

CGD Brief

How much GO in AGOA?

Growth and Opportunity in the
African Growth and Opportunity Act

Amar Hamoudi

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How much GO in AGOA?

Growth and Opportunity in the African Growth and Opportunity Act

Amar Hamoudi, Research Associate, CGD

Summary: The African Growth and Opportunity Act took effect in January 2001 to allow qualifying sub-Saharan African countries to export qualifying goods duty free to the US. The act was expressly designed to "increase trade and investment between the US and sub-Saharan Africa."

The evidence over the short time since it was enacted reveals that:

- Most of the AGOA benefits have gone to oil exporters;
- Most of the imports eligible for duty-free treatment are still being taxed, notwithstanding their eligibility. This is probably due to logistical difficulties in claiming AGOA benefits;
- AGOA has not increased trade flows from eligible countries to the US (yet);
- There are structural features of the law which threaten to reduce its developmental impacts.

Most of the AGOA benefits have gone to oil exporters

Most (about 56%) of the imports on which AGOA benefits were claimed in January 2002 were fuel products. During the entire year of 2001, about 85% of AGOA imports were fuel products. (See figure 1).

Before AGOA, only LDCs were exempted from the US tariff on petroleum of 5.25-20 cents per barrel; AGOA extended this exemption to all 35 qualifying countries—including most notably the major oil exporters Nigeria, Gabon, and Cameroon. As a result, \$205 million worth of fuel products (SITC 3) were imported duty free under AGOA during January 2002. In addition, \$66 million worth of machinery and transport equipment (SITC 7) and \$72 million worth of miscellaneous manufactures (SITC 8)—including apparel—were also imported duty free. Goods in these three categories accounted for 93% of the value of all goods imported duty free under the AGOA program.

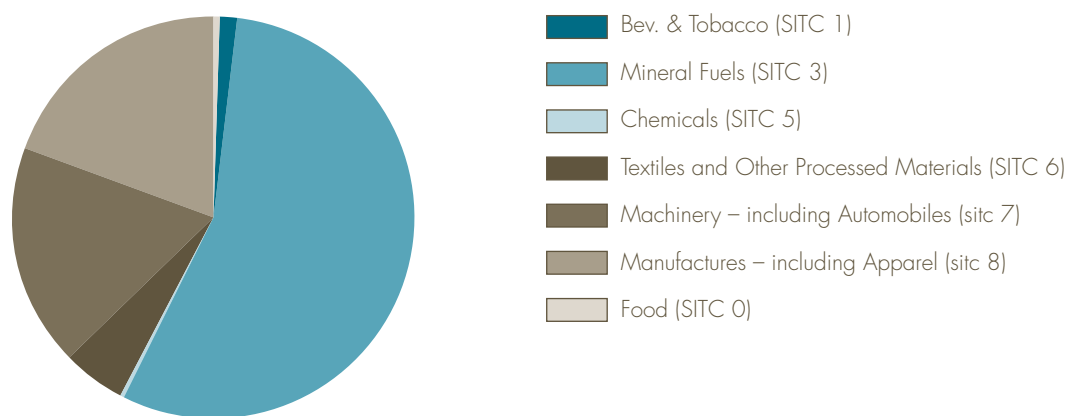
Most eligible imports are being taxed, notwithstanding their eligibility

In the year 2001, about two thirds of imports from AGOA eligible countries were being taxed, notwithstanding these countries' eligibility for duty-free access. In January 2002 this figure was about 60%. (See figure 2). This lack of "uptake" may be due to the logistical difficulties involved in claiming the benefits.

The proportion of imports for which AGOA benefits were claimed varies by country and by product. Figure 3 indicates that tobacco and fuels were among the commodity classes most

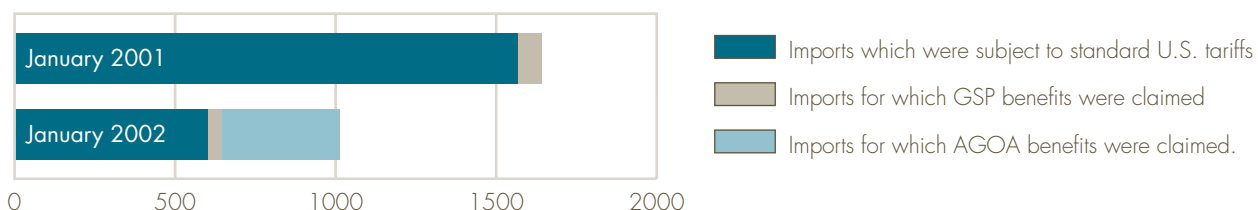
likely to be imported duty-free under AGOA. Table 1 indicates that exporters in Gabon and Lesotho captured a greater than proportional share of the AGOA benefits for their products.¹

FIGURE 1: AGOA IMPORTS TO THE US IN JANUARY 2002 BY COMMODITY (SITC) CLASSIFICATION



Notes: Shares of each of the ten single-digit SITC categories in the total dollar value of imports into the US on which AGOA benefits were claimed during January 2002. Benefits were claimed on a total of \$369 million worth of imports during January 2002, of which \$205 million—or 56% of the total—were fuel products (SITC 3). As discussed below, AGOA benefits were not claimed on all exports, even from AGOA eligible countries. However, fuel products were more likely than other products to receive AGOA benefits, perhaps because fuel exporters have better information about the law, or are better able to handle the legal or logistical procedures involved in claiming benefits. SITC categories 2, 4, and 9 are excluded from the figure legend, because their shares are negligibly small. Data are taken from the USITC’s “Trade Dataweb” database (dataweb.usitc.gov).

FIGURE 2: TOTAL PRE-DUTY VALUE OF IMPORTS FROM AGOA ELIGIBLE COUNTRIES (MILLIONS OF US\$)



Notes: Total value of imports from the 35 AGOA eligible countries (those listed in bold in table 1) in January 2001 and January 2002, in millions of current US\$. The valuation is on a customs basis, and does not include any duties assessed. In January 2002, tariffs were paid on about 60% of imports from AGOA eligible countries, notwithstanding these countries’ eligibility for duty-free treatment on virtually all imports. The data are from USITC’s Trade Dataweb database (<http://dataweb.usitc.gov>).

AGOA has not increased trade flows from eligible countries (yet)

Table 2 indicates export flows from AGOA and non-AGOA qualifying countries during January 2001 and January 2002. The evidence does not suggest that AGOA had a positive impact on export flows from beneficiary countries.

Of course, the US recession probably explains most of the decline in imports from developing countries into the US. However, this decline was at least as great for non-AGOA developing countries as it was from AGOA eligible countries, implying that the presence of AGOA did not have a marginal impact on trade flows.

A good way to measure the impact of a tariff reduction on the price competitiveness of imports is to calculate the percent reduction in the price of a good which the tariff reduction would allow while keeping the exporter's revenue the same. Table 3 shows this amount for products in each of the ten SITC classifications. It

implies, for example, that in a perfectly competitive market, the lower tariff burden in January 2002 relative to the year 2000 would mean that the price of T-shirts imported from beneficiary African countries would go down by almost nine percent. (However, it is important to note that assessed tariffs on products in this category were still much higher than assessed tariffs on products in any other SITC category in January 2002.)

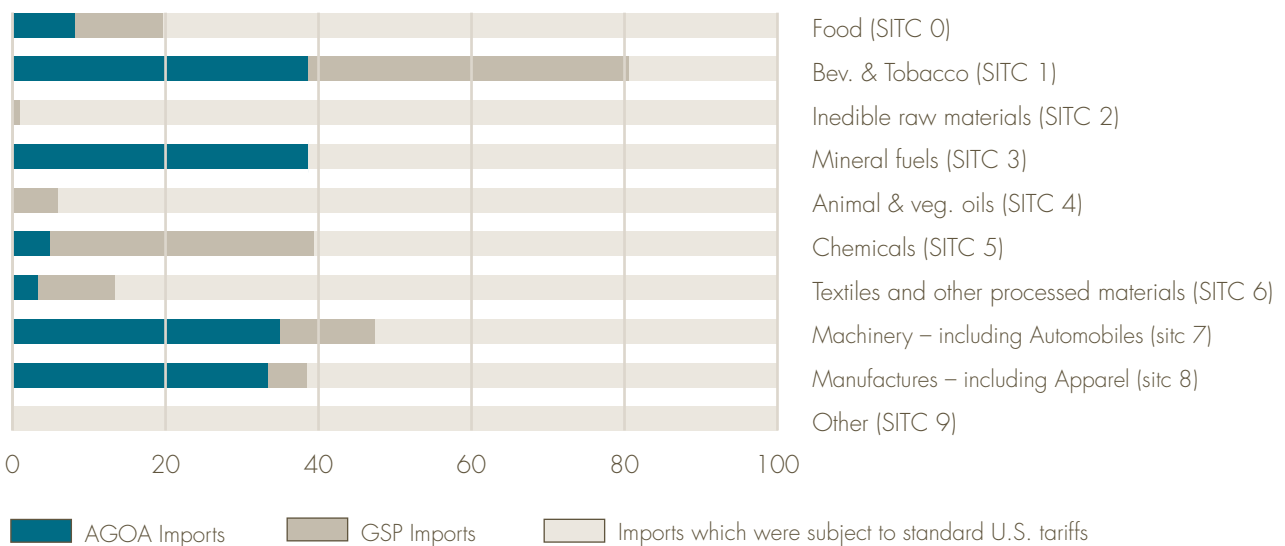
There are features of AGOA which threaten its developmental impacts

The "developmental impacts" of AGOA will be its long-run supply-side effects—that is, the extent to which it generates incentives for domestic or foreign investors to scale up production of goods for export to the United States. Three factors may mitigate the long run supply effects of AGOA.

First, some of the comparative advantage that it confers is simply the result of the fact that tariffs facing African exporters to the US

FIGURE 3: PROPORTION OF IMPORTS FROM ELIGIBLE COUNTRIES FOR WHICH DUTY FREE ACCESS WAS CLAIMED, BY SINGLE DIGIT SITC CLASSIFICATION

Notes: Within each of the ten single digit SITC commodities, AGOA-eligible countries actually received duty-free treatment on varying proportions of their exports to the US. While 40% of oil exports (SITC 3) or beverages & tobacco (SITC 1) imports from AGOA eligible countries successfully received duty-free access, less than 10% of agricultural exports (SITC 0 and SITC 2) were imported duty free, although all imports in these categories were eligible for duty-free treatment. Data are from the USITC's Trade Dataweb database (<http://databweb.usitc.gov>).



¹ In addition, note from table 2 that, excluding fuels, most (56%) of the goods imported under AGOA came from South Africa—home to about 6% of Africa's population, and the continent's only upper middle income country.

TABLE 1: SHARE OF TOTAL IMPORTS AND DUTY FREE IMPORTS UNDER AGOA, BY COUNTRY

| Country | Including Fuels (SITC 3) | | Excluding Fuels (SITC 3) | |
|---------------------|---|---------------------------------------|---|---------------------------------------|
| | Share of all imports from AGOA eligible countries | Share of duty-free imports under AGOA | Share of all imports from AGOA eligible countries | Share of duty-free imports under AGOA |
| Nigeria | 0.32 | 0.35 | 0.0047 | 0 |
| South Africa | 0.37 | 0.25 | 0.70 | 0.56 |
| Gabon | 0.13 | 0.18 | 0.0032 | 0 |
| Lesotho | 0.03 | 0.08 | 0.06 | 0.18 |
| Madagascar | 0.04 | 0.04 | 0.08 | 0.09 |
| Mauritius | 0.03 | 0.03 | 0.05 | 0.06 |
| Congo (ROC) | 0.03 | 0.02 | 0.0013 | 0 |
| Kenya | 0.01 | 0.02 | 0.02 | 0.04 |
| Malawi | 0.01 | 0.02 | 0.01 | 0.04 |
| Swaziland | 0.01 | 0.01 | 0.01 | 0.03 |
| Ethiopia | 0.0023 | 0.00029 | 0.0045 | 0.0006 |
| Zambia | 0.0004 | 0.00002 | 0.0007 | 0.00004 |
| Mali | 0.0001 | 0.000001 | 0.0002 | 0.000002 |

Notes: Included in the table are all the AGOA eligible countries whose exporters claimed duty exemptions under AGOA. AGOA eligible countries are those listed in bold in table 1. Column 1 indicates the share of exports from each country in the total exports from all AGOA eligible countries to the United States. Column 2 restricts the sample to those exports on which duty exemptions were claimed under AGOA. Columns 3 and 4 are identical to columns 1 and 2, except that oil exports have been removed from the sample. Country-specific, program-specific, and SITC-specific export values are taken from USITC's Trade Dataweb database.

TABLE 2

| Exporting region | Imports into US (billions of current US\$, customs basis) | | |
|--|---|--|--------------|
| | January 2001 | January 2002 | % change |
| AGOA qualifying countries | 1.6 (including fuels) 0.59 (excluding fuels) | 1.0 (including fuels) 0.53 (excluding fuels) | -38% -10% |
| Non-AGOA (all non-OECD countries) | 33.0 (including fuels) 27.0 (excluding fuels) | 28.3 (including fuels) 24.8 (excluding fuels) | -14% -8% |
| Non-AGOA (Africa only) | 0.36 (including fuels) 0.05 (excluding fuels) | 0.34 (including fuels) 0.08 (excluding fuels) | -5% +60% |

Notes: Total value of exports from AGOA and non-AGOA countries to the United States, before and after significant implementation of the AGOA preferences. The AGOA qualifying countries (rows 1 and 2) are the 35 countries listed in bold in table 1. The non-AGOA African countries (rows 3 and 4) are the 13 countries other countries listed in table 1. Claims of duty-free access to the US market under AGOA increased dramatically during this time, as figure 2 indicates. Data are taken from the USITC's Trade Dataweb database (<http://dataweb.usitc.gov>).

are lower than that tariffs facing other exporters. In this way, AGOA confers a sort of "artificial" comparative advantage on beneficiary countries, and the magnitude of this advantage is determined in part by the difference between the tariffs facing AGOA beneficiaries and those facing everybody else. The Uruguay Round of the WTO negotiations resulted in agreements to reduce tariffs on many goods by the year 2005. This will reduce the incentives to increase production in AGOA beneficiary countries unless investors believe that (a) that they'd realize sufficient returns before 2006, or (b) that the comparative advantage in AGOA beneficiary countries will extend beyond the end of the preference system.

Second, AGOA provides no exemptions to most of the non-tariff barriers to trade imposed by the US. Significant among these are procedural barriers like antidumping actions or safeguard actions. AGOA leaves firms in Africa vulnerable to these and other procedural barriers, some of which expose them to lengthy and expensive litigation.² Petitions for safeguard actions for certain labor-intensive goods are likely to become more frequent as pressure on domestic industries increases due to broad trade liberalizations associated with the Uruguay and Doha rounds of WTO negotiations. (As, for example, with the recent hike in steel tariffs). To the extent that these procedural barriers reduce import flows from Africa, the duty-free access afforded under AGOA will not help.

The third effect is closely related. AGOA gives broad discretion to the executive in the extension of benefits on a number of dimensions. If investors see a risk that this discretion could be used to justify reducing benefits in the future (for example, due to domestic political pressure, or geopolitical or strategic developments), the long-run supply side effects of AGOA will be mitigated.

Specifically, the channels of discretion include the fact that qualifying countries are reviewed every year, at which time the President must declare them ineligible for preferential treatment if he determines that they are not "making continual progress" on a number of dimensions. The standards are sufficiently broad, however, that there may be quite a bit of discretion available to him. The analogy might be to the practice of certifying countries as cooperative with regard to drug interdiction.

The product lines covered by AGOA can also change. The law gives some discretion to the president in adjusting the products covered under AGOA. If the Department of Commerce determines that there has been a "surge in imports" of textiles or apparel which causes upheaval in the domestic industry, the president may re-impose duties on these items. Also, the rules of origin for textile products (which are quite complicated, outlined in over 60 paragraphs and sub-paragraphs of AGOA) include a number of provisions which can change based on determinations by the executive.

TABLE 3: $dT/(1+T)$, YEAR 2000 TO JANUARY 2002, BY SITC CLASSIFICATION

| Product | Percent reduction in price which tariff rate reduction (Jan. 2002, relative to year 2000) allows an exporter to make without losing any profit. ($dT/(1+T)$) |
|---|--|
| Food (SITC 0) | 0.1% |
| Beverages & Tobacco (SITC 1) | 5.6% |
| Inedible raw materials (SITC 2) | 0% |
| Mineral fuels (SITC 3) | 0.2% |
| Animal & veg. oils (SITC 4) | 0.3% |
| Chemicals (SITC 5) | 0.3% |
| Textiles and other processed materials (SITC 6) | 0.1% |
| Machinery (SITC 7) | 0.4% |
| Manufactures (SITC 8) | 8.8% |
| Other (SITC 9) | 0.2% |
| Total | 0.3% |

Notes: $dT/(1+T)$ is the proportional change in price after a tariff reduction which keeps the producer's revenue constant. The ratio of import duties collected to total imports from the 35 AGOA eligible countries (listed in bold in table 1), by SITC, was calculated for the year 2000 and the month of January 2002 using data from the USITC's Trade Dataweb database (<http://dataweb.usitc.gov>). $dT/(1+T)$ is calculated as the ratio for January 2002 less the ratio for the year 2000, divided by one plus the ratio for the year 2000. For more details on the use of this measure to assess a tariff reduction, see Olearraga and others, "Market Access Advances and Retreats."

2 In a recent case, for example, a consortium of fruit producers in the US submitted a petition to the USITC asking for South Africa's AGOA benefits on canned pears to be revoked. South African producers had to respond to the petition. Their response was revealing—they maintained that AGOA would have no long run supply effects in their industry, and that their returns (even with AGOA benefits) in the US market are lower than elsewhere in the world.

Background: Country and product eligibility

Under AGOA, 35 countries are now eligible to export duty free to the US. Even before AGOA, most of these 35 countries were already receiving benefits under the Generalized System of Preferences (GSP), which gave them duty free

access to the US on 3500 tariff lines. With AGOA, they receive duty free access on an additional 1800 lines. (There are approximately 7200 tariff lines in the US Harmonized Tariff System.)

Country Eligibility

Only countries in sub-Saharan Africa may qualify. The law lists the 48 countries in table 4 as comprising "sub-Saharan Africa." The 35 countries whose names are in teal currently qualify for AGOA benefits based on country qualification criteria.

The qualification criteria include "progress toward" a number of governance objectives, including reduced public intervention in the marketplace, strengthened rule of law, political pluralism, bureaucratic transparency, reduced barriers to US trade and investment, poverty reduction, improvements in health and education, expanded access to credit, establishment of labor rights, protection of human rights, and others. The law requires that the executive review domestic policies in AGOA-eligible countries each year and report its findings to the legislature. Countries are to be disqualified if domestic policies are not proceeding quickly enough toward the goals outlined in the qualification criteria. In addition to these criteria, countries must be disqualified if they fail to resolve bilateral trade disputes with the United States or if they do not show sufficient respect for intellectual property rights.

Even before AGOA was enacted, all of the countries in table 4 except for Sudan and Liberia qualified for some level of preferential access to US markets under GSP. The countries whose names are italicized in table 4 had been receiving the most preferential treatment available under GSP. Differences between GSP preferences and AGOA preferences are outlined in the section on product eligibility, below.

Product Eligibility

AGOA extends the GSP in four ways:

- **Extended time horizon**— preferences under GSP expire periodically, and must be renewed by Congress. By contrast, AGOA guarantees that the preferences will remain available at least until September 2008, notwithstanding Congressional actions regarding the GSP. However, a country's time horizon in receiving benefits is uncertain, since country eligibility is reviewed each year and can be revoked;
- **No competitive need limitations**— preferences under GSP are rescinded if the value of a specific beneficiary country's exports to the US exceeds a predetermined level. AGOA does not contain such exporter-specific limitations;
- **Expanded country eligibility**— GSP preferences are tiered with least developed countries (labeled "A+" in the US Harmonized Tariff Code, and listed in italics in table 1) receiving the most liberal treatment; under AGOA, all qualifying countries receive the expanded preferences, regardless of LDC status;
- **Expanded product eligibility**— certain goods (notably textiles and apparel, watches, footwear, handbags, luggage, and leather) were statutorily excluded from the GSP, but are included in the preferences granted by AGOA. This amounts to an expansion of even the most liberal GSP treatment.

Only a handful of products deemed by the executive to be "import sensitive," as well as those textile products whose raw material inputs do not have their origin in the United States, are excluded from AGOA.³

³ Textile exports from those AGOA eligible countries which are also LDCs (printed in italics in table 1) are exempt from the rules of origin, unless they reach a predetermined market share.

TABLE 4

| Country | Date of AGOA eligibility | Country | Date of AGOA eligibility |
|---------------------------------|--------------------------|------------------------------|--------------------------|
| <i>Angola</i> | | <i>Liberia</i> | |
| <i>Benin</i> | October 2, 2000 | <i>Madagascar</i> | October 2, 2000 |
| <i>Botswana</i> | October 2, 2000 | <i>Malawi</i> | October 2, 2000 |
| <i>Burkina Faso</i> | | <i>Mali</i> | October 2, 2000 |
| <i>Burundi</i> | | <i>Mauritania</i> | October 2, 2000 |
| <i>Cameroon</i> | October 2, 2000 | <i>Mauritius</i> | October 2, 2000 |
| <i>Cape Verde</i> | October 2, 2000 | <i>Mozambique</i> | October 2, 2000 |
| <i>Central African Republic</i> | October 2, 2000 | <i>Namibia</i> | October 2, 2000 |
| <i>Chad</i> | October 2, 2000 | <i>Niger</i> | October 2, 2000 |
| <i>Comoros</i> | | <i>Nigeria</i> | October 2, 2000 |
| <i>Congo (Rep)</i> | October 2, 2000 | <i>Rwanda</i> | October 2, 2000 |
| <i>Côte d'Ivoire</i> | | <i>Sao Tome and Principe</i> | October 2, 2000 |
| <i>Djibouti</i> | October 2, 2000 | <i>Senegal</i> | October 2, 2000 |
| <i>DR Congo</i> | | <i>Seychelles</i> | October 2, 2000 |
| <i>Equatorial Guinea</i> | | <i>Sierra Leone</i> | October 2, 2000 |
| <i>Eritrea</i> | October 2, 2000 | <i>Somalia</i> | |
| <i>Ethiopia</i> | October 2, 2000 | <i>South Africa</i> | October 2, 2000 |
| <i>Gabon</i> | October 2, 2000 | <i>Sudan</i> | |
| <i>Gambia</i> | | <i>Swaziland</i> | October 2, 2000 |
| <i>Ghana</i> | October 2, 2000 | <i>Tanzania</i> | October 2, 2000 |
| <i>Guinea</i> | October 2, 2000 | <i>Togo</i> | |
| <i>Guinea-Bissau</i> | October 2, 2000 | <i>Uganda</i> | October 2, 2000 |
| <i>Kenya</i> | October 2, 2000 | <i>Zambia</i> | October 2, 2000 |
| <i>Lesotho</i> | October 2, 2000 | <i>Zimbabwe</i> | |

This Brief was prepared by Amar Hamoudi. It is part of an ongoing broad research agenda at CGD on the impacts of trade policies in industrialized countries on development prospects in poor countries.

Amar Hamoudi is a Research Associate with the Center for Global Development. Prior to joining the Center, Amar Hamoudi coordinated the Malaria, Economics, and Human Affairs program at the Center for International Development at Harvard University. Before that, he was a research/staff assistant at the Harvard Institute for International Development. The article Hamoudi co-authored with Jeffrey Sachs, "The Economics of HIV/AIDS in Africa," will be published in the forthcoming revised edition of *AIDS in Africa*. Hamoudi holds an M.A. in Public Administration and International Development from Harvard's John F. Kennedy School of Government.

To learn more about AGOA, try the following resources: The US International Trade Commission- an independent federal agency- has a number of reports and a great deal of primary data available on their website (<http://www.usitc.gov>). You can also read the original text of the law on the Library of Congress website (<http://thomas.loc.gov>). To learn more about trade preference schemes more generally, a good place to start is "Duty and Quota Free Access for the Least Developed Countries: An analysis of quad initiatives," prepared by the UN Conference on Trade and Development and the Commonwealth Secretariat. Also, a comprehensive source of information on international trade more generally is available from Harvard University's Center for International Development (<http://www.cid.harvard.edu/cidtrade>).

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