. LALL, S. (2005): FDI, AGOA and Manufactured exports by a Landlocked, Least Developed Economy: Lesotho. In: *Journal of Development Studies*, 41, 6, pp. 998-1022.
18. LUCKE, K. (2010): *The costs and benefits of duty-free, quota-free market access for poor countries: who and what matters*. Centre for Global Development, CGD Working Paper 206, 2010.
19. MATTOO, A. et al. (2001): Unrestricted market Access for Sub Saharan Africa: How much is it worth and who pays? [Online.] In: *World Bank*, 2001. [Cited 15.02.2022.] Available online: <<http://elibrary.worldbank.org/content/workingpaper/10.1596/1813-9450-2595>>.
20. MATTOO, A. et al. (2003): The Africa Growth and Opportunity Act and its Rules of Origin: Generosity Undermined? In: *The World Economy*, 2003, 26, pp. 829–851.

21. MCCORMICK, R. (2010): 'The African Growth and Opportunity Act: The Perils of Pursuing African Development Through U.S. Trade Law. In: *Texas International Law Journal*, 2010, 41, pp. 339-384.
22. NEUMAYER, E. – SPESS, L. (2005): Do bilateral investment treaties increase Foreign Direct Investment in developing countries? In: *World Development*, 2005, 33, 10, pp. 1567-1585.
23. NIALL, C. – MATTHEW, S. (2011): *The effectiveness of African Growth and opportunity Act (AGOA) in Increasing Trade from Least Developed Countries: A Systematic Review*, London: EPPI-Centre, Social Science Research Unit, Institute of Education, University of London.
24. NOUVE, K. (2014): Estimating the Effects of AGOA on Africa Export using a Dynamic panel Analysis. [Online.] In: *Social Science Research Network*, 2014. [Cited 15.03.2022.] Available online: <<http://ssrn.com/abstract=1026204> or <http://dx.doi.org/10.2139/ssrn.1026204>>.
25. NWOKE, C. (2007): Origin and Dimensions of Nigeria's External Debt. In: *Nigeria's External Debt Crisis: Its Management*, Lagos: Malthouse Press and Nigeria Institute of International Affairs.
26. OCHE, O. (2010): Prospects for Enhanced Regional Integration in the ECOWAS Region. In: *Beyond 50 Years of Nigeria's Foreign Policy*, Lagos, Nigeria Institute of International Affairs.
27. Organisation for Economic Cooperation and Development (2012): Africa. In: *Paris: OECD*, 2012. [Cited 15.03.2022.] Available online: <<http://www.oecd.org/tad/envtrade/ExecutiveSummaryIllegalTradeEnvSensitiveGoods.pdf>>.
28. OYEJIDE, T.A. (2010): World Trade Order and Agricultural Transformation in Africa. In: *Journal of African Economies*, 2010, 19, pp. 1140-1159.
29. OZDEN, C. – SHARMA, G. (2006): Price Effects of Preferential Market Access: Caribbean Basin Initiative and the Apparel Sector. In: *The World Bank Economic Review*, 2006, 20, 2, pp. 241-259.
30. PHELPS, N.A., STILLWELL, J.C.H., and WANJIRU, R., (2009): Broken Chain? AGOA and Foreign Direct Investment in Kenyan Clothing Industry. In: *World Development*, 2009, 37, No. 2, pp. 314-325.
31. RICHARDSON, J.D. (1971): Constant Market Shares Analysis of Export Growth. In: *Journal of International Economics*, 1971, 1, pp. 227-239.
32. SEYOUM, B. (2007): Export Performance of Developing Countries under the Africa Growth and Opportunity Act: Experience from US Trade with Sub-Saharan Africa, In: *Journal of Economic Studies*, 2007, 34, 6, pp. 515-553.
33. SHAPOURI, S. – TRUEBLOOD, M. (2003): The African Growth and Opportunity Act (AGOA). Does it really present opportunities? *International*

- conference, Agricultural policy reform and WTO: Where are we heading. Capri (Italy) June 23-26, 2003.
34. SCHNEIDMAN, W. – LEWIS, Z.A. (2012): *The African Growth and Opportunity Act: Looking Back, Looking Forward* 4. [Online.] In: *Africa Growth Initiative, The Brookings Institution*, 2012. . [Cited 16.03.2022.] Available online:
<http://www.brookings.edu/~media/research/files/reports/2012/6/agoa/agoa_full_report.pdf>.
 35. SILVA, J.M.C.S. – TENREYRO, S. (2006): The Log of Gravity. In: *The Review of Economics and Statistics*, 2006, 88, No.4, pp. 641-658.
 36. TADESSE, B. – FAYISSA, B. (2008): The Impact of AGOA (AGOA) on US Imports from Sub-Saharan Africa (SSA). In: *Journal of International Development*, 2008, 20, pp. 920-941.
 37. THOMPSON, C.B. (2004): US Trade with Africa: Africa Growth and Opportunity? In: *Review of African Political Economy*, 2004, 101, pp. 457-474.
 38. U.S. DEPARTMENT OF STATE (2014): *International Trade Administration: U.S. African trade profile*, Washington D.C.
 39. UNCTAD (2002): *'The Least Developed Countries Report 2002: Escaping the Poverty Trap'*, New York: Oxford University Press.
 40. UNCTAD (2003): *The African Growth and Opportunity Act: A Preliminary Assessment*, New York: Oxford University Press.
 41. WHITE, F. (2012): The impact of US government Africa Growth and Opportunity Act (AGOA) in the Continent. In: *Journal of African Economies*, 2012, 8, 5, pp. 89-106.
 42. WORLD BANK (2013). *Doing Business 2013*. [Online.] In: *World Bank*, 2013. [Cited 16.03.2022.] <https://openknowledge.worldbank.org/bitstream/handle/10986/11857/DB13_Full%20report.pdf>.