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

- Effects on export diversification and female  
labour in the apparel sectors

### Abstract

In 2000, the African Growth and Opportunity Act was signed into law in the United States, and is at present set to last until 2015. The act aimed at helping the Sub-Saharan African countries develop “through trade, not aid”. This essay studies the effect of the act on diversification of goods exported from these African countries to the United States. By analysing trade data for the period 1997-2012 this essay examines whether there is a basis for an extension of the act. The focus is both on an aggregated level and on the female dominated apparel sectors. The apparel sectors are studied specifically in order to see if the act has any effect on sectors that is important for empowering women. The results from the empiric analyses show that AGOA do not show any effect on diversifying the exported goods on the aggregated level, but for the apparel sectors there is a positive effect. Thereby, based on this study there is a basis for an extension of the act – at least for the apparel sectors.

Keywords: AGOA, trade preferences, diversification, rules of origin, apparel, women

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## **Abbreviations**

The abbreviations are presented in order of appearance.

AGOA – The African Growth and Opportunity Act

U.S. – United States of America

SSA – Sub-Saharan Africa

OLS – Ordinary Least Squares

UNCTAD – United Nations Conference of Trade and Development

GSP – Generalized System of Preferences

MFN – Most Favourite Nation

GATT – General Agreement of Tariffs and Trade

HTS – Harmonized Tariff System

LDC – Least Developed Countries

ROO – Rules of origin

GDP – Gross Domestic Product

USITC – United States International Trade Commission

## **1. Introduction**

Through the African Growth and Opportunity Act (AGOA) the United States of America (U.S.) gives trade preferences to the region of Sub-Saharan Africa (SSA). Trade preferences is a term used when a country gives one or more countries lower tariffs, or tariff exemptions, on imports than they give to other countries. It is non-reciprocal, which means that it is not allowed for the donor country to demand reciprocal actions from the receiver. An agreement such as this is assumed to increase the receiving country's exports – both volume and number of goods. An increased export is, in turn, expected to increase welfare and development in the receiving country. Though, the outcome of trade preferences is affected by the rules of origin (ROO), which has a crucial role in determining how the trade preferences will be used. In its current form AGOA is set to last until 2015, and this essay intends to examine if there is a basis for further extension.

The majority of the earlier studies of AGOA have focused on export volume while the diversification effect has not been studied as much. Export diversification is however important for a country's growth, and it makes the country less vulnerable to external circumstances. Developing countries' exports are often focused on a small number of goods, leaving them sensitive for price changes and other events on the world market. A diversification of exported goods would give the countries more sources of income, making them less dependent on single goods and less vulnerable for events on the world market. The purpose of this essay is thereby to study whether AGOA has had a positive effect on diversification of exports from SSA to the U.S.

The empirical analysis is performed both on the aggregated level for the SSA, and for the apparel sectors specifically in order to see if AGOA has had a positive effect on the diversification of exported goods. A gravity type of model is used to perform the empirical analysis, and the model is estimated through an Ordinary Least Square (OLS) regression. The chosen time period is between 1997-2012. The choice of period is motivated by the need to compare trade during AGOA to trade prior to the act.

This essay differs from earlier studies in three ways. First, we focus on the number of goods exported, not on export volume. Second, it considers a longer time period than the previous studies. Third, besides studying the effect on the region as a whole, it focuses on a female

dominated sector, the apparel sector, to illustrate how trade preferences may affect women as a group. Through these three points this essay aims at filling gaps from earlier studies.

The choice of studying both the aggregated effect and the effect for the apparel sectors has been made since there are, as far as I am aware, no studies focusing on how women are affected by these preferences. It also gives a broader picture of the preferences since it will be possible to see if the effects are similar or differs for the region and the apparel sectors. Studies of the apparel sectors do exist, but their focus has been on the overall effect, due to separate ROO, on these sectors. Apparel sectors are often dominated by female labour. Empowering women is an important step for development in general, but also specifically for women as a group. If trade preferences contribute to an increased export in the apparel sectors, it should mean an important step towards increasing women access to jobs and earnings. Being able to support themselves is an important step towards equality, and it is thereby relevant to study the progress of these sectors specifically.

This essay begins with an outline regarding trade preferences and a presentation of AGOA. This is followed by a theoretical perspective of trade preferences, presenting its effect on export diversification and how the liberalization of ROO might contribute. Previous research is then presented to provide a picture of earlier studies and their results. The empirical analysis follows thereafter, where a version of the gravity model is used to study the effect of AGOA on the number of goods. Regressions are performed both on the aggregated level and separately for the apparel sectors to see if the general outcome is similar to, or differ from, the outcome in the apparel sectors. At the end the essay is shortly summarized and its results discussed in the conclusion.

## **2. AGOA – Origin and characteristics**

This section begins with an introduction about trade preferences and then moves on to the preferences of AGOA. The background and content of AGOA is introduced, followed by the criteria that need to be fulfilled for participation.

### **2.1 Trade preferences**

Non-reciprocal trade preferences are not a new phenomenon. At the first United Nations Conference on Trade and Development (UNCTAD) in 1964, the question of developed countries giving developing countries preferential tariff rates was presented for the first time (UNCTAD 2014). The General System of Preferences (GSP) was introduced at the second UNCTAD in 1968. It was recommended that developed countries would give non-reciprocal trade preferences to all developing countries, this treatment aimed at giving developing countries better treatment than under the Most-Favoured-Nation (MFN) obligation (Hoekman & Özden 2005). The MFN obligation is, through Article 1, part of the General Agreement on Tariffs and Trade (GATT), and it requires countries not to discriminate between their trading partners. If a country gives special treatment to some of its trading partners, it must give the same treatment to the rest (WTO 2014a, WTO 2014b). The conference modified the MFN obligation to exempt developing countries from the demands of non-discrimination, and also to encourage developed countries to actually favour imports from developing countries (Grossman & Sykes 2005). This kind of discrimination usually violates the MFN obligation, but it was circumvented with a waiver in 1971. The waiver approved this kind of discrimination and was set to last for 10 years. In 1979 the exception from the MFN obligation became permanent through a supplement, the Enabling Clause.

Many developed countries give general preferences to developing countries. There is no common GSP, but each donor has its own scheme with its own rules of participation with respect to countries and goods. It is the donor country that decides which goods are eligible for preferences. A product coverage that benefits the receivers the most include goods they already produce, or goods they have the possibility to produce. If the covered goods are not goods initially produced by the receivers, the preferences could diversify their production and exports (Grossman & Sykes 2005). On the other hand, this could mean that the receiving country is not able to benefit from the preferences. Donor countries can give preferences in addition to their GSP scheme, as it is actually the case with AGOA.

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

On May 18 in 2000, AGOA, as part of The Trade and Development Act 2000,<sup>1</sup> was signed into law by the President of the U.S. (UNCTAD 2003). The act was part of the U.S. contribution to help developing countries develop through “trade, not aid”. The intention of the act was to increase openness of SSA countries by giving preferences to the participating countries’ exports to the U.S. market, and also to improve economic relations between the U.S. and SSA (Public law 2000). AGOA is intended to increase the countries’ incentives regarding opening their economies and to adopt free markets. The act includes reduction and removal of trade barriers, and it also required the President of the U.S. to create the United States-Sub-Saharan Africa Trade and Economic Forum. The forum engages representatives of the U.S. and the AGOA countries to meet annually with the purpose to promote the economic relations and economic integration between the U.S. and the SSA countries.

As mentioned above, the act was signed into law in May 2000. The President assigned the first countries in October 2000 and the first goods in December the same year. The first AGOA imported goods entered the U.S. market in January 2001 (UNCTAD 2003). The act was originally set to last until 2008, but in an amendment in the AGOA Acceleration Act of 2004 it was extended to 2015 (AGOA 2014a).<sup>2</sup> Though, it needs to be borne in mind that there are discussions regarding the eligibility of AGOA since it is not targeted to specific countries in need, but to a region. It is thereby doubtful whether AGOA do fulfil the defined rules regarding trade preferences. Despite this, the act is active with the purpose to extend the economic activity within the SSA countries and to increase their export.

## **2.3 AGOA benefits**

It is the U.S. President who decides which goods are eligible for AGOA (Public law 2000). AGOA covered goods are given duty-free access to the U.S. market and most of the goods encounter no quantitative import restrictions.<sup>3</sup> The amount of goods in the Harmonized Tariff System (HTS) is often reported at the 6-digit level, a level including more than 5000 commodity groups. AGOA, however, disaggregate the goods at an 8-digit level. The U.S. GSP scheme, which all AGOA countries must be part of, includes about 5000 goods at the 8-

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<sup>1</sup> Besides the African Growth and Opportunity Act, The Trade and Development Act 2000 included trade benefits for the Caribbean Basin.

<sup>2</sup> AGOA Acceleration Act of 2004 includes several additions/changes to the original act. For further reading, see AGOA Acceleration Act of 2004 (AGOA 2014g).

<sup>3</sup> There are import quotas among textile and apparel goods, more on that in table 2.

digit level.<sup>4</sup> AGOA adds close to 1.800 goods on top of that. These 1800 goods have only been available for least developed countries (LDCs) earlier, but in AGOA they are available for all eligible countries (UNCTAD 2003).<sup>5</sup> AGOA does not contain any limitations regarding what kind of textile and apparel goods that can be exported to the U.S. as long as the production meets the ROO (AGOA 2014b).<sup>6</sup> An illustration of the number of covered goods within AGOA is presented in table 1.

Table 1: Number of covered goods within AGOA

GSP	5000
+AGOA	+1800
+AGOA Textile and Apparel	+Unlimited
Total	Preferential goods within AGOA

Notes: Table 1 shows that GSP covered goods are the foundation of AGOA, and that AGOA adds preferential goods to the amount already covered within the GSP. Added to this are textile and apparel goods.

Most of the original AGOA countries were already eligible to the GSP benefits before the act was enacted. The preferences of the GSP are normally evaluated and renewed every two years, but with AGOA they, together with the goods added by the act, were scheduled to last until 2008. Thereby, the trade benefits were secured for a longer period. Since the act was extended to last until 2015, the benefits through GSP and the specific benefits of the act were also prolonged to last until 2015. Unlike the GSP, AGOA does not contain a competitive need limitation, a limitation meaning that when a country is seen as sufficiently competitive in the production of a good it loses the preferences of that specific good (AGOA 2014c). This process, usually referred to as graduation, does not apply within AGOA (Hoekmann & Özden 2005).<sup>7</sup>

Not all AGOA countries are entitled to full eligibility of the act’s preferences (UNCTAD 2003). Partial benefits are for countries only eligible to preferences of the above mentioned approximately 7000 goods; these countries are not entitled for preferences regarding textile

<sup>4</sup> A summary of demands required within the GSP are presented in the appendix, table 1.  
<sup>5</sup> LDCs are countries with a per capita GNP of less than 1500 USD a year, calculated in 1998 prices (UNCTAD 2003).  
<sup>6</sup> The rules of origin of AGOA are explained later on.  
<sup>7</sup> The competitive need limitation terms countries as sufficiently competitive when 50 % of the total U.S. imports of the good is from that country, or if the imports of the good reach a certain value (\$110 million in 2005).



and apparel. Full benefits are only for the countries that have been certified as eligible also for exporting textile and apparel. In order to achieve this certification the country must adopt a certain visa system, which functions as a guarantee against unlawful trans-shipment of textile and apparel goods, and the country must also cooperate with the U.S. Customs Service to prevent and report illegal trade.

## **2.4 Rules of origin**

In order for goods to be eligible for preferences they must be produced according to the ROO. The main function of ROO is to prevent trade deflection. Trade deflection may occur when trade between two countries, A and B, do not face any tariffs, and the two countries have different tariffs on imports from other countries. The country with the highest tariff, A, can import goods through country B. In that way the goods meet a lower tariff and can then be imported duty-free to country A, which will then have paid a lower tariff than it would have if the goods were imported directly to A (Baldwin & Wyplosz 2009). Trade deflection is thereby a way of cheating with tariffs and ROO function as a barrier against this.

It is the preference donor who decides the ROO. Since AGOA is based on the U.S. GSP, also the AGOA ROO, with some additions, are based on the GSP ROO (AGOA 2014d). There are separate rules added for textile and apparel goods since AGOA, unlike the GSP, cover these goods. Table 2 presents a summary of the GSP ROO, the additions made within AGOA, and the separate rules assigned for textile and apparel goods.<sup>8</sup> All countries wishing to export with AGOA preferences must preserve records of both production and exports for five years (United States Department of Homeland Security 2003). These documents must show that the goods meet the ROO and are entitled to the preferences of AGOA. These demands of documentation are administrative costs, which together with higher production costs brought by limited choices of inputs and not being able to produce with the cheapest input, or the cost of the creation of new markets, erode the value of preferences (Brenton & Özden 2014). ROO thereby affects the outcome of export diversification, and is an important part when studying the effect of AGOA.

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<sup>8</sup> For full details, see Public law 2000 and United States Department of Homeland Security 2003.

Table 2: Rules of Origin

<p>GSP rules of origin</p>	<ul style="list-style-type: none"> <li>• The products must be imported directly from the AGOA country to the U.S.</li> <li>• Products may incorporate materials originating from outside the beneficiary country as long as the sum of the direct cost or value of the materials produced in the country, plus the direct cost of processing in the country is equivalent to at least 35 % of the calculated value when entering the U.S.</li> </ul>
<p>AGOA additions</p>	<ul style="list-style-type: none"> <li>• The products must be "growth, product or manufacture" of one or more AGOA countries. This is defined by;</li> <li>• Products may incorporate materials originating from outside AGOA as long as the sum of the direct cost or value of the materials produced in one or more AGOA countries, plus the direct cost of processing in the AGOA countries is equivalent to at least 35 % of the calculated value when entering the U.S.</li> <li>• Of the above mentioned 35 %, 15 % are allowed to consist of parts and materials originated from the U.S.</li> </ul>
<p>Separate rules for textile and apparel.</p>	<ul style="list-style-type: none"> <li>• The products must be imported directly from the AGOA country to the U.S.</li> <li>• Apparel made in AGOA countries with fabric, yarn and thread from the U.S. have duty-free and quota-free access to the U.S. market.</li> <li>• Apparel made in AGOA countries with domestically produced fabric and yarns, or with fabric and yarns produced in other qualified AGOA countries qualify for duty-free access to the U.S. Though, these goods meet an import quota from the U.S.</li> <li>• These quotas are different depending on which of the goods they concern and they are not distributed evenly between the eligible countries. The quotas are filled as all countries export. If a quota reaches its limit it does not mean that the U.S. will stop imports of that good, but that, for the rest of the year, the AGOA countries meet the same tariffs as countries outside the act. The quotas are set according to a percentage of the U.S. imports of the good the year before, and this percentage has been changed several times since the act was initiated. Hence, the quotas are not fixed.</li> <li>• Apparel otherwise eligible for AGOA preferences are not to be treated as ineligible because of containing interlinings originated outside AGOA as long as the value of those interlinings do not exceed 25 % of the cost for all parts of the specific apparel.</li> <li>• Apparel otherwise eligible to AGOA preferences are not to be treated as ineligible because of containing fibres or yarns that are not wholly formed in the U.S. or one or more of the AGOA countries as long as the total weight of those fibres and yarns does not exceed 10 % of the total weight of the specific apparel.</li> <li>• Least developed countries are authorized to use fabrics from countries outside AGOA beneficiaries and the U.S., so called third-country fabrics, in their production.</li> </ul>

Source: AGOA 2014d, Public law 2000

## 2.5 Eligible countries

Not all countries in the region are eligible to take part of the benefits from the act, and we should also note that not all countries are interested in participating.<sup>9</sup> It is the President of the U.S. who determines whether a country is eligible or not (Public Law 2000). In order to become eligible for the benefits there are requirements that need to be met, or the country must be making efforts to achieve them. The requirements consist of several parts<sup>10</sup>, besides the earlier mentioned demands of the GSP, which are:

- to have a market economy that supports private property rights and functions with minimum government interference;
- to have rules of law that guarantee fair trials and equal treatment by the law and also the right of different political views;
- to eliminate trade and investment barriers towards the U.S.;
- to have economic policies to reduce poverty and increase public health, education and infrastructure;
- to reduce corruption and bribery;
- to acknowledge and protect internationally recognized labour rights.

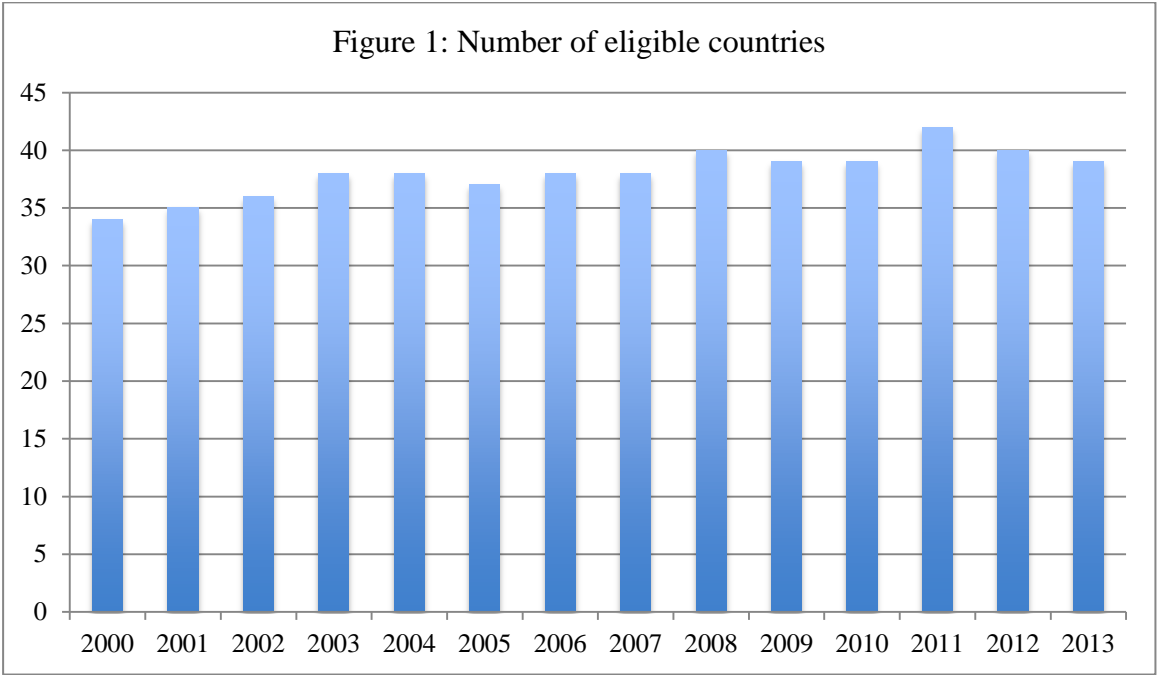
Besides these requirements the countries are not allowed to engage in any kind of activity that would undermine the national security or foreign policy interests of the U.S. It is also prohibited to participate in violation of internationally recognized human rights or to provide support for acts of international terrorism. They must also participate in the international fight against human rights violations and terrorism. If the countries achieve these requirements the President can approve them as eligible for benefits. But, if the countries do not fulfil them, the President can deny eligibility for new countries and also exclude participating countries. Evaluations regarding eligibility take place annually. SSA nowadays consists of 49 countries since South Sudan became independent from Sudan in 2011 (AGOA 2014e). AGOA started off with 34 countries participating, and since the beginning there has been an average of 36 countries participating every year. This implies a percentage participation as high as about 75-80 per cent, except in the beginning when the rate was slightly above 70 per cent. Currently,

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<sup>9</sup> Comoros, Somalia and Sudan did not show interest in the beginning. Comoros has become eligible since then, while Somalia and Sudan have are still outside the act. A summary of the countries in the region and their participation in AGOA can be found in the appendix, table 3.

<sup>10</sup> These requirements can be found in its full context in paragraph 104 in Public Law 2000.

in March 2014, there are 39 active countries (AGOA 2014f).<sup>11</sup> Figure 1 shows the variation in the number of participating countries over the years. The yearly evaluations also imply that the act is a year-to-year agreement. This short time-guarantee has been criticized for being an investment risk and could thereby prevent investors from investing with the AGOA countries (Jones & Williams 2012).



Source: International Trade Administration 2014

Countries can be, and have been, excluded and then designated eligible again after improving what they were lacking. Côte d’Ivoire was first designated eligible in 2002, and then declared ineligible in 2005 (Embassy of the United States 2014). After restoring democracy, fighting corruption, and improving the business environment the country became eligible again in 2011. Also Niger and Guinea have been excluded and included again after elections considered free and fair. Mauritania lost eligibility after a military coup in 2008 but was designated as eligible again from January 1 2010 (International Trade Administration 2014).

<sup>11</sup> A list of the Sub-Saharan African countries and their status in AGOA are presented in appendix, table 3.

### **3. Trade preferences – Theoretical considerations**

This section will introduce the theoretical considerations of trade preferences and its outcomes. It begins with a description of how the preferences affects diversification of exported goods, theoretically, and then follows how ROO can prevent the receiving countries' possibility to benefit from them.

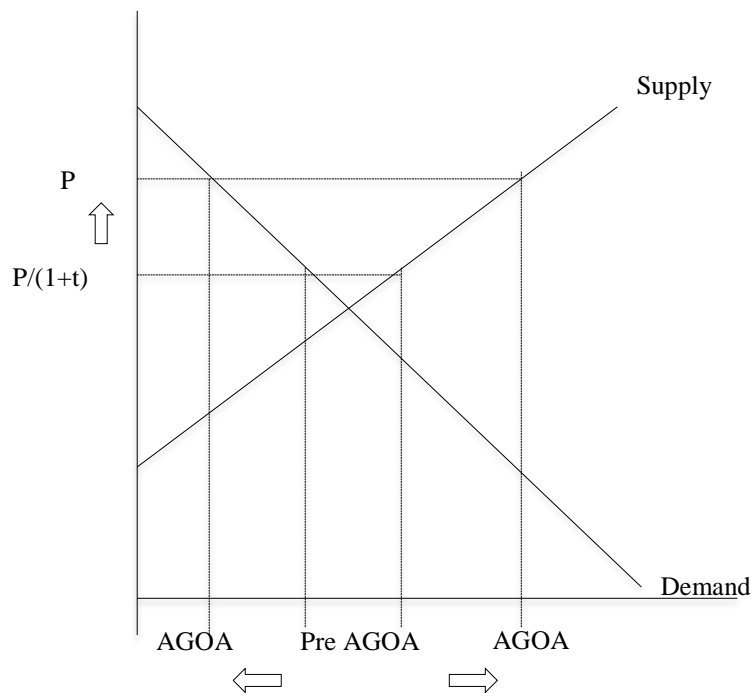
#### **3.1 Export diversification**

Through trade preferences, such as AGOA, the tariffs are removed on imported goods from the beneficiary countries. A tariff removal will increase both the volume and price of the exported goods and goods become more profitable to produce. This implies that goods that were unprofitable to produce before the preferences were added become more profitable when the tariffs are removed, and more goods are thereby assumed to be produced and exported.

This scenario can be illustrated by figure 2 below. The scenario applies to one good in one country, but is applicable in a larger scale also. In the initial situation the price of the good,  $P$ , is affected by an ad valorem tariff ( $t$ ), which implies that the country would sell the good for  $P/(1+t)$ . When the preferences are introduced the tariff of the good is removed and the price increases to  $P$ . The good is thereby more profitable to produce, and an increased number of goods will be produced. If a good goes from not being produced to being produced then there has been a diversification effect since it moves from no production, to production. Here, this is shown for one good, but as mentioned earlier it is applicable in a larger scale. In the case of many goods, the effect is larger. In this way, AGOA is assumed to increase the number of exported goods and this assumption is relevant for both the aggregated level and for the apparel sectors separately.

Trade preferences' positive effect on diversification of exported goods is important since they increase the country's sources of income, and the country thereby becomes less vulnerable for events on the world market (Hesse 2007).

Figure 2



Source: Grossman and Sykes (2005), applied to AGOA by author.

### 3.2 Rules of origin

Trade preferences, such as those given by AGOA, are expected to diversify exports, while strict ROO may prevent that from happening. Thus, ROO affect the outcome of preferences. In the absence of ROO, the producers will choose the cheapest input source for their production. In the case when ROO are present, liberal ROO give a larger possibility for the producer to choose the cheaper input source compared to a situation with strict ROO, it is also more possible to produce according to their comparative advantage/s and be part of production chains (Brenton & Özden 2014). Since they make input cheaper for the producer, the final good is more profitable to produce and the diversification effect may occur. When restrictive ROO is present the cost of inputs increases and the marginal cost of production is thereby increased (Melo & Portugal-Perez 2013). The costs are higher the more restrictive the rules are. Higher production costs reduce the value of trade preferences and it becomes less profitable to produce and export the goods. The diversification effect is thus negatively affected by strict ROO.

Restrictive ROO are assumed to have a negative impact on export diversification while liberal ROO may contribute to export diversification. This difference is relevant in this essay. It was stated in table 2 earlier that the ROO differ between apparel sectors and other sectors. The

apparel sectors face less restrictive ROO and, from table 2 in the appendix, it is shown that a majority of the AGOA countries eligible for exporting textile and apparel are LDCs – meaning they meet even less restrictive ROO when exporting these goods. This difference implies that there is a higher probability for AGOA to have a positive effect on export diversification for the apparel sectors than for the aggregated level. Whether this hypothesis is true or not will be tested in the empirical analysis later on.

#### **4. Previous research**

This section will present previous research regarding AGOA and its outcome. This part is included in order to see what conclusions earlier studies have reached, and if there is consistency among the results.

Earlier research is presented in table 3. Studies were being done even before AGOA had been in force for some time, and can thereby be seen as more of a forecast about the act and its future effect. Ianchovichina et al. concluded in 2001 that AGOA, as long as the only trade barriers being removed were towards the U.S., would not increase SSA export. Mattoo et al. showed in 2002 that non-oil trade would increase but that the gains would have been greater with more goods included and with less strict ROO. In 2004, Lederman and Özden concluded that AGOA would lead to an export increase of five per cent, on average.

The rest of the studies in table 3 are performed on data for a longer period of AGOA. In 2007 Tadesse and Fayissa concluded that AGOA did have a positive diversification effect but no effect on the volume of exports, while Venables and Collier showed results of apparel treatment within AGOA leading to a large export impact for those goods. In 2010 Frazer and Van Biesebroeck showed quite a high result of AGOA when they presented that apparel exports from AGOA countries to the U.S. had, on average, increased with 42 per cent. They also showed increasing exports in manufacturing and agriculture, even though not as high an increase as for apparel, and that the variety of exported goods increased. In 2011, Zappile showed that AGOA did not have a significant effect on AGOA exports.

Thus, earlier studies came to different conclusions regarding the effect of AGOA, which might be explained by the fact that they have been made with different methods and that the authors have not used the same data or sample. The non-consistent result makes it difficult to draw an appropriate conclusion on whether AGOA has affected the participating countries as it was supposed to. The question whether AGOA has achieved an increase in exports and/or diversification of the exported goods or not remains. Three of the above mentioned studies, Lederman & Özden (2001), Tadesse & Fayissa (2007) and Zappile (2011), are performed with a model similar to this study. One of these three studies also examines the diversification effect along with export volume, Tadesse & Fayissa.



Table 3: previous research

Year	Author	Problem	Data/sample	Method	Result
2001	Ianchovichina et al.	Whether the U.S., Japan and the EU had an impact on the development of the SSA countries.	37 of the SSA countries in 1995	Multi-country general equilibrium model	Eliminations of barriers only towards the U.S. would not result in any meaningful gains for SSA-37. Potential gain for SSA countries would also be at the cost of the other countries.
2002	Mattoo et al.	Assesses the quantitative impact of AGOA on African exports.	Apparel trade within AGOA between 2000 and 2001.	Partial-equilibrium model	Non-oil exports would increase, but the gains would have been greater without limitations of covered goods and with more liberal ROO.
2004	Lederman and Özden	Investigates the impact of different U.S. preference programs	173 countries and 98 product categories, resulting in 16.954 observations per year, between 1997 and 2001.	Gravity model	On average, AGOA increased trade volume with five per cent for the eligible countries.
2007	Tadesse and Fayissa	Investigate whether there has been an increase of U.S. imports from SSA, and if such an increase can be attributed to the act.	Aggregated and disaggregated data of U.S. imports from each AGOA eligible country for the period 1991-2006	Gravity model	There has been a trade initiation effect, but the export creating effect (volume) was marginal.
2007	Collier and Venables	Examine the effects of trade preferences on exports from AGOA countries to the U.S. and to the EU.	86 developed and middle-income countries with mean apparel exports to the U.S. and the EU exceeding 1 million USD, and 110 countries when they add countries with mean apparel exports between 100 000 and 1 million USD. Time period was between 1991-2005.	Triple and quadruple difference-in-differences regressions for exports.	The regressions show that the AGOA apparel treatment has had a significant and large impact on apparel exports.
2010	Frazer and Van Biesebroeck	Whether AGOA has had an impact on the volume of SSA exports to the U.S	The trade volumes used are U.S. imports reported by the U.S. between 1998 and 2006.	Triple-difference-in-difference regression	Apparel imports have, on average, increased by 42 per cent. Agriculture and manufacture imports have also increased by a significant amount, 8 per cent and 15 per cent, and there has been an increase in the variety of goods as a result of AGOA.

2011	Zappile	Assesses the effect of non-reciprocal North-South trade agreements by exploring whether AGOA has increased SSA exports to the U.S., and if export eligibility textile and apparel has a positive effect on exports to the U.S.	Non-oil imports to the U.S. from the AGOA eligible countries for the time period 1995-2005.	Gravity model	AGOA was found to have no significant effect on increasing exports from SSA to the U.S. and neither to have a positive effect on exports of textile and apparel.
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## 5. The impact on the diversification of African exports

It is stated in the introduction that this essay aims at investigating whether AGOA has contributed to diversifying SSA exports. This empirical section will begin with a short summary of the model and then continue with a description of the data used. The empirical analysis will be performed through an OLS regression for the aggregated level and also specifically for the apparel sectors.

### 5.1 A gravity type of model

The chosen model for this study is strongly reminiscent of the gravity model, which is commonly used when studying the impact of trade preferences. See, for example, Lederman and Özden (2004), Tadesse and Fayissa (2007) and Zappile (2011) for earlier studies of AGOA performed with the gravity model. The gravity model has proven to have high explanatory power and can be performed with different variables, something that supports the model's usefulness since it makes it possible to build a model fitted to investigate the specific area one is studying (Anderson 1979). Using a model like this to study trade preference's effect on export diversification might not seem as a given choice. However, the model has been used for this purpose as well as for measuring the effect on export volume. One example is Tadesse and Fayissa (2007) who used the model for studying both volume effects and trade initiation effects.

Here, the model will be used to study the bilateral trade between AGOA and the U.S., with the U.S. as the only importer. The chosen version of the model for this study is quite similar to the original version, but a few changes have been made and the model is presented in the next section.

### 5.2 Method

The chosen model for this study is shown below:

$$\ln(G_{it}) = \beta_1 + \beta_2 * \ln(GDP_{it}) + \beta_3 * \ln(Pop_{it}) + \beta_4 * \ln(Distance_i) + \beta_5 * Language_i + \beta_6 * Landlocked_i + \beta_7 * AGOA_{it} + \epsilon_{it} \quad (1)$$

The subscript  $i$  represents the AGOA exporter and  $t$  represents the specific year. In order to study the diversification effect the dependent variable is the number of exported goods. By

using the number of goods as the dependent variable the regression will show if AGOA has affected the number of goods exported from SSA to the U.S.  $\ln(G_{it})$  is the natural logarithm of number of goods being exported between the AGOA country and the U.S. at time  $t$ .<sup>12</sup>

$\ln(\text{GDP}_{it})$  is the natural logarithm of GDP for the exporting country. GDP for the U.S. is excluded since it is the same for all AGOA countries. With the same reasoning the population of the U.S. is excluded and the only population that is included is that of the AGOA countries, which is the variable  $\ln(\text{Pop}_{it})$ .  $\ln(\text{Distance}_{it})$  is the natural logarithm of the distance between the AGOA countries and the U.S., and it is measured with the Great Circle Method by the CEPII database.

GDP for the AGOA countries are assumed to have a positive relationship with exported goods, meaning that higher GDP is assumed to increase the number of exported goods. Population is, on the other hand, more ambiguous whether it is supposed to have a positive or negative effect. A larger population may imply a lower GDP per capita for the country, and thereby it may have a negative effect on exports. Distance is assumed to have a negative effect on exports since a larger distance implies higher transportation costs.

Included binary variables are common language, landlocked situation and participation in AGOA. Common language is assumed to have a positive effect on trade, since it is assumed to reduce transformation costs; common language would imply higher probability for exports from AGOA countries to the U.S. Landlocked is included since being landlocked is assumed to have a negative effect on trade because of higher transportation and transaction costs. A country is considered landlocked if it does not have a coastline. The AGOA variable refers to participation in the act, and is assumed to have a positive effect on the export diversification since the preferences are assumed to increase the number of goods. Also included in the regression equation is  $\epsilon$  as an error term.

To capture potential time effects we performed a second regression (2). This regression equation includes a binary variable,  $\text{Year}_t$ , for each year during the chosen time period to capture year specific events such as, for example, financial crisis and conflicts. The year 1997 is excluded due to being the chosen reference year.

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<sup>12</sup> Using the natural logarithm of the dependent variable excludes all observations when the countries do not export any goods at all since  $\ln(0)$  is not defined.

$$\ln(G_{it}) = \beta_1 + \beta_2 * \ln(GDP_{it}) + \beta_3 * \ln(Pop_{it}) + \beta_4 * \ln(Distance_i) + \beta_5 * Language_i + \beta_6 * Landlocked_i + \beta_7 * AGOA_{it} + Year_t + \varepsilon_{it} \quad (2)$$

Common for equation (1) and (2) is that the variables are estimated using an OLS regression and White's robust standard errors. The different  $\beta$ -parameters show the effect each of the different variables has on the export.  $\beta_1$  serves a constant, and is thereby not of much interest, and the rest of the  $\beta$ -parameters show each variables effect on AGOA exports to the U.S. The parameter of special interest is  $\beta_7$  since it corresponds to AGOA's effect on the export diversification. If  $\beta_7$  is positive and statistically significant AGOA it is interpreted to have a positive diversification effect.  $\beta_7$  will capture the effect of moving from not being part of AGOA to being part of the act.

### 5.3 Data

The dependent variable is the number of exported goods from the AGOA countries to the U.S. Data of U.S. imports from AGOA for the period 1997-2012 is collected from the United States International Trade Commission (USITC) for this purpose. A 4-digit HTS-level, which includes 1300 goods, has been chosen in order to capture a possible diversification effect (USITC 2014).<sup>13</sup> The reason to use data of U.S. imports instead of export data from the AGOA countries is because the U.S. data is more reliable by experience (Zappile 2011). This since the importer, in general, is more likely to keep accurate data than the exporter, and also that the U.S. and its relevant agencies have shown more correct data than its AGOA counterparts. The specific time-period is chosen since it is important to use data before the start of AGOA and during to be able to capture a possible effect. Earlier studies include a shorter time period but since data is available, the longer period makes sense for a more reliable result. AGOA countries' GDP is purchasing power parity adjusted GDP collected from the World Bank, as was data for population, while data of distance and common language was collected from the CEPII database. Distance is measured with the Great circle method and language is in this study seen as common when both countries have the specific language, English in this case, as an official language. Since countries can be declared as eligible any time during the whole year it needs to be established when a country is counted as one year eligible. This study refers to eligibility the same way as Zappile (2011), a country

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<sup>13</sup> Examples of categories the goods are divided into are 6803 – “Worked slate and articles of slate or agglomerated slate”, or 5508 – “Sewing thread of manmade staple fibers, whether or not put up for retail sale”.

is considered as one year eligible when it has been eligible for at least 6 months during that calendar year. A table of data sources is found in the appendix, table 3.

The region of SSA nowadays consists of 49 countries since South Sudan became independent from Sudan in 2011. Since South Sudan became eligible as recently as 2011 it will be excluded from this study, five other countries are excluded due to lacking data for the chosen time period 1997-2012.<sup>14</sup> Thereby, there are 43 countries included in this study, giving a percentage of participation close to 90 %.

#### 5.4 Export diversification - aggregated level

The regression results for the aggregated level are shown in table 4, the results from both equation (1) and (2) are presented in the same table in order to clearly show differences between the regressions.

Table 4: regression result, aggregated level

<b>Variable</b>	<b>Result equation (1) (p-value)</b>	<b>Result equation (2) (p-value)</b>
GDP	0,475*** (0,000)	0,485 *** (0,000)
Population	0,018*** (0,009)	0,013* (0,050)
Distance	-0,185*** (0,000)	-0,194*** (0,000)
Language	0,660*** (0,000)	0,656*** (0,000)
Landlocked	-0,338*** (0,000)	-0,333*** (0,000)
AGOA	-0,047 (0,249)	-0,031 (0,618)
R <sup>2</sup> (Adjusted R <sup>2</sup> )	0,570 (0,566)	0,575 (0,562)
Regression p-value	0,000	0,000

Note: The parenthesis below the variable results show the p-values, the significance levels are as follows: \*\*\* p<0,01, \*\* p<0,05, \* p<0,1. The parenthesis next to R<sup>2</sup> shows adjusted R<sup>2</sup>. The regressions are performed with White's robust standard errors.

<sup>14</sup> Excluded countries, except South Sudan, are Sudan, Djibouti, Sao Tome and Principe, Somalia and Zimbabwe.

GDP and common language both have positive and significant effects on diversification of exported goods, while distance and being landlocked show negative and significant effects. All of these four variables show results in line with earlier stated hypothesis. Population was stated with an ambiguous interpretation, but here it is shown to have a positive effect. The AGOA variable does not show significant effects, in neither of the two equations. The effect is negative, but not high enough to be significant and the interpretation is thereby that it is not possible to say that AGOA has had an effect on the diversification of exported goods on the aggregated level. The fact that equation (2) gives values different from the values from equation (1) indicates that there have been year specific events affecting exports. The determination coefficient is below 60 per cent for both equations, implying a rather low determination degree with the independent variables explaining less than 60 per cent of changes in export diversification. However, the p-value for the regression is significant which implies that the regression is accepted.

### **5.5 Export diversification - apparel sectors**

The apparel sectors are studied because of their relevance for the female labour group. The chosen sectors are the two sectors for knitted or crocheted, and not knitted nor crocheted articles of apparel and clothing accessories. These sectors, with HTS-coding 61 and 62 at the 2-digit level, are chosen since they are highlighted as the apparel sectors in evaluations of AGOA, see Jones & Williams (2012). The regressions are performed with the same variables as for the aggregated level above, but with the difference that these regressions are only performed for these two sectors. The dependent variable is therefore the number of goods for these specific sectors. The regression results are shown in table 5.

Table 5: regression result, apparel sectors

<b>Variable</b>	<b>Result equation (1)</b>	<b>Result equation (2)</b>
	<b>(p-value)</b>	<b>(p-value)</b>
GDP	-0.322*** (0,000)	-0.322*** (0,000)
Population	0.171*** (0,000)	0.167*** (0,000)
Distance	-0.679*** (0,000)	-0.661*** (0,000)
Language	0.601*** (0,000)	0.631*** (0,000)
Landlocked	-0,572*** (0,000)	-0,577*** (0,000)
AGOA	0.167*** (0,006)	-0.105 (0,272)
R <sup>2</sup> (Adjusted R <sup>2</sup> )	0,199 (0,190)	0,222 (0,190)
Regression p-value	0,000	0,000

Note: The parenthesis below the variable results show the p-values, the significance levels are as follows: \*\*\* p<0,01, \*\* p<0,05, \* p<0,1. The parenthesis next to R<sup>2</sup> shows adjusted R<sup>2</sup>. The regressions are performed with White's robust standard errors.

GDP shows a result that is not consistent with the stated hypothesis of a positive relationship between GDP and export diversification. The regression results show a negative effect, meaning that the larger a country's economy is the smaller is the number of exported apparel goods. This is a rather surprising result since it contradicts the gravity models interpretation of GDP's effect on exports, and one should be careful when interpreting the results. If one would try to predict these results it could be that a larger economy focuses on other sectors than apparel. Another possible interpretation is that there probably is unobserved heterogeneity in the regressions. Meaning that there are relevant factors that are not included in this model, and therefore captured by the GDP variable. An example of such a factor could be the historical tradition of apparel sectors in small countries. However, these interpretations are guesses and it would be helpful with more studies on this specific area. The rest of the variables show effects in the same pattern as for the earlier regressions, except for the AGOA variable. In this regression AGOA is, in equation (1), shown to have a significant and positive effect on the diversification of exported goods. The fact that AGOA only shows a significant and positive effect when the binary time variables are not included indicates that AGOA itself



has had a positive diversification effect on exported goods. The effect is lost when the regression controls for time specific events, indicating that these events erode the value of AGOA. The binary year variables in equation (2) gives different values than equation (1), showing there are events affecting the other variables as well as the AGOA variable. The determination coefficient of the regression is approximately 20 per cent, meaning that the included variables only manage to explain about 20 per cent of the changes in export diversification. The degree of determination is thereby very low, and implies there is a need for including more explanatory variables to explain the number of exported goods.

## **5.6 Discussion**

The regressions show that there are differences between the aggregated level and the apparel sectors. AGOA is not shown to have an effect on the diversification of exported goods at the aggregated level. For the apparel sectors, on the other hand, there are some indications of an effect, even if the results differ between specifications – implying that AGOA may have a positive effect for these sectors. The different results may be due to the difference in the ROO for the two regression levels. As was mentioned earlier, the ROO for the aggregated level are more restrictive than for the apparel sectors. This difference implies that the ROO for the apparel sectors are more likely to contribute to export diversification than the ROO for the aggregated level. The results from the regressions coincide with this hypothesis since AGOA is shown to have a positive effect only for one of the two regression levels – the apparel sectors. Thereby, it could be interpreted that the ROO do affect the outcome of trade preferences.

The regressions are performed with export data at the 4-digit level. A more disaggregated data may have shown a different result. When diversifying the production and exports it would be easier to start producing new goods within the same sector than to create a new sector that produce new goods. This implies that it may be a higher diversification effect on a more disaggregated level than the level chosen for this study, and if that is the case that effect is not shown in the results from these regressions. Though, it is possible that there has been diversification of exported goods that is not captured by studying the 4-digit level.

## **6. Conclusions**

Our aim has been to examine whether there is a basis for further extension of AGOA after 2015. This has been done by studying whether AGOA has had a positive impact on diversification of the SSA exports to the U.S. The interpretation beforehand was that if AGOA has shown to have a positive, and significant, effect then there is a potential gain from extending the act. The study was performed with a gravity type of model, and the effects were estimated by OLS regressions. Our study shows that there is no effect at the aggregated level, but that there is, in some specifications, an effect for the apparel sectors. Hence, the results from this study – while not entirely conclusive – indicate that AGOA may have had a positive effect on the number of goods being exported by the apparel sectors. This result is positive for women access to jobs, showing that AGOA has a positive effect on a sector that is dominated by female labour. Increased number of exported goods should imply a more favourable employment outcome for these female dominated sectors. This, in turn, should have a positive effect on empowerment of women.

By looking solely on the results from this essay it would be positive for the apparel sectors if the act was extended after 2015, but since the determination coefficient is rather low in the regressions of the apparel sectors we must not put too much emphasis on the results. More variables probably need to be included to explain the changes in exports, not only for the apparel sectors but also for the aggregated level. This essay indicates that there may be a positive effect by AGOA, but there is a need for further studies on the subject.

Since the sectors that are dominated by female labour are found, in this essay, to be positively affected by trade preferences such as AGOA, it is possible that preferences focused on similar sectors would contribute to a positive development for women. In any case, it is an area that should be a subject for further studies in the future.

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# Appendix

Table 1

## **The U.S. Generalized System of Preferences**

In order for a country to become eligible for GSP beneficiaries the country must meet certain requirements:

- The country may not be a Communist country, though exceptions are allowed for countries that receive Normal Trade Relations; countries that is a member of the World Trade Organization and of the International Monetary Fund; countries not dominated by international communism
- The country may not be part of an arrangement or participate in actions with the aim of causing serious disturbances in the world economy, or to withhold vital commodity resources from the world market or to price such commodities at an unreasonable high level.
- The country may not give preferential treatment on goods of developed countries, other than the U.S. that has, or is likely to have, a negative effect on U.S. trade
- The country may not have nationalized, confiscated or otherwise seized property of U.S. citizens or corporations without providing, or is taking action to provide, adequate compensation or “submitting such issues to mutually agreed forum for arbitration”.
- The country may not have failed to recognize or enforce arbitral awards in favour of U.S. citizens or corporations.
- The country may not support or participate in any kind of international terrorism
- The country must have, or be taking steps to, afford internationally recognized worker rights such as the right of association; the right to organize and bargain collectively; freedom from compulsory labour; a minimum age for employment of children; acceptable conditions of work regarding minimum wages, hours of work and occupational safety and health
- The country must implement any commitments it makes to eliminate the worst forms of child labour.

Source: GSP guidebook 2014



Table 2, Sub-Saharan African Countries

Country	First AGOA eligible	Present eligibility from	Certified for textile from	LDC
1. Angola	No	30-12-2003	No	No
2. Benin	Yes	02-10-2000	28-01-2004	Yes
3. Botswana	Yes	02-10-2000	27-08-2001	Yes
4. Burkina Faso	No	10-12-2004	04-08-2006	Yes
5. Burundi	No	01-01-2006	No	No
6. Cameroon	Yes	02-10-2000	01-03-2002	Yes
7. Cape Verde	Yes	02-10-2000	28-08-2002	Yes
8. Central African Republic	Yes	Declared ineligible 01-01-2004		
9. Chad	Yes	01-10-2000	26-04-2006	Yes
10. Comoros	No	30-06-2008	No	No
11. Republic of Congo	Yes	02-10-2000	No	No
12. Democratic Republic of the Congo	No	Declared ineligible 01-01-2011		
13. Côte d'Ivoire	No	25-10-2011	19-03-2013	?
14. Djibouti	Yes	02-10-2000	No	No
15. Equatorial Guinea	No	Not eligible		
16. Eritrea	Yes	Declared ineligible 01-01-2004		
17. Ethiopia	Yes	02-10-2000	02-08-2001	Yes
18. Gabon	Yes	02-10-2000	No	No
19. Gambia	No	31-12-2002	24-08-2008	Yes
20. Ghana	Yes	02-10-2000	20-03-2002	?
21. Guinea	Yes	25-10-2011	No	No
22. Guinea-Bissau	Yes	Declared ineligible 01-01-2013		
23. Kenya	Yes	02-10-2000	18-01-2001	Yes
24. Lesotho	Yes	02-10-2000	23-04-2001	Yes
25. Liberia	No	29-12-2006	07-02-2011	Yes
26. Madagascar	Yes	Declared ineligible 2009		
27. Malawi	Yes	02-10-2000	15-08-2001	Yes

28. Mali	Yes	Declared ineligible 01-01-2013		
29. Mauritania	Yes	01-01-2010	No	No
30. Mauritius	Yes	02-10-2000	18-01-2001	Yes
31. Mozambique	Yes	02-10-2000	08-02-2002	Yes
32. Namibia	Yes	02-10-2000	03-12-2001	Yes
33. Niger	Yes	25-10-2011	25-10-2011	Yes
34. Nigeria	Yes	02-10-2000	14-07-2004	
35. Rwanda	Yes	02-10-2000	04-03-2003	Yes
36. Sao Tome and Principe	Yes	02-10-2000	No	No
37. Senegal	Yes	02-10-2000	23-04-2002	Yes
38. Seychellerna	Yes	02-10-2000	No	No
39. Sierra Leone	No	13-10-2002	05-04-2004	Yes
40. Somalia	No	Not eligible	No	No
41. South Africa	Yes	02-10-2000	07-03-2001	Yes
42. Sudan	No	Not eligible		
43. South Sudan	Did not exist	20-12-2012	No	No
44. Swaziland	Yes	02-10-2000	26-07-2001	Yes
45. Tanzania	Yes	02-10-2000	04-02-2002	Yes
46. Togo	No	17-04-2008	No	No
47. Uganda	Yes	02-10-2000	23-10-2001	Yes
48. Zambia	Yes	02-10-2000	17-12-2001	Yes
49. Zimbabwe	No	Not eligible		

Source: USITC 2014b

Table 3: Variables and data sources

<b>Variable</b>	<b>Expected effect</b>	<b>Source</b>	<b>Comment</b>
AGOA exports	+	United States International Trade Commission	In US dollars during 1997-2012
GDP	+	World Bank	SSA countries' GDP
Population	+/-	World Bank	SSA countries' population
Distance	-	CEPII Database	Measured with the Great Circle Method
AGOA-participation	+	United States International Trade Commission	A country is one year eligible when they have been eligible 6 months or more during a calendar year
Language	+	CEPII Database	Common language is when the AGOA country has English as an official language
Landlocked	-	CEPII Database	A country is considered landlocked when it does not have a coastline