ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF MANAGEMENT

AN ASSESSMENT OF THE EFFECT OF AFRICAN GROWTH AND OPPORTUNITY ACT ON ETHIOPIA'S EXPORT PERFORMANCE TO THE UNITED STATES OF AMERICA

BY
MURIDA KEMAL

MAY 2014,
ADDIS ABABA, ETHIOPIA

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A RESEARCH PROJECT SUBMITTED TO ADDIS ABABA UNIVERSITY COLLEGE OF BUSINESS AND ECONOMICS, DEPARTMENT OF MANAGEMENT IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION

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ID. No GSE/4622/04

APPROVED BY BOARD OF EXAMINERS

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Advisor	**Signature**
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Internal Examiner	**Signature**

DECLARATION

I, the undersigned, declare that this research project is my original work. All sources of materials used for the research project have been duly acknowledged. I further confirm that the research project has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

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ENDORSEMENT

This research project has been submitted to Addis Ababa University, College of Business and Economics Department of Management for examination with my approval as a university advisor.

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Advisor	Signature
Addis Ababa University	May 2014

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Acknowledgement

I am very much grateful to my advisor, Dr. Getie Andualem for his guidance, support, proper and timely feedback throughout this project work. I am happy to extend my special thanks to Ato Yishak Tekalign, Ministry of Trade, for his unreserved support and excellent guidance throughout this project work. I also thank Ato Geremew Ayalew (Ministry of Trade);, Ato Fitsum Arega (Ethiopian Investment Agency), w/ro Bazgnawork W/Medhin (Pan African Chamber of Commerce and Industry) and all other interviewees for giving me their time for an in-depth interview and providing me resources.

I also owe many thanks to my friends and colleagues who helped me a lot in doing this project work. My special thanks go to Alem Shumiye and Tamirat Shawoel for their time, insights, guidance and thoughtful comments and suggestions. I also would like to thank Tilahun Debebe and Derebe Tadesse for helping me to access and compile data.

Last, but not least, my heartfelt thanks goes to my families, especially my husband Dr. Shiffa Lalego, for their support and encouragement throughout this academic journey. I owe extra thanks to my husband for his time and energy in reviewing & proof reading the final product to provide essential comments. Thank you all !!

List of Acronyms

AGOA	African Growth and Opportunity Act
CBTPA	Caribbean Basin Trade Partnership Act
CITA	Committee for Implementation of Textile Agreement
EBA	Everything But Arms
FDI	Foreign Direct Investment
GATT	General Agreement on Tariffs and Trade
GSP	General System of Preferences
LDCs	Least Developed Countries
MFN	Most Favored Nation
RoO	Rules of origin
OECD	Organization for Economic Co-operation and Development
OTEXA	Office of Textiles and Apparel
PTA	Preferential Trade Agreement
SSA	Sub-Saharan African
TPSC	Trade Policy Staff Committee
TRQs	Tariff Rate Quotas
UNCTAD	United Nations Conference on Trade and Development
USAID	United States Agency for International Development
USITC	United States International Trade Commission
USTR	United States Trade Representative
WTO	World Trade Organization

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Abstract

African Growth Opportunity Act (AGOA) is a United States initiative which provides preferential access to selected Sub-Saharan African Countries products in the U.S. market since 2000. Ethiopia is one of the SSA beneficiary countries with low utilization of the AGOA. This study sought to assess the effect of African Growth and Opportunity Act (AGOA) on Ethiopia's export performance to the United States and identified reasons for low performance. To this effect, the study made use of descriptive and causal research designs and applied a mix of both qualitative and quantitative research methods using panel data of 12 years after and 8 years before the enactment of AGOA. It used in-depth interview to validate findings. The result shows that AGOA has a positive effect on overall export performance of Ethiopia to the U.S. However, the level of utilization against the opportunity and in relation to other beneficiary Sub-Saharan African Countries is low. There are both demand and supply side constraints that contributed to the low utilization. Therefore, this study recommends that addressing the demand side constraints through revision of requirements; emphasis for agricultural sector and extension of the AGOA period by the U.S. In addition, Ethiopia should address the supply side constraints through development & implementation of the National AGOA response strategy to identify real time challenges and solve them to respond to AGOA opportunity better. This would include addressing challenges related to exporters' capacity, development of infrastructure as well as creation of enabling environment.

Key Words: AGOA, SSA, USA, Ethiopia, Preferential Market, Utilization

CHAPTER ONE: INTRODUCTION

1.1. Background of the Study

The African Growth and Opportunity Act (AGOA) was signed into law by the United States President Clinton in May 2000. AGOA is meant to increase trade and investment opportunities and benefit for qualifying Sub-Saharan African (SSA) countries with the United States of America, based on the assumption that the increased trade and investment opportunities will result in economic growth of SSA countries, which will lead to poverty reduction in these countries (Mattoo, Roy and Subramanian, 2002). Also, the Act offers substantial incentives for African countries to liberalize their economies by following “free market” policies with the hope of creating conducive environment for trade and investment. Further, it provides improved access to US credit and technical expertise. In return, beneficiary countries are committed to promote political and economic stability, improve their economic policy environment, participate more actively in the globalization process, and foster human and workers’ rights in Africa (Mattoo, Roy and Subramanian, 2002).

AGOA builds on the US Generalized System of Preferences (GSP), which provides beneficiary developing countries with duty-free market access to the US market. AGOA extends the GSP's product coverage from 4,600 to almost 6,500 tariff lines and removes some of the restrictions of the GSP, notably the competitive need limitations (which withdraw benefits when exports from a beneficiary country exceed a certain threshold) as well as the periodic renewal process and associated uncertainty involving the GSP. Nevertheless AGOA remains a unilateral market access offer by the US, which may be amended or withdrawn at the prerogative of US law makers (Eckart Naumann, 2009).

African Growth and Opportunity Act (AGOA) has been the cornerstone of the United States’ engagement with Sub-Saharan Africa on trade and investment. By providing duty-free entry into the United States, AGOA has helped to expand and diversify two-way trade between the United States and sub-Saharan Africa, and helped to foster an improved business environment in many

Sub-Saharan African countries. Following the regular 2011 annual review of country eligibility, President Obama designated 39 Sub-Saharan African countries to be eligible for AGOA benefits in 2012 (US Government 2012 Trade Policy Agenda & 2011 Annual Report).

In addition, in the recent AGOA Forum 2013 that has been held in Addis Ababa, Ethiopia in August 2013, it has been expressed that much progress has been made under the Act over the last thirteen years. Since the enactment in 2000, exports under AGOA have increased more than 500 percent, from $8.15 billion in 2001 to $53.8 billion in 2011. (www.uneca.org *accessed on October 2, 2013*). Though about 90 percent of these exports have come from the oil and gas sector, non-oil and non-gas exports have also been said to have grown by 275 percent, from $1.2 billion to $4.5 billion in the same period. However, compared to the potential, many agree that much remains to be done to exploit the full potential of AGOA. In many African countries, AGOA exports have been limited to few products (www.agoa.info *accessed on September 20, 2013*).

By providing new market opportunities for African exports, especially for non-traditional and value-added products, AGOA has helped African firms become more competitive both in the United States and internationally. Many African businesses that had never previously considered the U.S. market are attending trade shows and getting orders – that include Ethiopian shoes, and a whole range of other products (www.agoa.info *accessed on September 20, 2013*).

According to the US Government 2011 Annual Report on Trade Agreement Program, 39 Sub Saharan African countries are declared eligible for benefits under the program. Though the current AGOA period is scheduled to last in 2015, in the recent AGOA Forum held in Addis Ababa in August 2013, Sub-Saharan African Countries have expressed their expectation to push for the extension of the period.

Ethiopia qualified for AGOA in August 2001 by becoming the 18th beneficiary countries, has also been offered the opportunity to export multiple products and enjoyed the privileges. It is believed that about 97 % of Ethiopia's exports to come from the textile and leather sectors. However, compared to the potential, still there is a possibility to exploit the opportunity of AGOA better in terms of intensifying existing sectors and diversifying to other sectors instead of limiting the exports to few products. This paper tried to assess the overall performance of Ethiopia in accessing and utilizing this preferential trade arrangement and present its effect on Ethiopia's export along with the level of utilization to make relevant recommendation.

1.2 Statement of the Problem

As the name AGOA signifies, the purpose of this Act is to promote African bilateral trade with the United States. Eligible Sub-Saharan Africa countries are believed to benefit from preferential tariffs on their exports to the US, provided they are committed to and making progress towards democratic governance, poverty reduction and creation of a business-friendly economic environment (www.agoa.info ; *accessed on September 20, 2013*)

AGOA is similar to other preferential market access programs and it may create a policy induced "comparative advantage" for SSA exports. The success of the program in promoting export growth in the region depends on the response of countries in taking advantage of the opportunities. This in turn depends on AGOA's program incentives and the flexibility in the economic structures in different countries to transmit the incentives to producers of exported commodities. AGOA is one of the many trade agreements that give preferential treatment to developing countries in sub-Sahara Africa. AGOA and Generalized System of Preference (GSP) apply to about 6500 items and this is a great deal of opportunity for Ethiopia, as is the case for other Sub-Sahara African countries.

Statistics show that 90 percent of exports to the US under AGOA have come from the oil and gas sector (*USITC data, published on www.agoa.info , accessed on October 01, 2013)*. The non-oil and non- gas exports have also grown but compared to the potential AGOA has, many agree that it is far from the full potential of AGOA. In many African countries, AGOA exports have been limited to few products and hence at every AGOA forum over the last thirteen years, African Ministers of trade have been deliberating on how better to utilize the opportunity (www.agoa.info *accessed on October 10, 2013*). Ethiopian Minister of Trade (Unpublished, 2013) asserts that even though exports to U.S. under AGOA have increased more than 500% from all the beneficiary countries; compared to the potential, much remains to be done to exploit the full potential and to diversify export products.

AGOA has created a huge amount of export opportunities for all eligible Sub-Saharan African countries since 2000. However, how well Ethiopia is able to utilize this opportunity to significantly contribute to the overall export trade performance to the United States and the identification of challenges that constrain export performance motivated this study.

1.3. Research questions

In line with the problem statement, this study attempted to address the following basic research questions.

1. What are the objectives and key elements of AGOA?
2. How well Ethiopia is using this opportunity?
3. What is the level of Ethiopia's performance as compared to other SSA countries?
4. What are the major challenges faced by Ethiopian exporters to exploit this opportunity?

1.4 Objectives of the Study

1.4.1 General Objectives

The general objective of this study is to assess and evaluate the effect of African Growth and Opportunity Act on Ethiopia's total export to the United States.

1.4.2 Specific Objectives

The specific objectives of the study are to:

1) identify the objectives and key elements of AGOA.
2) examine the level of Ethiopia's performance in relation to the objectives set by AGOA.
3) compare and contrast Ethiopia's performance in relation to other eligible SSA countries.
4) identify major challenges Ethiopian exporters face with respect to exploit this opportunity.

1.5 Definition of Terms

1.5.1 Conceptual Definition of Terms

AGOA: The African Growth and Opportunity Act (AGOA) is a United States Trade Act, enacted on 18 May 2000 as Public Law 106 of the 200th Congress. It significantly enhances market access to the United States for qualifying Sub-Saharan African (SSA) countries (www.agoa.info - toolkit/terminology)

GSP: Generalized System of Preferences (GSP) A concept developed within the United Nations Conference on Trade and Development to encourage the expansion of manufactured and semi-manufactured exports from developing countries by making such goods more competitive in developed country markets through tariff preferences (www.agoa.info toolkit/terminology)

HTS: Harmonized Tariff Schedule is a comprehensive classification of goods based on its name, use, and/or the material used in its construction and assigns from 2 - 10-digit number to use as a primary resource for determining tariff classifications for goods imported into a country. (www.agoa.info toolkit/terminology)

HTSUS: Harmonized Tariff Schedule of the U.S is a comprehensive classification of goods specifying the duty that U.S. Customs authorities assess against each imported item. On January 1, 1989, the United States converted its tariff nomenclature structure, known as the Tariff Schedules of the United States, to conform with the Harmonized Commodity Description and Coding System, better known as the Harmonized System, developed by the Customs Cooperation Council. (www.usitc.gov)

HTS Code: is the mechanism by which international tariffs are standardized.

1.5.2 Operational Definition of Terms

Successful Utilization of AGOA: In this study, success in AGOA utilization is defined by achievement with a 50% or more percentage share of country's export through AGOA against the total export to the U.S in those years under consideration. 1.6 Significance of the Study

This study is expected to have the following importance/outcome:

- Provide updated information on AGOA and the Ethiopia-US trade partnership.
- Add new stock of knowledge on existing literatures.
- Provide information on how well Ethiopia is using this trade opportunity.
- Help policy makers to improve or revise policy related problems with respect to the preference schemes given by USA under AGOA.
- Serve as a springboard for other researchers to undertake further research in the area.

1.7 Scope and Limitation of the Study

The scope of this study is to assess the effect of AGOA on Ethiopia's export performance to the United States. For this purpose, Ethiopia's and other SSA beneficiary countries export data to the US under AGOA for 12 years (2001-2012) is used. In addition, a pre-AGOA performance data for 8 years (1993-2000) for major export product to US is used for Ethiopia.

Due to lack of comprehensive sector and product level data from exporters and responsible government institutions, the scope of the study was made to focus on gross assessment of the effect of AGOA preferential arrangement on Ethiopia's overall export to the United States and evaluate the utilization level against the given opportunity and other AGOA eligible SSA countries' performance. .

1.8 Organization of the Study

The study is organized into five chapters. The first chapter introduces the study area of assessment. Chapter two provides the theoretical framework and empirical literatures on trade preferences, as well as an overview of AGOA. In chapter three, methods of the study, i.e, research design, source and instrument of data collection, reliability and validity, ethical issues and data analysis method are presented. Chapter four deals with results and discussion on the descriptive statistics along with the major challenges identified. In chapter five, the conclusions and recommendations part is presented.

CHAPTER TWO: LITRATURE REVEIW

2.1. Introduction

In this chapter, theoretical framework, trade preference principles, empirical studies done earlier, objectives and creation of AGOA, determination of country and product eligibility were briefly addressed subsequently.

2.2. Theoretical Framework

2.2.1. Theories of Trade

Though the main focus of this study is to examine the effect of AGOA in the Ethiopian export trade to the U.S, it is also worth mentioning some of the trade theories in relation to preferential trade agreements (PTAs).

According to Yeshiwas (2011), Old Trade theorists on Preferential Trade Agreements have reached a consensus on the welfare enhancing nature of global free trade i.e, it enhances the wealth of nation because it permits the best allocation of resources across national borders. This is in line with Adam Smith's Theory of Trade. On the other hand, protectionists (mercantilist) interfere with this optimal allocation of resources, reduce the size of the market and hinder an appropriate division of labor thereby reducing national income. However, the Heckscher-Ohlin-Samuelson theoretical framework indicates that under free trade factors of production will be allocated among countries in consistency with comparative advantage. Such a reallocation of resources will increase efficiency and thereby increase welfare. Preferential trade agreements introduce additional complexity because liberalization is taking place in a second best world, where some distortions are eliminated like tariffs within the preferential trade agreement (PTA), while other remain e.g. other intra-PTA domestic policies and tariffs on non-PTA trade (Yeshiwas, 2011).

Several PTAs contain selected elements of each of Free Trade Areas (FTA) and Custom Unions (CU) in addition to various aspects of deep integration. According to Burfisher, Robinson and Thierfelder (2003), under PTAs there are trade creations, trade diversions and terms of trade changes. Trade creation occurs when a PTA member increases imports from a lower-cost PTA partner, and its own high-cost domestic production declines. There are also consumer benefits because they can purchase goods at a lower price than the domestic variety. Lower prices increase consumer income, and by increasing demand, this effect may lead to increased imports from both PTA members and non-member countries.

Trade diversion occurs when intra-PTA trade replaces imports from more efficient non-member countries as a result of the PTA's tariff preferences. Trade diversion is mainly a cost to PTA partners that must pay a higher price for their imports, but it is also costly for outside countries that lose exports, and may be forced to lower their export prices.

Yeshiwas states that, "the effect of PTAs on terms of trade depends on the countries power to affect world market prices". When countries involved in a PTA are large enough to affect world market prices, there are terms of trade effects in addition to trade creation and trade diversion effects (Burfisher, 2003). Therefore, due to intervention of PTA, the terms of trade for member countries will improve while the reverse effect is true for non-member ones, i.e, there will be a lower demand for non-member imports as a result of substitution from member countries at a cheaper price due to tariff preference. Furthermore, increased trade within the PTA may lead to a decline in the availability of goods for the non-members, thereby raising the price of nonmember imports from the PTA and may force the non-member to produce such goods themselves. The deterioration of terms of trade of non-member country is of course the mirror image of the terms of trade improvement experienced by the PTA member.

The new trade theory on the other hand integrates the more recent aspects of regional integration that include analysis of rent seeking behavior, game theory, industrial organization theory and new growth theory. In this theory PTAs are assumed to lead a wide range of effects other than trade creation, trade diversion and terms of trade change. PTAs are thought to lead to better opportunities for exploitation of economies of scale in a larger market and increased competition.

In addition, there are information, technology and knowledge transfers from developed countries to developing countries that increase productivity. Increased investment opportunities in a larger and perhaps more stable trading environment with advanced technologies result in increase in productivity; gains from specialization, i.e. a larger product variety and thereby intensified intra-industry trade (Burfisher, 2003).

According to Ethier (1998), the link between international trade and factor productivity is explained by investment creation. New regionalism may be seen as an integrated part of a development strategy for developing countries that hope that internal reforms and more open trade regimes will attract FDI from developed countries. Moreover, trade-related growth effect through FDI or productivity increases may encourage domestic policy reform creation thereby enhancing the welfare benefits from regional trade agreements.

Supported by the import substitution policies and reliance on foreign aid by various African countries, most African countries development policies and programs have been largely informed by the modernization theory. But, as a result of the unimpressive performance of these development strategies, neo-liberal trade theory seeking to bring about economic development in sub-Saharan Africa and other developing countries through trade, deregulation of capital markets, and less state involvement in socio-economic affairs, rather than through aid has emerged (Fredrick Muyia Nafukho, 2003; Cambua, 1994).

Trade liberalization is a process of systematically reducing and eventually eliminating tariff and non-tariff barriers between countries as trading partners. The liberalization policies aim at creating a level playing field on which economies at different levels of development can fairly compete. AGOA is in line with the neo-liberal theory that was designed to facilitate socio-economic growth in selected Sub-Saharan African countries through trade rather than aid (Fredrick Muyia Nafukho, 2003). Through this initiative, African exporters in countries that meet eligibility criteria can access the U.S. manufactured products market such as the apparel, duty free. While AGOA is a practical approach of the neo-liberal theory, however, it is an externally driven initiative that lacks deep involvement of the recipients in formulation.

2.2.2. Trade Preferences Principles

The principle of the most favored nation (MFN) provided under the general agreement on tariffs and trade (GATT) is embraced by all world trade organization (WTO) member countries. The principle requires member countries to apply the most favorable terms of trade without discrimination to WTO member countries. Apart from offering MFN tariffs to partner members, the WTO encourages member countries to initiate favorable trade agreements with developing countries to foster increased trade.

The MFN tariff rates and General System of Preferences (GSP) are independent but serve a related role of non-discrimination in trade and promotion of trade, respectively. It is in view of such request that most developed countries have initiated GSP as well as region specific preferential trade agreements. Australia was the first country to start GSP in 1966 (UNTCAD, 2000). The United Nations conference on trade and development (UNCTAD) in the late 1960s recommended that developed countries need to give preferences to developing countries (UNCTAD, 1968). Thereafter, the European Union's and Japan's GSP were introduced in 1971 and the U.S. followed in 1974. The U.S. GSP system was introduced in 1976 through an amendment of U.S. Trade Act of 1974. At inception, the GSP program of the U.S. covered 3,400 products and the number has increased to 4,800 products from 134 developing countries. The GSP program of the European Union (EU) has about 6,200 products extended to 176 developing countries. Other preference-giving countries are: Switzerland, Turkey, the Russian Federation, Norway, New Zealand, Australia, Canada and Belarus (UNCTAD, 2009). The GSP programs were initially not provided for under GATT rules and seemed to contradict the MFN rule. To address the inconsistency, the MFN rule was amended in 1979 to allow for the preferences.

Besides GSP, a number of other special programs by developed countries targeting groups of developing and least developed countries are operational. The U.S. has special programs with several other developing countries. The special programs include AGOA of 2000, for Sub-Saharan Africa countries and the U.S.-Caribbean Basin Trade Partnership Act (CBTPA) of 2000 for Caribbean Basin countries. The European Union has a related special program referred to as Everything But Arms (EBA) introduced in 2001 which targets least developed countries. Unlike GSP, the special programs target more disadvantaged groups of countries. They have in common the unilateral and non-reciprocal feature of duty-free and quota-free concessions on specified products. The GSP program allows for duty-free access of over 4,800 products imported from developing countries in the world. The U.S. preference programs provide additional duty-free incentives to specific groups of countries. The agreements have a legally binding framework within which the concessions are enforced.

The European Unions' EBA program offers duty-free and quota-free concessions on imports of everything except arms from least developed countries classified as such by the United Nations. Technically, countries which cease to be classified as so, also cease to reap benefits provided under EBA. By April 2010, the United Nations listed 49 countries as least developed, of which 33 or 67.3 percent are African countries. Rules guiding implementation of the special programs are determined by the donor countries and have discretion to include or exclude countries. The products included in the special preference trade agreements are determined by the preference giving countries. The beneficiary countries have no influence on the products that should be included or excluded. Similarly, the excluded countries have no influence over their exclusion. The WTO has no formal mechanism to influence such decisions either.

There has been an on-going debate within WTO trade negotiations Rounds as to whether it is prudent to continue with the current system of preferential programs or to replace them with across the board tariff reductions. Two divergent viewpoints emerge. Those against the preferential treaties argue that the programs are undesirable because they limit the scope for substantial gains from multilateral liberalization (for example Limao and Olarreaga, 2006; Limao, 2006; Baier and Bergstrand, 2007). The argument against preferential treaties is based on the view that in as long as the preferences are being implemented, developed countries will resist any attempt to lower tariffs because of the potential import penetration affecting domestic producers.

If tariffs are lowered across the board, the affected countries will be unable to counter the penetration into the domestic markets. While this view favors the developing countries, those with the contrary view suggest that such action can have devastating effects on the developing countries. They argue that developing countries will be unable to out-compete relatively more developed countries. Therefore they argue that the safer course of action is continuing with the status quo. Furthermore, such literature argues that if countries lower tariffs on a multilateral basis, beneficiaries of effective preferential agreements will be unable to supply the goods currently supplied under existing preferences. This effect has been referred to as an 'erosion' of the existing preferences which can be more detrimental for developing countries agricultural exports (for example Bureau, 2006). It is possible that both arguments are valid explanations for the potential outcomes of lowering tariffs across the board. Perhaps an important question to address the dilemma is whether the empirical findings on the effect of existing preferences for beneficiary countries support the view that the preferences are effective or ineffective.

Empirical analysis of specific preferential initiatives can shed light on the performance of the preferential trade agreements on beneficiary countries. Nevertheless, review of such studies is beyond the scope of this study and therefore, this study is geared to assess the contribution of the AGOA program on Ethiopia's export performance.

2.3. Empirical Framework

2.3.1. Analysis of Empirical Studies on AGOA

The idea of creating a new form of trade preferences exclusively for SSA, in addition to already existing Generalized Systems of Preferences (GSP), drew both support and opposition from a wide range of actors (Nouve and Staaz, 2003). Pointing to the marginal place of SSA in the global markets for goods, services and investments, supporters have argued that AGOA would expand African exports to US, increase foreign direct investment, and create new employment opportunities in SSA while it also faced severe criticisms, especially from international anti-globalization movements and US interest groups in a sense that it would result in massive loss of jobs in the US (Nouve and Staaz, 2003; Cooper, 2002; Friedman, 2000a; 2000b).

On the other hand, Frazer and Van Biesebroeck (2007) conduct an in-depth study of important policy implication with greater data coverage to find out that AGOA has had large and robust impact on U.S. imports from SSA countries. Citing positive achievements under AGOA, Collier and Venables (2007) also indicate that trade preferences such as AGOA serve as a catalyst for trade in manufactured goods, leading to rapid growth in exports and employment.

Similarly, Nauman (2010) on Tralac Working Paper 05 indicated that since AGOA's inception, exports from eligible countries have grown significantly and many successes were recorded, though gains were often concentrated in a small number of sectors and that some of the beneficiary countries are in fact not exporting goods to the U.S. at all. This is in direct concurrence with the finding of this study.

As Ombuki cited on his paper "The Effect of AGOA on Exports of Eligible Countries" (2011), from among the few studies conducted to assess various impact of AGOA, Phelps et al (2009) discuss analytical results from a survey of AGOA-related manufacturing firms in Kenya. They reported that their study covered 23 out of an estimate of 35 manufacturing firms in Kenya in the year 2004. Their study sought to investigate the extent to which clothing manufacturing activities had been invigorated in the country following the introduction of AGOA.

The study discussed the characteristics of these firms in terms of their ownership and affiliations to foreign or parent companies, employment, markets, material inputs, and the operating environment in general. Considering these factors, their study concluded that the establishment of the firms has resulted in a considerable increase in employment opportunities. The study reports that the 23 firms covered by their survey involved a total of 26,642 employees. They argue that such a level of employment could not have been possible without the AGOA intervention. They find that the firms were affiliated to 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 reported that their supplies targeted specific customers in the U.S., mostly large retail outlets.

The study also reported a finding that materials sourced in Kenya shows that 'textiles' and 'other materials' accounted for averages of 0.6 percent and 25.1 percent of total materials used respectively. This finding shows that not much is gained in terms of local/domestic supplies of materials. But, this outcome is not surprising given the conditions spelt out in the AGOA document on the textile rules of origin. Therefore this evidence shows that the sustainability of the manufacturing firms cannot be guaranteed in the absence or lapse of the AGOA trade agreement. This argument is also consistent with the study by Charles Ombuki.

The study by Charles Ombuki, 2011 revealed important information on AGOA related manufacturing. The study showed that apart from an improvement in 'business services' by 25.3 percent and the employment opportunities created, the gains in terms of domestic material supplies to AGOA related activities is limited, suggesting similar conclusion that in the event that the AGOA duty-free incentives cease, it is unlikely that the firms will be in operation after the lapse of AGOA. This capital flight and a reverse of the gains including loss of employment are potential long-term outcomes of phasing out the AGOA incentives. This is because the firms heavily rely on the U.S. market and other suppliers outside the domestic market for supplies of materials. The affiliation to foreign companies and lack of evidence of linkage with the domestic and non-existent local market leads to the conclusion these outcomes can be real and with devastating effects.

Given that manufacturing is demanded by foreign firms with no strong domestic linkages, further investment in the sector is limited. The firms' investment priority is likely to focus on the gains and losses on long-term local capacity development, diversification, technological innovation and productivity-related investment.

Brenton and Ikezuki, (2004) had identified that the ability to export clothing products under preferences with liberal rules of origin being the key factor determining whether the African Growth and Opportunity Act (AGOA) has a significant impact on non-oil exporting African countries. At present only a small number of countries receive substantial benefits. Least Developed Countries (LDCs) that do not receive preferences for clothing have yet to see an impact of AGOA on their overall exports. Adisalem, (2013) examined the impact of AGOA on African agricultural exports using the gravity trade model framework and panel data depicting annual agricultural trade from 35 eligible SSA countries to the United States over years both before and after AGOA's implementation (1990-2011). The statistical results indicate that the AGOA trade preferences do not have a statistically significant impact on SSA agricultural exports, although some of the model results indicate that AGOA may have a positive effect on SSA agricultural exports to the United States. On average, agricultural exports form a very small fraction of SSA's total exports to the United States (about 2% between 1996 to 1999) and a half percentage point lower (1.5%) over the period 2000-2011 to conclude the exclusion of some agricultural products from the legislation still limit AGOA's broader positive economic impact.

Critics of trade policy changes in general and AGOA in particular, however, question the potential benefits of such a unilateral policy initiative by arguing that (i) African exports to U.S. are dominated by petroleum products that have relatively low value added (Brenton & Ikezuki, World Bank, 2004) and (ii) the U.S.-Africa trade is dominated by imports from a few African countries (Nouve and Staatz, 2003).

Lindsey (2002) mentioned that U.S. and OECD countries' trade policy initiatives in general have mixed signals, citing transport costs as major constraint to African trade, Blackman & Mutume (1998), Mutume (1998) also stipulated that AGOA's benefits for most African countries would remain illusory.

Rahel (2007) identified major challenges affecting Ethiopia's export performance, specifically in the Ethiopian Textile sub-sector to better utilize AGOA's opportunity to include scarcity of raw materials from domestic sources, bureaucracy in managing raw material import, access to financial credits and limited number of industries to respond to the opportunity.

Ethiopian Minister of Trade (2003) asserts that even though exports to U.S. under AGOA have increased more than 500% from all the beneficiary countries; compared to the potential, much remains to be done to exploit the full potential and to diversify export products.

Girma Biru (January 17, 2014), Ethiopian Ambassador to the US and co-chair of the AGOA Ambassadors' Working Group in Washington, testified and stressed to the United States International Trade Commission that AGOA has made a considerable impact on the exports of Sub-Saharan states and has helped to generate jobs in Africa and the U.S. However, only few countries had made full use of the opportunities due to supply side constraints, including lack of infrastructural and institutional capacities. Hence; like most SSA countries, Ethiopia has recognized this and is developing national strategic response for AGOA opportunity for better utilization (www.agoa.info, accessed on March 20, 2014)

2.4. African Growth and Opportunity Act (AGOA)

The African Growth and Opportunity Act (AGOA) is a United States Trade Act, enacted on 18 May 2000 as Public Law 106 of the 200th Congress. It significantly enhances market access to the US for qualifying Sub-Saharan African (SSA) countries. Qualification for AGOA preferences is based on a set of conditions contained in the AGOA legislation. In order to qualify and remain eligible for AGOA, each country must be working to improve its rule of law, human rights, and respect for core labor standards (www.agoa.info/abt.html accessed on Dec. 12, 2013)

The Act originally covered the 8-year period from October 2000 to September 2008, but legislative amendments signed into law by US President George Bush in July 2004 served to extend AGOA to 2015. At the same time, a special dispensation relating to apparel was extended by three years to 2007; but in December 2006 these were extended to 2012. A subsequent legislative revision in September 2012 extended the apparel provisions to the end of 2015 to coincide with the current expiry of the AGOA legislation.

The apparel provisions are unique in that they grant favorable rules of origin (RoO) requirements to countries defined by the legislation as "lesser developed", to those that meet certain income thresholds (GNP < $1,500 per annum in 1998) and have implemented a special apparel visa system (Details for these are available in the 'Apparel Rules of Origin' section on agoa.info website).

AGOA builds on the existing US trade programs by expanding the (duty-free) benefits previously available only under the country's Generalized System of Preferences (GSP) program. Duty-free access to the U.S. market under the combined AGOA/GSP program stands at approximately 7,000 product tariff lines, including the roughly 1,800 tariff lines that were added (to the GSP pool) by the AGOA legislation. Notably, these newly added "AGOA products" include items such as apparel and footwear, wine, certain motor vehicle components, a variety of agricultural products, chemicals, steel and many others.

While the current legislation extends duty-free preferences to approximately 40 Sub-Saharan African beneficiary countries (the actual number fluctuates annually, in line with US Presidential determinations), it is currently set to expire at the end of 2015. It will be up to the US Congress to extend or amend the legislation beyond this date.

2.4.1. Objectives of AGOA

The African Growth and Opportunities Act (AGOA) is a piece of American Legislation passed with the objective of increasing the volume of trade between the U.S. and SSA countries. AGOA is also intended to foster economic and political development in SSA countries by expanding access to U.S. trade and investment markets, thereby leading to long-run prosperity based on free markets and to more democratic governments. Specifically, the objectives of AGOA, as accessed from www.agoa.info in December 2013 are to:-

- Expand and deepen of trade and investment relationship with SSA;
- Encourage economic growth and development as well as regional integration ; and
- Help facilitate the integration of SSA into global economy.

2.4.2. Creation and Key Elements of AGOA

President Bill Clinton introduced a fundamental change to U.S. policy toward Sub-Saharan Africa when he signed the African Growth and Opportunity Act into law on May 18, 2000. Until then, U.S. relations with Africa had focused on donor-recipient relations, aid for poverty alleviation and emergency relief. But AGOA moved the U.S. away from a singular reliance on development assistance to a strategy that engage African countries and introduce trade between these countries and the U.S. and investment by the United States as stimuli for economic development and poverty reduction. During the last 12 years, moreover, AGOA has both contributed to and benefited from the many transformative trends in Africa (Schneidman & Lewis, 2012, *Brookings Africa Growth Initiative*)

According to Fredrick (2003), the main objective of the Trade and Development Act of 2000 containing the AGOA that was passed by the U. S. Congress and signed into law in May 2000, was to provide preferential access to U.S. market to countries that liberalize trade, promote rule of law, and adopt free market policies. The U.S. official policy observed that AGOA was passed as an important law to "broaden and deepen U.S. relations with the countries of sub-Saharan Africa" (Office of the United States Trade, 2001). The President of the United States in his submission report to the United States Congress noted that:

1. Achieving AGOA's objectives would benefit the U.S. and sub-Saharan African countries by helping to create healthier and more stable economies, stronger and more democratic governments in Africa and expand markets for U.S. exports;

2. AGOA was aimed at promoting economic development and political freedom and stability in the poorest regions of the world;

3. AGOA would lead to interdependence of economies and make all parties involved to appreciate that global prosperity in the long-run will be more secure if broadly shared; and

4. The need for U.S. policy towards Africa to be pursued in collaboration with African countries in a supportive and complementary manner.

AGOA is a trade policy that seeks to promote trade and economic cooperation between the U.S. and eligible sub-Saharan African countries. AGOA preferences apply to approximately 7,000 tariff lines (at the HTS8-digit level). These includes 4,975 tariff lines currently covered by the United States Generalized System of Preferences (GSP) plus a further 1,800 tariff line items added by the AGOA legislation. In addition, apparel sector tariff lines also qualify where countries have met the AGOA "apparel visa" requirements.

Office of the U.S. Trade Representative (2003, p.5-6) identifies the following key elements of AGOA:

- Institutionalizes a process for strengthening U.S. relations with African countries and provides incentives for African countries to achieve political and economic reform and growth.

- Offers eligible sub-Saharan African countries duty-free market and quota free U.S. market access for substantially all products.

- Provides additional security for investors and traders in African countries by guaranteeing GSP benefits through 2008.

- Eliminates the GSP competitive need limitation for beneficiary sub-Saharan African countries.

- Establishes a U.S.-Sub-Saharan Africa Trade and Economic Cooperation Forum to facilitate regular and investment policy discussions.

- Promotes the use of technical assistance to strengthen economic reforms and development, including assistance to strengthen relationships between U.S. firms and firms in Sub-Saharan Africa.

As part of these key elements of AGOA, the apparel and textile benefit from AGOA includes the following:

- Lifts all existing quotas on eligible textiles and apparel articles from eligible Sub-Saharan Africa countries.

- Extends duty free and quota-free U.S. market access for sub-Saharan Africa apparel made in eligible sub-Saharan countries from yarns and fabrics not produced in commercial quantities in the United States.

- Extends duty free and quota free treatment for apparel made in eligible sub-Saharan countries from U.S. yarn and fabric and for knit-to-shape sweaters made in the region from cashmere and some merino wools.

- Extends duty-free and quota-free U.S. market access for apparel made in eligible sub-Saharan African countries with regional fabric and yarn. Such imports, however, are subject to an annual cap (limit). The original cap increased incrementally from 1.5 to 7 percent of the multibillion-dollar U.S. apparel import market under the provisions from AGOA I – AGOA IV.

- Provides an average 17.5 % duty advantage on apparel imports in the U.S. market and promotes economic development and diversification in Africa’s poorest countries, through a special provision in the cap which allows beneficiary sub-Saharan African countries with an annual GNP of under $1,500(“lesser developed beneficiary countries”) to use third country fabric inputs for four years. This special investment incentive for the poorest African countries is aimed at providing a market stimulus to economic development for areas with existing industry.

2.4.3. Determination of Country and Product Eligibility

There are so many factors that determine country and product eligibility.

Country Eligibility: The legislation authorized the President of the United States to determine which sub-Saharan African countries would be eligible for AGOA on an annual basis. In considering the eligibility of sub-Saharan African countries for AGOA beneficiary status, AGOA requires the President to consider the countries based on specified criteria. According to The Office of the United States Trade Representative (USTR) Annual Report 2002, the criteria includes whether these countries have established or are making continual progress toward establishing:

- a market-based economy,
- the rule of law,
- the elimination of barriers to U.S. trade and investment,
- economic policies to reduce poverty,
- the protection of internationally recognized worker rights, and
- a system to combat corruption.

Additionally, these countries (1) cannot engage in activities that undermine U.S. national security or foreign policy interests, (2) cannot engage in gross violations of internationally-recognized human rights, (3) cannot provide support for acts of international terrorism, and (4) must have implemented their commitments to eliminate the worst forms of child labor.

The Unites States Trade Representative (USTR) chairs an extensive Trade Policy Staff Committee (TPSC) review process to determine which countries are eligible for designation as AGOA beneficiaries. Through this process, country-specific issues and areas of concern are identified. USTR's recommendations to the President regarding the designation of AGOA beneficiary countries are based on the results of countries' progress and efforts in these and other areas. Currently, 39 SSA countries are declared eligible for benefits under AGOA in 2012 (US Government 2012 Trade Policy Agenda & 2011 Annual Report).

Product Eligibility: Large number of products of AGOA beneficiary countries may enter the United States duty-free, either under AGOA or under a category for which the United States maintains a zero most favored-nation rate of duty. Products are eligible for preferential access to the U.S. market under AGOA in three ways:

1) AGOA extended the existing GSP program (covering 4,650 products) for beneficiary countries through 2015. For regional exporters, this provides more stable, longer-term access to the U.S. market than they enjoyed under the existing GSP program which applies generally to developing countries around the world. In the past, GSP has been renewed approximately every two years. AGOA also eliminates the competitive need limitation for beneficiary countries.

2) AGOA granted the President authority to provide duty-free treatment for certain other goods not covered under the existing GSP program for a beneficiary country. Using this expanded GSP authority, the President proclaimed duty-free treatment for an additional 1,835 items on December 21, 2000. Agricultural exports under AGOA's GSP and expanded GSP provisions remain subject to any U.S. tariff rate quotas (TRQs) that apply to like goods from all sources. In the few cases where TRQs exist, goods of beneficiary countries enter duty free within the quota, but remain subject to any over-quota duties for shipments above the applicable quantitative limit.

3) Separate AGOA provisions grant duty-free and quota-free treatment to qualifying apparel articles of beneficiary sub-Saharan African countries and to textile articles that are determined to be hand-loomed, handmade or folklore items.

The full list of products that may enter the U.S. duty-free under AGOA is annexed in HTS2 level and is also found at http://www.agoa.info/datacenter in HTS8 level.

As outlined in AGOA.info website, a document titled "Determinations on Eligibility for Category '9' Textile Exports under the African Growth and Opportunity Act (AGOA)" sourced from OTEXA indicates that on July 18, 2005, the Committee for Implementation of Textile Agreement (CITA) has determined that certain textile and apparel goods from Ethiopia shall be treated as "hand loomed, handmade, or folklore articles" and qualify for preferential treatment under the African Growth and Opportunity Act. Imports of eligible products from Ethiopia with an appropriate visa will qualify for duty-free treatment.

The African Growth and Opportunity Act (Title I of the Trade and Development Act of 2000, Pub. L. No. 106-200) (AGOA) provides preferential tariff treatment for imports of certain textile and apparel products of beneficiary sub-Saharan African countries, including hand-loomed, handmade, or folklore articles of a beneficiary country that are certified as such by the competent authority in the beneficiary country. In Executive Order 13191, the President authorized CITA to consult with beneficiary sub-Saharan African countries and to determine which, if any, particular textile and apparel goods shall be treated as being hand-loomed, handmade, or folklore articles. (66 FR 7272) In a letter to the Commissioner of Customs dated January 18, 2001, the United States Trade Representative directed Customs to require that importers provide an appropriate export visa from a beneficiary sub-Saharan African country to obtain preferential treatment under section 112(a) of the AGOA (66 FR 7837). The first digit of the visa number corresponds to one of nine groupings of textile and apparel products that are eligible for preferential tariff treatment. Grouping "9" is reserved for handmade, hand-loomed, or folklore articles.

CHAPTER THREE: RESEARCH DESIGN AND METHODOLOGY

3.1. Introduction

In this chapter, research design, study population and sampling, source of data and instrument of data collection, procedure of data collection, data sources and data analysis method, reliability and validity as well as ethical issues will be addressed. In addition, Simple linear regression model fitted using OLS estimation technique was presented.

3.2. Research design

The type of research design followed in this study was partly descriptive and also casual. It is partly descriptive because it describes and interprets findings from secondary data. It is partly casual because it tries to determine cause and effect relationships between dependent and independent variables. The study employed mixed research methods i.e. both quantitative and qualitative.

3.3. Study population and sampling

The target population groups for the study were USA, all eligible SSA countries and major Ethiopian stakeholders involved in promoting and implementing AGOA opportunity, including Ethiopian Government and Non-Government organizations. The study used census of all eligible SSA countries (i.e., all the thirty-nine AGOA eligible SSA countries) and applied judgmental sampling technique among in-country stakeholders to gather relevant information from study population or groups and validate findings from the quantitative analysis (secondary sources).

3.4. Source of Data and Instruments of Data Collection

3.4.1. Data Sources

Data sources for this study include both primary and secondary source. However, getting comprehensive data from exporters as well as relevant government offices on export performance through AGOA was a challenge. Therefore, this study mainly used secondary sources of data while a primary data fetched from in-depth interview was used by-in-large for the purpose of validation and identification of challenge. The secondary data sources accessed from

USITC, AGOA and UNCTAD are U.S. government and UN member states controlled, reliable data sources that compile and produce key trade data and reports with innovative analyses that form the basis for researches and recommendations to economic policy makers all over the world.

The primary data is compiled from the survey result on the level of perception of responsible government and non-government bodies on AGOA through in-depth interview. The tool used for this purpose is specifically designed to survey the level of their perception on AGOA and identify major challenges that contributed to the low performance. The area of questions forwarded focuses on i) their perception on whether AGOA is an opportunity or not ii) whether Ethiopia utilized the opportunity well or not and iii) what challenges are being faced by the country in general and exporters in particular; to collect relevant information to validate quantitative findings and identify possible challenges to make recommendations.

Secondary sources include bilateral trade and other trade related data and reports from African Growth Opportunity Act (AGOA) website (www.agoa.info), United States International Trade Commission (USTIC) Data web (www.ustic.org) as well as the United Nations Conference on Trade and Development (UNCTAD) website (www.unctad.org). See website profile below:

The USITC Interactive Tariff and Trade DataWeb provides international trade statistics and the United States Government import statistics, export statistics, tariffs, future tariffs and tariff preference information that are available on a self-service, interactive basis to the public free of charge. The USITC DataWeb responds to user-defined queries integrating international trade statistics and allows both expert and non-expert users to create and save customized country and product lists for future re-use from anywhere in the world. International trade data are available for years 1989- present on a monthly, quarterly, annual, or year-to-date basis and can be retrieved in a number of classification systems, including the Harmonized Tariff Schedule (HTS). Pre-defined reports on international trade statistics are also available by geographic region and partner country. Current, relevant and reliable international trade data, which are maintained and published by the USITC as a statutory responsibility, can be accessed via the USITC DataWeb.

The AGOA.info archives contain a wide and growing selection of documents available for download. These are categorized under the ‘Legal’ (AGOA legislation, Bills, certificates, proclamations), ‘Documents and Reports’ (mainly annual US trade reports) , ‘Research Documents’ (academic and other) and ‘General Documents’ (all others downloads). **The AGOA.info Data Center** compiles key trade data related to AGOA, and United States – Sub-Saharan Africa trade more generally. The trade data is updated periodically (usually on a monthly basis, when new data is released). Data sets include the following,

- Aggregate bilateral trade flow data between the US and Sub-Saharan African countries that have been granted AGOA beneficiary status
- Aggregate AGOA and GSP export data, by country, to the US
- Aggregated AGOA and GSP export data, by sector, to the US
- Disaggregated AGOA apparel exports, by country and category
- AGOA exports by sector, disaggregated into AGOA and GSP trade
- Aggregate bilateral trade profiles since AGOA’s inception, for each AGOA beneficairy country, etc.

The United Nations Conference on Trade and Development (UNCTAD) which is governed by its 194 member states is the principal organ of the United Nations General Assembly dealing with trade, investment, and development issues. It produces often-innovative analyses that form the basis for researches and recommendations to economic policymakers. In UNCTAD, statistics is an inherent part and hence, UNCTAD data center compiles, validates and processes a wide range of data collected from national and international sources.

In addition, previous research works, internet, online journals, AGOA forum information, etc were also used as secondary sources of information.

3.4.2. Instruments of Data Collection:

While document review is used to collect all the required information from secondary sources, an in-depth interview was used as an instrument to collect the primary data for validation purpose.

3.5. Procedures of Primary Data Collection

The student researcher used in-depth interview with seven (7) key government and non-government organizations that are involved in the support and management of this opportunity. The tool used for in-depth interview was designed and developed with the involvement of experts at the Ministry of Trade before use, to assure capturing of the necessary data, and accordingly approached responsible bodies/agencies identified for this work. In other words, content validity of interview questions was also given due attention.

The student researcher conducted the in-depth interview with Director General, Trade Relation & Negotiation Director as well as Director, Bilateral and Regional Trade Relation and Negotiation Directorate at the Ministry of Trade; Director General at the Ethiopian Investment Agency, Assistant to the Director of Pan African Chamber of Commerce, Secretary General of Ethiopian Leather Industry Association, Resource Center Head as well as Business Support Head at Addis Ababa Chamber of Commerce; one Experts from USAID and one Expert from Ethiopian textile institutions.

3.6. Data Analysis Method

The study applied descriptive and econometric approaches of data analysis. The descriptive (average, percentage, charts and graphs) and econometric analysis was made using MS Excel. The parameter estimation of the econometric analysis (simple linear regression model) was made using Ordinary Least Square (OLS) technique to estimate the model as presented below,

Total Export Trade = f (AGOA Export, GDPet, DGPus)

Where:

Dependent variable: Total Export Trade to the U.S (TET) value in US dollars was considered as a function of Export Trade through AGOA, GDP of Ethiopia and DGP of the Unites States, other things being constant. Total Export Trade denotes total exports from Ethiopia to the United States.

Independent variable

Total Export Trade through AGOA (AGOA Export) – represents export trade from Ethiopia to the USA through AGOA scheme. The expected sign of this variable is positive i.e., an increase in AGOA trade from Ethiopia to the U.S will increase trade flows. A positive and significant coefficient of **AGOA Export** indicates significant utilization of the AGOA opportunity.

Gross Domestic Product (GDP) - it is a measure of economic scale of partners, i.e., importer and exporter in USD. Empirical results from econometric models have shown that measures of economic scale are important determinants of bilateral trade. Growth in economic capacity of both exporter and importer countries boost trade flows. The expected sign for both GDPus and GDPet is positive.

From secondary sources, in addition to the aggregate export performance through AGOA for 12 years (from 2001 – 2012); top ten export products constituting 99% of the export value were identified in the order of their share to the export performance across the 12 years of post-AGOA period. Eight years of Pre-AGOA data (from 1993 – 2000) on export was collected to identify whether different sectors and export products were able to compete and use the opportunity with the enactment of AGOA. The other set of data analyzed and used to evaluate Ethiopia's performance was the share of Ethiopian export from East Africa and SSA export values using AGOA across the 12 years (2001 – 2012). Analysis was also made by comparing Ethiopia's performance with best and least performing beneficiary countries selected based on their success in terms of utilizing the opportunities given by US under AGOA. To evaluate Ethiopia's utilization of AGOA against the opportunity, yearly disaggregated data for major performing sectors (textile and leather) was considered.

The primary data compiled from the in-depth interview was analyzed used as input for validation of findings as well as identification of challenges.

3.7. Ethical Consideration

To maintain the broadly agreed norms of ethical research, the following issues were carefully considered:

- The purpose of the research was clearly communicated to interviewees
- Participation in the research was purely voluntary
- All information obtained in the process were maintained confidential

CHAPTER FOUR: RESULTS AND DISCUSSIONS

4.1. Introduction

After the data were collected mainly from secondary sources, it was supported by the results of primary sources for validation purposes. Then it was analyzed and discussed using descriptive statistics and causal content analysis.

4.2. Ethiopia's Pre-AGOA Export Performance

The idea of tariff preferences for developing countries was raised for the first time during the discussion within the United Nations Conference on Trade and Development (UNCTD) in the 1960s. Preferential market access such as the generalized system of preferences (GSP) is clearly recognized as a way of enabling developing countries export their way out of poverty. As it has been a vital feature of industrialized countries' commercial policy for more than 40 years, Ethiopia has also been using the US trade preferences under the GSP before the introduction of AGOA in 2000.

Under the generalized system of preferences (GSP), eligible countries pay zero tariffs on 4,600 tariffs lines or products. U.S. enacted different trade acts in 1974, 1984 and 1996 for the establishment and implementation of GSP scheme. Products that are eligible for duty-free treatment under GSP include: most manufactured items; many types of chemicals, minerals and building stone; jewelry; many types of carpets; and certain agricultural and fishery products. Among the products that are not eligible for GSP were most textiles and apparel; watches; and most footwear, handbags, and luggage products (UNCTAD report, 2003), though these products are precisely the kinds of manufacture products that most developing countries have comparative advantage on and were able to export.

Table 1 below has been compiled from USITC data on pre-AGOA period for Ethiopia's top ten export product groups under the GSP scheme from 1993 – 2000 which represents 82.47% of the total export. Major export items during these pre-AGOA period under GSP scheme were milling industry products; vegetable products; beverage, spirit & vinegar; raw hides and skins (excluding fur skin); leather; wood and article of wood, plastics, etc.

Table 1: Ethiopia's Top Ten Pre-AGOA (GSP) Export Product Categories to U.S.A (1993 – 2000);

(Custom Value in HTS2 level; '000 USD)

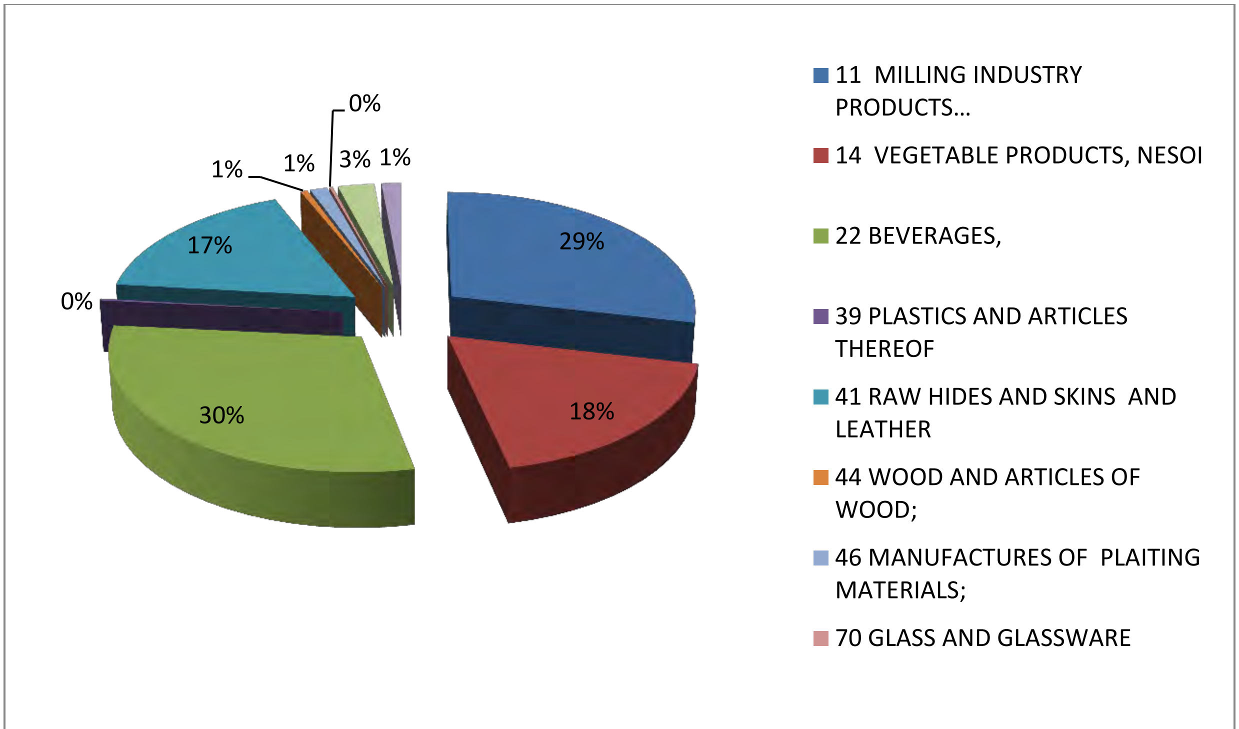
Description (HTS2)	YEAR								Total	%age share
	1993	1994	1995	1996	1997	1998	1999	2000		
11 MILLING INDUSTRY PRODUCTS;	25	0	35	61	142	156	295	228	942	23.59%
14 VEGETABLE PRODUCTS, NESOI	0	0	0	0	0	0	127	468	595	14.90%
22 BEVERAGES, SPIRITS AND VINEGAR	0	0	0	1	552	305	41	84	983	24.62%
39 PLASTICS AND ARTICLES THEREOF	1	1	0	0	0	0	4	2	8	0.20%
41 RAW HIDES AND SKINS (OTHER THAN FURSKINS) AND LEATHER	0	0	0	0	0	561	2	1	564	14.12%
44 WOOD AND ARTICLES OF WOOD;	2	0	0	4	2	0	4	5	17	0.43%
46 MANUFACTURES OF STRAW, ESPARTO OR OTHER PLAITING MATERIALS;	0	2	0	1	0	14	3	21	41	1.03%
70 GLASS & GLASSWARE	0	2	2	0	0	4	0	0	8	0.20%
71 NATURAL OR CULTURED PEARLS, PRECIOUS STONES, ETC.. THEREOF; IMITATION JEWELRY; COIN	14	31	8	3	5	8	12	7	88	2.20%
93 ARMS AND AMMUNITION; PARTS AND ACCESSORIES THEREOF	0	0	0	1	18	28	0	0	47	1.18%
SUB-TOTAL	42	36	45	71	719	1076	488	816	3293	82.47%

Source: Compiled from data accessed from U.S. International Trade Commission Trade Dataweb, http://www.usitc.gov.

As a share of total GSP export, beverage, spirit and vinegar represent 25%; milling industry products represent 24%; raw hides and skin as well as vegetable products take 14% and 15% respectively.

Figure 1: Ethiopia's Top ten Export Item to USA under GSP (1993 -2000)

Custom Value Share



Source: Developed from data accessed from U.S. International Trade Commission Trade Dataweb, http://www.usitc.gov.

Under the GSP scheme, Ethiopia's total performance across the eight years is less than 4 million USD with only 25 product categories. As an improvement for this shallow preference, the US has over the years established additional non-reciprocal or deeper preferences for a sub-set of what are perceived to be vulnerable countries or regions. These include the Caribbean Economic Recovery Act (CBERA)1[1], the Andean Trade Preference Act (ATPA)2[2] and the African Growth and Opportunity Act (AGOA). Some of these initiatives have been in recognition of the overall economic situation of the regions, others have been taken pursuant to specific policy objectives,

1 **was enacted in August 1983, granted duty free treatment to selected products from 24 (subsequently 27) countries and territories of the region**

2 **) was enacted in 1991 to put in place a 10-year program to promote the diversification of the economies of Bolivia, Colombia, Ecuador and Peru away from illegal drugs**

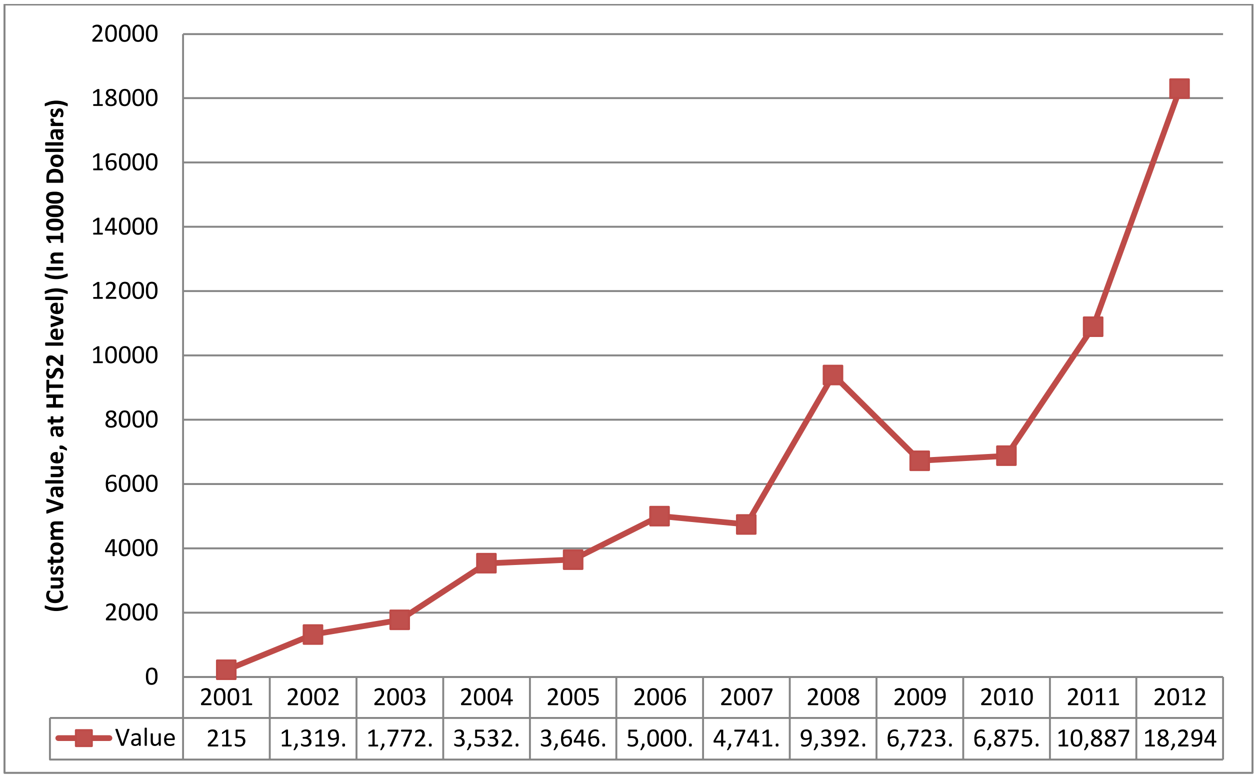
such as in response to economic crisis, natural disasters (such as the effect of hurricanes) or to help in combating the problem of narcotic drugs.

4.3. Ethiopia's Post AGOA Export Performance

Ethiopia was able to fetch from the AGOA opportunity within a year from its enactment, though the first year performance using this opportunity has valued only USD 215,000. Since then, the export performance of Ethiopia under AGOA has shown an increase from a base of USD 215,000 in the year 2001 to reach into USD 18.3 million in the year 2012. It, therefore, registered an increase in trade performance under this act (see Figure 2 below). When we look at the growth rate trend, however, growth rate declined from 513 % in 2002 to 68 % in 2012 and its average growth rate between these years is at 80%. In 2012, Ethiopia's export registered $ 18.2 million.

Ethiopia's export performance under AGOA has shown an increasing trend though the base is agreeably small. Evidences reveal that the textile, followed by the leather sector have utilized the opportunity in exporting items such as textile and apparel, leather products, hand made goods in a relatively increased volume.

Figure 2: Ethiopian Export to U.S under AGOA (Excluding GSP)



Source: U.S. International Trade Commission Trade Dataweb, http://www.usitc.gov.

Consistent to the development theories literature & suggestions in relation to preferential trade agreements, the national income has increased due to the free trade and increased openness following AGOA enactment in the country.

Ethiopia's overall performance during these years has achieved one of the many objectives of United States from this act, i.e, increasing the volume of trade between the U.S. and SSA countries. In trying to get the perception of respondents in an in-depth interview on AGOA, they were asked as "is AGOA an important opportunity to Ethiopia?". All respondents believe that AGOA, though is a unilateral trade preference, is an important opportunity for Ethiopia. As to why they are considering AGOA as an important opportunity, responses were articulated from their organizations' roles and objective perspective towards AGOA. The Ministry of Trade believe that it is an important opportunity to Ethiopia in providing access to the US manufacturing market that helped the country to increase the value and amount of export to USA from year to year. In addition, it was reflected that AGOA has opened up new/additional export opportunities as compared to GSP.

Ethiopian Investment Authority, on the other hand, believe that AGOA is indeed an important opportunity as it encouraged and opened up investment opportunity that U.S. and other foreign investors can take part to benefit themselves and Ethiopia.

Respondents from Chamber of Commerce believe that the introduction of new sectors like textile and leather is notable importance of this opportunity which enabled the country to export non-traditional export items such as textile and apparel, leather products, hand made goods to the US market. This insight is also fully shared by Leather Industries Association and Ethiopian Textile Institute respondents too.

USAID, on top of what has already been reflected, believe that this Act is a great deal of opportunity as it offers Duty-Free Quota-Free (DQFQ) privilege from USA on about 6500 AGOA eligible tariff lines. This is a huge opportunity that Ethiopia and other eligible countries need to strive to respond better.

The performance shown above also underlines the contribution of AGOA in facilitating greater outward orientation and confirms that it enabled Ethiopia to access and maintain a certain market share through increased export volume.

However, the utilization of this opportunity is yet far to confirm the success of AGOA's intention of fostering economic and political development by expanding access to U.S. trade and investment markets.

Unlike the study made on AGOA-related manufacturing firms in Kenya to assess and analyze the various impact of AGOA,(Phelps et al, 2009) that concluded the establishment of the firms as a result of AGOA intervention has resulted in a considerable increase in employment opportunities for a total of 26,642 employees, there is no data or study that could show its significant impact on employment in these twelve years of implementation in Ethiopia.

Hence, Ethiopia cannot claim that she has taken full advantage from the arrangement. According to the data presented above, during the past twelve years, Ethiopian average export growth rate through the AGOA window did not even manage to double with reference to the low base of only 215,000 USD in 2001.

Looking at the share of export through AGOA against the overall bulk of exports to the US market (Ethiopia-US bilateral goods trade), AGOA's contribution remains to be insignificant. The total AGOA intake across the 12 years is only 6.5% of the export earnings generated from the U.S market (see Table 2 below). In addition, the overall bilateral trade value between the two countries; i.e 1.1 billion for Ethiopia and 5.1 billion for the U.S indicates that the access to the U.S market through this Act couldn't contribute much to narrow the huge gap in the trade balance. Ethiopia is still a net importer of the U.S goods reaching to a maximum trade deficit in the year 2012.

Table 2: Bilateral Goods Trade United States – Ethiopia (in millions)

Year	Ethiopia's Export to U.S	U.S Export to Ethiopia	United States Trade Balance	Ethiopia's Trade Balance	Ethiopia's Export through AGOA	AGOA's %age Share
2000	28.5	165.3	136.8	(136.80)		
2001	28.9	61.2	32.3	(32.30)	0.21	1%
2002	25.7	60.4	34.7	(34.70)	1.31	5%
2003	30.5	409.1	378.6	(378.60)	1.77	6%
2004	41.2	302.1	260.9	(260.90)	3.53	9%
2005	61.8	455.6	393.8	(393.80)	3.64	6%
2006	81.1	137.3	56.2	(56.20)	5.00	6%
2007	88.2	167.5	79.3	(79.30)	4.74	5%
2008	152.2	301.6	149.4	(149.40)	9.39	6%
2009	112.9	266.9	154	(154.00)	6.72	6%
2010	127.9	773.2	645.3	(645.30)	6.87	5%
2011	144.4	689.8	545.4	(545.40)	10.88	8%
2012	183.1	1,274.70	1,091.60	(1,091.60)	18.2	10%
Total	**1,106.4**	**5,064.70**			**72.26**	**6.5%**

Source: compiled from <u>*countries trade profile, on agoa.info website, accessed on October 22, 2013*</u>

In terms of evaluating respondent's perception on "level of utilization", it was considered against the opportunity, benchmarking the number of tariff lines AGOA brought up on top of GSP, the investment opportunities opened up for light manufacturing goods and all eligible countries response (performance) measured in volume of trade. Without a reservation, though all respondents believe that AGOA is an important opportunity in serving to access the US market, they all believe that the country's utilization level so far is not satisfactory against these benchmarks.

When we further investigate Ethiopia's export under AGOA between 2001 and 2012 by major export products, the data shows that the textile and leather sectors highly dominate the export performance representing 85.5% & 12.57% of Ethiopia's export to US respectively. These two sectors only constitute 98% of the export performance. See Table 3 below:

Table 3: Ethiopia's top seven Export items under AGOA (from 2001 to 2012)

(Custom Value in 1000 Dollars)

HTS 2	Description	Average	Share in %
61 & 62	Apparel and clothing accessories	5,157.75	85.5
42 & 64	Articles of leather, footwear, gaiters and parts of such articles	758.08	12.57
06	Live trees and other plants, bulbs, roots, cut flowers and the like	50.42	0.84
10	Cereals	29.00	0.48
22	Beverages and vinegars	12.25	0.2
14 & 20	Preparations of vegetables, vegetable products, fruits, nuts or other parts of plants	15.25	0.25
41	Raw hides and skins (other than fur skins) and leather	5.83	0.1

Source: Compiled from U.S. International Trade Commission Trade Dataweb, http://www.usitc.gov.

From the above table, one can easily observe that the share of textile and leather takes 98% of the total performance during the twelve years under consideration. This is an indication that Ethiopia couldn't respond well to perform through diversified export sectors. On the other hand, the Act also didn't help much by excluding some potential products, more importantly, agricultural products which Ethiopia could have a comparative advantage on. Addisalem (2013) on his empirical analysis study to evaluate the impact of AGOA on SSA agricultural exports, the statistical results indicate that the AGOA trade preferences do not have a statistically significant impact on SSA agricultural exports, although some of the model results indicate that AGOA may have a positive effect on SSA agricultural exports to the United States.

Similarly, the simple linear regression model fitted with OLS estimation technique to evaluate the effect of AGOA on overall export trade is shown below, and the data from which the OLS has been calculated is annexed (Appendix III).

Table 4. Ordinary Least Square (OLS) with Simple Linear Regression

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.980417322
R Square	0.961218125
Adjusted R Square	0.946674922
Standard Error	12.47899957
Observations	12

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	3	30877.53906	10292.51302	66.09398	5.47986E-06
Residual	8	1245.803442	155.7254303		
Total	11	32123.3425			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*
Intercept	-118.2512914	57.42249684	-2.059319916	0.073438	-250.6678066	14.16522377
GDP-ET	0.001698856	0.001005969	1.688775482	0.129737	-0.000620913	0.004018626
GDP-US	1.20926E-05	5.47167E-06	2.210038443	0.058078	-5.25092E-07	2.47103E-05
AGOA Export	2.55079317	1.979360696	1.288695474	0.23352	-2.013620781	7.115207121

Source: own computation using data from www.usitc.org; www.dataworldbank.org,

R-squared and adjusted R-squared values are 0.961 and 0.947, respectively indicate that overall performance of the simple linear regression model is good. The coefficient of determination (R-squared) suggests that around ninety four percent of the total variation in the dependent variable (Total Export Trade) is being jointly explained by the three explanatory variables used in the model.

$$\text{Total Export} = -118.25 + 0.0017\text{GDP-ET} + 1.21\text{GDP-US} + 2.55\text{AGOA Export}$$

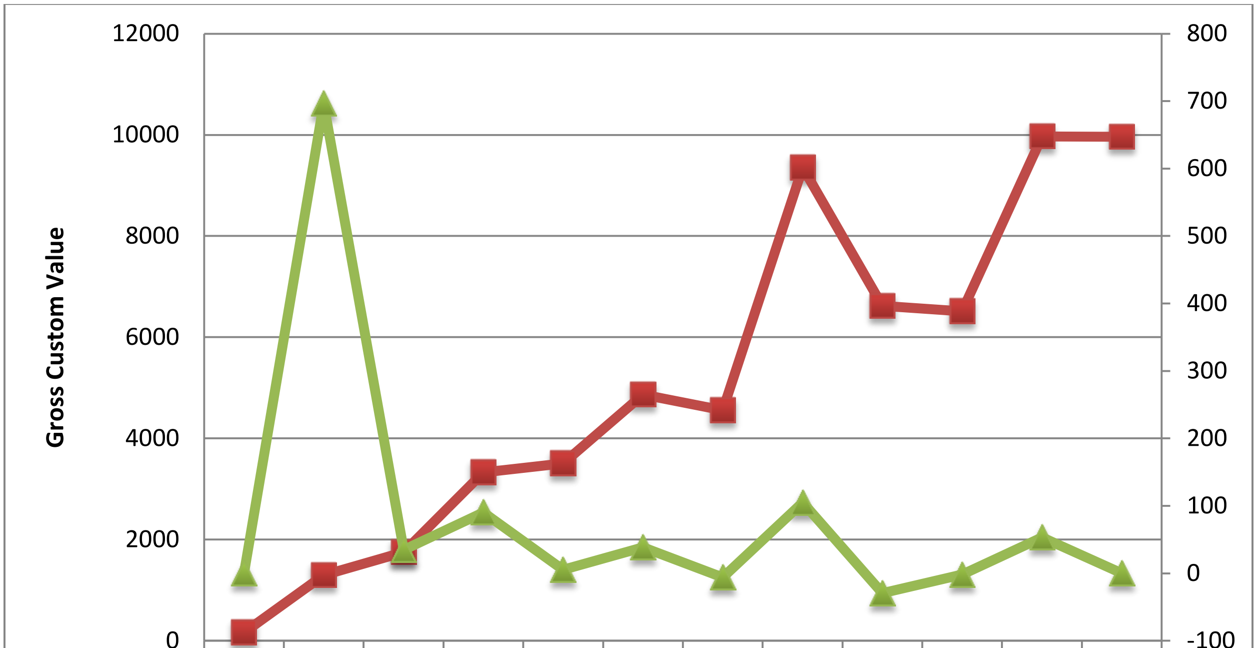
The coefficient of **AGOA Export** is positive, though statistically insignificant at five percent significance level. The computed p-value of **AGOA Export is** 0.23 which is greater than 5% significance level suggesting that AGOA indeed promotes trade but its share of trade is insignificant.

Therefore, the overall assessment of how well Ethiopia is able to use from this opportunity to significantly affect the total export trade to the USA has resulted consistent finding using descriptive statistics, model results as well as the qualitative study analysis.

This being the case, in order to assess the country's utilization against the opportunity requires a closer review and analysis of the two sectors, on which Ethiopia registered better performance, in a disaggregated manner. Figure 3 below shows the value and growth trend of Ethiopia's textile and apparel export to U.S. under AGOA. Even though the export of apparel and clothing accessories started from a very low amount of 163 thousand at the beginning of the intervention, a growing trend from year to year has been observed except between 2008 and 2010. After 2010, export of these product categories has shown an incremental growth and reached to 9.964 million USD in 2012 to attain an average growth rate of 89.7 percent between these periods. See Figure below.

Figure 3: Ethiopia textile and apparel Export to US under AGOA (from 2001 to 2012)

(Gross Custom Value in '000 USD)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Value	163	1298	1750	3329	3509	4864	4559	9357	6622	6511	9967	9964
Growth	0	696.32	34.82	90.23	5.41	38.61	-6.27	105.24	-29.23	-1.68	53.08	-0.03

U.S. International Trade Commission Trade Dataweb, http://www.usitc.gov.

Therefore, relatively, the only product that contribute significant amount to the total performance by way of this scheme is apparel and clothing taking 85% of the overall earnings. However, between 2001 and 2012, the average annual export earnings generated from the same sector was 5.1 million dollars only. Despite a substantial improvement observed in the sector, and the fact that the sector is still the leading Ethiopian export to the US under the AGOA system, the existing average export in terms of value is low as it builds on the low base at the time of the introduction of AGOA, i.e 2001.

Looking deeper for specific product line groups (in 8-digit level HTS) under textile and apparel sector, top product items that contributed to 74% of the export value under apparel and clothing accessories export under AGOA, we will find sweaters, pullovers and similar articles; manmade fibers; Men's or boys' trousers, breeches and shorts,; and women's or girls' trousers, breeches and shorts, blouses and shirt in their order of average value for the years 2001-2012, as follows.

Table 5: Ethiopia's major textile and apparel products export to US under AGOA at HTS8 level (2001 - 2012)
(Custom value in 1000 Dollars)

HTS Code	Product	Average Value	Share (%)
61103030	Sweaters, pullovers and similar articles, knitted or crocheted, of cotton, nesoi, knitted or crocheted, of manmade fibers,	1,176.08	22.8
61143030	Garments nesoi, knitted or crocheted, of man-made fibers	688.75	13.36
61034315	Men's or boys' trousers, breeches and shorts, knitted or crocheted, of synthetic fibers, nesoi	473.92	9.19
61052020	Men's or boys' shirts, knitted or crocheted, of manmade fibers, nesoi	439.00	8.51
62034240	Men's or boys' trousers and shorts, not bibs, not knitted or crocheted, of cotton, not containing 15% or more by weight of down, etc	283.33	5.49
62046335	Women's or girls' trousers, breeches and shorts, not knitted or crocheted, of synthetic fibers, nesoi	260.67	5.05
61102020	Sweaters, pullovers and similar articles, knitted or crocheted, of cotton, nesoi	164.75	3.19
62064030	Women's or girls' blouses and shirts, not knitted or crocheted, of manmade fibers, nesoi	125.67	2.44
62114300	Women's or girls' track suits or other garments nesoi, not knitted or crocheted, of man-made fibers	103.67	2.01
61091000	T-shirts, singlets, tank tops and similar garments, knitted or crocheted, of cotton	103.67	2.01

Source: U.S. International Trade Commission Trade

The second largest contributing sector in taking advantage from the AGOA system is the leather industry. The Leather industry's achievement recorded an average value of 757,000 USD taking 12.6% of the total export share from this opportunity.

The industry export incorporates the footwear, and article of leather goods with an overall performance rise trend. Currently, it ranks the 2nd highest in fetching export revenue from the AGOA system following the textile industry.

Among the two sub-sectors in the industry, the footwear is consistently showing increasing performance claiming 87% of the industry's performance and accounting for 10.9 percent of the total AGOA exports.. During 2012 only, the footwear sector has grown to a mass 6.8 million dollars (See Table 6 below).

Table 6: Ethiopia's Article of Leather and Footwear Export to US under AGOA

(from 2001 to 2012)
(Average Custom value, at HS2 level) (In 1000 Dollars)

HS Number	HTS Number	Average Value	Share(%)
42	Article of Leather; Saddlers and Harness: Travel goods, Hand Bags & similar constrainers; Article of Gut (other than silk worm Gut)	92.25	12.70%
64	Footwear; Gaiter and the like; parts of such articles	661.8	87.30%

Source: Compiled from U.S. International Trade Commission Trade Dataweb, http://www.usitc.gov.

From the interview respondents, the Ministry of Trade was key respondent to address the question related to "how diversified Ethiopia's response is" to identify better performing sectors within the low performance framework. Following the fact that Ethiopia's AGOA performance is largely (more than 95%) taken up by two sectors, namely textile and leather, the Ministry believes that the country's response is not yet diversified and there is yet a lot to be done to diversify response through design and implementation of sector specific interventions.

This is further witnessed by the fact that, between 2001 to 2012, Ethiopia has only exported 132 product lines in Harmonized Tariff Schedule (HTS-8) out of the 1800 product lines added through AGOA.

4.4. Pre –AGOA Vs. Post-AGOA Ethiopia's Export Performance to USA

Another way of looking at the effect of AGOA on Ethiopia's export performance in terms of diversity to many tariff lines and trade volume is looking at pre and post AGOA performance and see whether the introduction of AGOA has led to increased number of export tariff lines or increase the trade value and volume. As has been reflected in section 4.1 of this chapter, Ethiopia's export products before the introduction of AGOA, i.e, under GSP scheme were more of milling industry products; vegetable products; beverage, spirit & vinegar; raw hides and skins (excluding fur skin); leather; wood and article of wood, plastics, etc.

From the observation and analysis of pre-AGOA and AGOA performance (see sections 4.1 & 4.2), one can see that the introduction of AGOA has created an opportunity for the export of additional products like textile and apparel, and leather products in a relatively high volume to the US market which ends up to take 97% of the total AGOA export share. This result is in agreement with Tadesse & Fayisa's (2007) finding from the assessment of the impact of AGOA on U.S. imports from eligible SSA countries. Using a panel data that span the years 1991 – 2006, Tadesse & Fayisa found out that AGOA has contributed to the initiation of new and the intensification of existing U.S. imports.

Though all interview respondents, believe that AGOA is also an opportunity for foreign direct investment on top of serving as a market for export, Ethiopian Investment Authority was better positioned to respond to the level of FDI attracted as a result of AGOA in the first twelve years of operation. Response showed that despite few Turkish and Chinese investors that have recently started to invest in the two major performing sectors, from "little to none" is gained from FDI in those years under reference. In addition, in relation to the specific objective of AGOA to increase US investment on SSA following the Act, none has been registered yet..

4.5. Ethiopia's performance compared to other SSA beneficiary countries

Table 7 below shows that by the end of 2012, eighteen AGOA beneficiary countries (Angola, Botswana, Cameroon, Chad, Congo (DROC), Congo (ROC), Cote D'ivore, Gabon, Ghana, Kenya, Lesotho, Madagascar, Malawi, Mauritius, Namibia, Nigeria, South Africa and Swaziland) each exported more than $100 million worth of qualifying goods under AGOA, utilizing the opportunity better. Seven other countries (Ethiopia, Guinea-Bissau, Mozambique, Senegal, Tanzania, Togo and Uganda) each exported more than $10 million during the same period.

A critical observation to note here is that Nigeria and Angola are the two countries that took the largest pie with 61.07% and 18.61% share from the total export by the SSA countries respectively. Among these best performing (top ten) countries, the variation in percentage share is so high that Nigeria took 61.07% to be followed by Angola with 18.61%; while Cameroon is in the same group list with only 0.83% share from the total export.

This variation in share of the export performance gets even more worse with the rest of the 23 countries listed, (where Ethiopia is one) each having less than 0.5 percentage share. It is evident that all these groups of countries including Ethiopia have underutilized the Act's opportunity. Ethiopia's share from the total SSA countries export represents only 0.04% (see table 7 below).

When we examine the product list/character of the two largest performing countries that constitute 80%, i.e, Nigeria and Angola, it is primarily export of petroleum and petroleum related products. For instance Angola's 2006 exports under AGOA and its GSP provisions were valued at $11.3 billion – almost all of which was oil or energy-related products – representing 97% of its total exports to the United States. In the same year, Nigeria's duty-free exports under AGOA and its GSP provisions– almost entirely crude oil – were valued at $25.8 billion representing 92% of Nigeria's total exports to the United States (2007 Comprehensive Report on U.S. Trade and Investment Policy towards SSA & Implementation of AGOA).

The critics on trade policy changes in general and AGOA in particular by Brenton & Ikezuki as well as Nouve and Staatz emanates from these facts. They question the potential benefits of such a unilateral policy initiative by arguing that (i) African exports to U.S. are dominated by petroleum products that have relatively low value added (Brenton & Ikezuki, World Bank, 2004) and (ii) the U.S.-Africa trade is dominated by imports from a few African countries (Nouve and Staatz, 2003). Consistent to the quantitative findings and the empirical litratures cited above, on the question posed to interview respondents that ask: "Do you think Ethiopia's utilization of AGOA is satisfactory as compared to other eligible Sub-Saharan African Countries**"? , a**ll respondents agree that AGOA opportunity is better utilized by non-value added product (petroleum) producer and exporter countries like Nigeria. Even from among non-oil exporting countries; Ethiopia's utilization of the opportunity is perceived to be lowest using total export value and number of items exports as measuring indicators. The Ministry of Trade, Chamber of Commerce, Ethiopian Leather Exporters' Association and USAID argue that Ethiopia's performance is not satisfactory as compared to other eligible Sub-Saharan African Countries even at her best performing sector performance; i.e, textile.

Table 7: SSA Countries Export Performance under AGOA (From 2001-2012) in '000 USD

Country	Total Export	Average Export	%age share
Angola	35,853,206	2,987,767.17	18.61
Botswana	184,862	15,405.17	0.10
Burkina Faso	15	1.25	0.00
Cameroon	1,601,098	133,424.83	0.83
Cape Verde	7,971	664.25	0.00
Chad	1,439,877	119,989.75	0.75
Congo (DROC)	178,179	14,848.25	0.09
Congo (ROC)	5,956,072	496,339.33	3.09
Cote d`Ivoire	192,218	16,018.17	0.10
Djibouti	17	1.42	0.00
Ethiopia	72,330	6,027.50	0.04
Gabon	5,658,861	471,571.75	2.94
Gambia	6	0.50	0.00
Ghana	407,475	33,956.25	0.21
Guinea	31	2.58	0.00
Guinea-Bissau	26,131	2,177.58	0.01
Kenya	2,679,654	223,304.50	1.39
Lesotho	3,929,103	327,425.25	2.04
Madagascar	1,939,927	161,660.58	1.01
Malawi	487,143	40,595.25	0.25
Mali	109	9.08	0.00
Mauritania	26,396	2,199.67	0.01
Mauritius	1,462,693	121,891.08	0.76
Mozambique	9,901	825.08	0.01
Namibia	224,307	18,692.25	0.12
Niger	59	4.92	0.00
Nigeria	117,641,746	9,803,478.83	61.07
Rwanda	369	30.75	0.00
Senegal	31,738	2,644.83	0.02
Sierra Leone	3	0.25	0.00
South Africa	11,262,715	938,559.58	5.85
Swaziland	1,269,965	105,830.42	0.66
Tanzania	33,573	2,797.75	0.02
Togo	44,448	3,704.00	0.02
Uganda	14,903	1,241.92	0.01
Zambia	244	20.33	0.00
Total	192,637,345	16,053,112	100.00

Source: Compiled from U.S. International Trade Commission Trade Dataweb

As we examine table 8 below on the value and share of Ethiopia's exports from the total export of Eastern Africa region and the total SSA countries, the share has increased from a very low percent of 0.18 in 2001 to 3.55 percent in 2012 from the total export of Eastern region and increased from 0.004 percent in 2001 to 0.14 percent in 2012 from the total SSA countries export. Despite improved performance from year to year, Ethiopia's share is still too low compared to other Eastern Africa countries and other SSA AGOA beneficiary Countries. It is further witnessed by the fact that, between 2001 to 2012, Ethiopia has only exported 132 product lines in Harmonized Tariff Schedule (HTS8) description out of the 1800 product lines under AGOA.

Table 8: Comparison between Ethiopia and Other Eastern Africa & SSA AGOA Beneficiary Countries

Year	Ethiopia (Value in '000 USD)	Eastern Africa (Value in '000 USD)	Share in %	SSA (Value in '000 USD)	Share in %
2001	**215.00**	**118,668.00**	**0.181**	**5,026,510.00**	**0.0043**
2002	**1319.00**	**285,148.00**	**0.463**	**4,919,997.00**	**0.0268**
2003	**1706.00**	**376,791.00**	**0.453**	**7,296,007.00**	**0.0234**
2004	**3532.00**	**473,162.00**	**0.746**	**18,562,154.00**	**0.0190**
2005	**3646.00**	**468,661.00**	**0.778**	**25,697,660.00**	**0.0142**
2006	**5000.00**	**443,848.00**	**1.127**	**21,214,520.00**	**0.0236**
2007	**4741.00**	**395,881.00**	**1.198**	**23,693,785.00**	**0.0200**
2008	**9392.00**	**386,097.00**	**2.433**	**28,000,851.00**	**0.0335**
2009	**6723.00**	**353,459.00**	**1.902**	**12,736,892.00**	**0.0528**
2010	**6875.00**	**396,179.00**	**1.735**	**15,374,079.00**	**0.0447**
2011	**10887.00**	**504,474.00**	**2.158**	**17,391,593.00**	**0.0626**
2012	**18294.00**	**514,741.00**	**3.554**	**12,723,304.00**	**0.1438**

Source: Compiled from U.S. International Trade Commission Trade Dataweb, http://www.usitc.gov.

While the overall performance would probably highlight that by far the largest portion of exports under the Act is made up of oil-related products as indicated above, it is a fact that AGOA has been able to significantly benefit a fair number of other countries from the special market access privileges available to clothing exporters. The removal of key trade barriers under AGOA together with favorable Rules of Origin (RoO) has allowed Ethiopia and other countries such as Lesotho, Swaziland, Madagascar and Kenya to prove that they are able to sell their goods on the largest and most competitive consumer market in the world. AGOA remains to be window of opportunity that potentially holds significant advantages for producers and exporters.

By excluding Nigeria and Angola from this part of the analysis, it is possible to look at countries performance beyond oil, because oil exports have been inflating AGOA exports leading to a kind of artificial overall picture.

For other group of countries, including Ethiopia, exports under AGOA highlights AGOA's relative importance in clothing manufacture particularly for lesser developed countries. Clothing is the second largest export-sector that utilizes AGOA benefits from among sectors not previously eligible under the GSP.

The table below is tracked to show Ethiopia's utilization of the Act's opportunity in relation to other SSA countries by considering the post-AGOA period average exports, the average AGOA export and the utilization of AGOA as a percentage of total export of selected countries.

In order to better show Ethiopia's performance against other SSA countries, a group of countries with more or less similar macroeconomic development have been selected to reduce bias in performance (that mainly emanate from petroleum and petroleum related products). Accordingly, Table 9 below is developed to indicate countries that are successful in utilizing the given preferential treatment by the U.S (AGOA). For this analysis, success is defined for achievement with a 50% or more percentage share of average AGOA export against the total export average in terms of utilizing the opportunities given by US under AGOA. Among this countries Lesotho, Swaziland, Kenya, Madagascar and Malawi are the major ones.

Table 9: Post AGOA Average Exports for Better Performing SSA Countries and Ethiopia (Unit in US dollars)

Country	Average Export 2000 – 2012	Average AGOA Export (2000 – 2012)	Percentage of AGOA Export to Total
Lesotho	333,692,300.69	327,582,080.62	98%
Swaziland	117,692,307.46	105,806,670.92	90%
Kenya	262,230,800.00	223,444,080.23	85%
Malawi	60,230,769.62	35,847,330.62	60%
Cameroon	245,230,800.08	135,407,750.15	55%
Mauritius	224,692,307.23	121,942,670.38	54%
Ethiopia	85,107,692.00	6,033,000.38	7%

Source: Compiled from U.S. International Trade Commission Trade Dataweb

Ethiopia's performance in this regard shows only 7% in utilizing the opportunity. The post-AGOA period average export to the US for the 13 years (2000-2012) was USD 85,107,692. From this amount, it is only 7% that was exported through AGOA from which apparel, textile and leather constituted to 97%.

Even though the discussion under section 4.1 reveal that there is an overall growth in Ethiopia's trade performance under AGOA from USD 215,000 in 2001 to 18.3 million in 2012 (with an average growth rate of 80%), one can see that AGOA is still far from significance in country's foreign trade with the U.S as compared to the total export.

Table 10: Share of Ethiopia's Export under AGOA against Total Export (in USD '000)

Year	Total Export to USA	Total Export Under AGOA	AGOA Export Growth (%)	% share of AGOA from Total Export
2000	28,500.00	0		
2001	28,900.00	215.00	-	0.74
2002	25,700.00	1,319.00	513.49	5.13
2003	30,500.00	1,772.00	34.34	5.81
2004	41,200.00	3,532.00	99.32	8.57
2005	61,800.00	3,646.00	3.23	5.90
2006	81,100.00	5,000.00	37.14	6.17
2007	88,200.00	4,741.00	-5.18	5.38
2008	152,200.00	9,392.00	98.10	6.17
2009	112,900.00	6,723.00	-28.42	5.95
2010	127,900.00	6,875.00	2.26	5.38
2011	144,400.00	10,887.00	58.36	7.54
2012	183,100.00	18,294.00	68.04	9.99
Average Percentage			80	7

Source: Compiled from the U.S. International Trade Commission (USITC) Database

Looking at the best performing sector, Lesotho, Kenya, Madagascar, Mauritius and Swaziland are the top five exporters of textiles and apparel to U.S under the AGOA scheme. These countries together constitute 90 percent of the SSA textile and apparel products. While Lesotho and Kenya alone provided 52.4 percent of the Sub Saharan African textile and apparel export, Madagascar, Mauritius and Swaziland provided 15.7 percent, 11.4 percent and 10.2 percent of the SSA textile and apparel export, respectively. But Ethiopia represented only 0.5 percent of the total export of textile and apparel by SSA (which claim to constitute 85% of the total Ethiopia AGOA performance). These statistics confirm Ethiopia's insignificant share in the AGOA market.

In addition, though Ethiopia's export to the U.S under AGOA has been increasing since 2001, Ethiopia has been exporting only 132 tariff lines out of the 1800 tariff lines offered via AGOA until the end of 2012. This is only about 8% of AGOA tariff lines. Besides, more than 97% of Ethiopia's export are textile (and garment) and leather products. This also indicates that the utilization rate of Ethiopia in terms of product diversity is very low.

On the contrary to the above, however, there are several other countries from which Ethiopia looks better in utilizing the chance of exporting under AGOA. Among these countries Sierra Leone, Guinea, Zambia and Rwanda can be mentioned with less than 0.5% AGOA export share to the total export in the 12 years under consideration.

4.6. Challenges Encountered upon Utilization of AGOA's Opportunity

Although AGOA provided unprecedented access to the US market for beneficiary countries, more than one-third of them had recorded average exports worth less than $1 million across the twelve years (2001-2012). This low performance highlights the fact that African countries face major challenges in utilizing the benefits offered under AGOA. The challenges attached to Ethiopia's performance in utilizing the AGOA opportunity were reflected by respondents approached for in-depth interview as follows.

The question posed and challenges identified from respondents are presented herein under:

4.6.1. Reflection from Government and Non-Government Agencies on Challenges & Constraints

Question: "What supply side constraints can you list that you believe are limiting Ethiopia from benefiting better from the opportunity?"

On top of the strong export bias towards traditional export markets such as the European market that contributed for the low uptake of AGOA preferences, the responses shared as key supply side constraints that limit Ethiopia's utilization of AGOA's opportunities are categorized and presented as follows:

Supply side constraints:

- Lack of capacity to produce AGOA eligible products with the required quality, quantity and at the required time with a competitive price.

- Lack of market penetration capacity. even though AGOA created the access, exporters' capacity to identify, network, negotiate and maintain buyers is very minimal
- Lack of country level AGOA response strategy to better utilize the market
- Shortage of skilled manpower to properly respond to the opportunity
- Lack of diversity in export items. 97% of Ethiopia's export performance through AGOA constitutes only to two sectors (Textile and Leather) with only 132 tariff lines (in HTS8)
- Lack of adequate infrastructure such as electricity, telecommunication and transport infrastructure
- Lack of awareness by many exporters regarding the existence of the market opportunity and its related requirements
- Inability to fulfill the rules of origin and the cumbersome administrative issues in utilizing the market

Question: "What demand side constraints can you list that you believe are limiting Ethiopia from benefiting better from the opportunity?"

The responses shared as key demand side constraints that limit Ethiopia's utilization of AGOA's opportunities are categorized and presented as follows:

Demand side constraints:

- Though respondents vary in their perception in the level of restrictive nature of the AGOA requirements, all respondents have unanimously agree that the sanitary and photo sanitary (SPS) requirements are most restrictive and the product specific standards are the next most restrictive requirements that hinder exporters from benefiting much from the act.
- Tariff lines included in the AGOA system oversaw some commodities in which Sub-Saharan countries enjoy a comparative advantage. Some agricultural commodities like coffee would have been a real benefit to Ethiopia.
- Uncertainty regarding the life span of the market access which affects both foreign and local investors to make long term investment.

To assess the contribution of the international support in addressing these major challenges faced by the country, interview respondents were also asked if there is any international support to encourage investors and exporters to benefit from AGOA . A surprising finding is that, even among the affiliated organization selected for this interview, only Chamber of Commerce is aware of USAID's capacity building interventions through the AGOA plus project available in Ethiopia to build capacities of investors and exporters. USAID claims that the technical assistance given through the AGOA plus project contributed towards capacitating beneficiaries, though it is difficult to assume it brought the required results and that it is sustainable. USAID has also pointed out the need to partner with the Government of Ethiopia functional bodies to implement capacity building interventions to make exporters capable of competing with other countries.

Similarly, as AGOA period limit was mentioned as one demand side constraint, openion on the relevance of AGOA extension beyond 2015 was asked for reflection. All respondents believe that for a more effective result, the Act should be extended at least for another 15 years or permanently. They argue that because of the uncertainty with its life span, beneficiary countries including Ethiopia could not attract the required FDI and that the general economic development of the country has just developed the capacity to respond to opportunities in the past 10-15 years.

As a concluding note, the Director General, Trade Relation & Negotiation Director at the Ministry of Trade mentioned that following the 11th AGOA forum in Zambia that call for AGOA eligible African countries to develop their respective National AGOA response strategy, Ethiopia become the first pilot country to undertake this strategic initiative to identify key supply side constraints and overcome them. In this regard, the Ethiopian Government has started developing a national AGOA response Strategy that is designed to address sector specific challenges. In the first phase, Textile and Garment; Leather and Leather Products; Horticulture; and Agro-processing sectors are selected. This strategy is believed to bring much improvement if an extension of the trade act (which is due to expire by 2015) realized.

CHAPTER FIVE: CONCLUSION AND RECOMMENDATION

5.1. Introduction

In this chapter conclusion drawn from the result and discussion, recommendations based on major findings and future areas of study are highlighted.

5.2. Conclusion

This study assessed the contribution of African Growth and Opportunity ACT (AGOA) on Ethiopia's export and revealed that Ethiopia's export performance has registered an increase in trade volume (in absolute terms) under the Act. The descriptive result matches with econometric finding in such a way that AGOA in deed promoted export trade to the USA though its share is insignificant. The introduction of AGOA has also created an opportunity for the export of additional products like textile and apparel as well as leather products. This result is in agreement with earlier study findings on AGOA's impact to SSA export performance (Tadesse & Feyissa, 2008; Yeshiwas, 2011;). Even though the export is highly dominated by textile and leather sectors, the increase in trade volume justifies the partial achievement of one of the major objective of the Act by the United States; i.e, expanding and deepening of trade and investment relationship with the U.S.

However, this assessment is able to show that Ethiopia's utilization of the opportunity is still too low to claim the realization of AGOA's objective of bringing economic growth and development as well as integration to the regional and global economy satisfactorily. In terms of utilization of the AGOA's opportunity, there is lack of diversity across sectors: the textile and leather sectors represent the largest share of the total export performance to the U.S under this Act. The study also analyzes the significance of this performance in utilizing the opportunity in relation to other Sub-Saharan African countries' performance. Findings have shown that Ethiopia's export share against all SSA countries is among those that performed too low. Even among the poorly performing Eastern Africa Region, Ethiopia's share increment is unsatisfactory. Looking at the most dominant sector level performance of Ethiopia under this Act, the textile and apparel export from Ethiopia takes only 0.5% of the total export of textile and apparel to the U.S by the AGOA beneficiary SSA countries.

In addition, looking at the utilization in terms of product line, Ethiopia has managed to export only 8% of the product lines out of the total eligible product lines offered through AGOA. Agricultural commodities which Ethiopia highly depends on, are among the poorly performing sectors of AGOA export which is in agreement with a study made by Addisalem (2013) despite Ethiopia's comparative advantage.

In line with this low utilization of AGOA opportunity, the study has revealed that there are both supply-side and demand-side constraints faced by the Ethiopian exporters that limit the utilization. Consistent to the findings on different documentations referenced, the responses to questionnaires and in-depth interviews show that lack of production capacity, weak market penetration capacity, shortage of skilled manpower, lack of infrastructure, lack of awareness, lack of access to finance by exporters, lack of raw materials, etc… are among the supply side challenges identified. As a demand-side challenge, Sanitary and Photo-Sanitary requirements of the Act, limitation in tariff lines and uncertainty about AGOA's life span are major ones.

Based on the in-depth interviews conducted with government officials, lack of strategic framework for proper response to AGOA opportunity at a country level is also identified as a key gap that could address many of the challenges. Following a more focused discussion on the 11th AGOA forum in Zambia that called for AGOA eligible African countries to develop their respective National AGOA response strategy, Ethiopia became the first pilot country to develop this strategic initiative to identify and overcome key supply side constraints. In this regard, the Ethiopian Government has started developing a national AGOA response Strategy that is designed to address sector specific challenges. In the first phase, Textile and Garment; Leather and Leather Products; Horticulture; and Agro-processing sectors are selected. This strategy is believed to bring improvement given an extension of the trade act (which is due to expire by 2015) made possible.

5.3. Recommendation

Based on the key findings of this study and the attached challenges identified that hinder Ethiopia from properly utilizing the opportunity being offered through AGOA, the following recommendations are suggested.

1. Every possible effort has to be put on finalizing and implementing the national AGOA response strategy that the Ethiopian Government started working on to identify specific challenges and solving them in order to respond better to AGOA's opportunity.
2. It is imperative that Ethiopia needs to intensify and diversify export items beyond textile and leather to better utilize the 1800 tariff lines offered by AGOA.
3. It is of paramount importance to address the major identified supply side constraints shown above. The government should give due emphasis to improve both production and market penetration capacity of exporters.
4. It is highly advisable to develop partnership with development partners, like USAID, for their provision of appropriate technical assistance and the private sector; like the banks, to create access to finance.
5. Emphasis has to be made in creating enabling environment with improved policies for better interaction and facilitation between responsible government institutions and the exporters/business community.
6. Responsible bodies should increase the awareness on the existence of the AGOA opportunity along with its requirement for maximum utilization among exporters.
7. It is essential to avail adequate physical and institutional infrastructure that includes dependable electricity, telecommunication and transportation services.

In addition, in order to better achieve the set objectives of AGOA towards economic growth and integration to regional as well as global economy, addressing the demand side constraints that include the following is vital:

8. The U.S government should be able to extend the AGOA opportunity to the agricultural sector, as Ethiopia and most other SSA countries have a comparative advantage on agriculture.

9. It is essential to revisit the stringent requirements
10. It is of paramount importance if the U.S is extending AGOA to an indefinite period in order to attract foreign direct investment and build appropriate capacity to product exportable products with the required quality and deliver at the required time.

5.4. Future Area of Research

The student researcher recommends conducting a related study in the future with the application of robust econometric model to provide in-depth sector specific recommendations for policy measures.

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APPENDIX

Appendix I:

A Survey on the Level of Perception of Responsible Government and Non-Government Institutions/Bodies on the Effect of African Growth Opportunity Act (AGOA) to Ethiopia's Export Performance

The list of questions in this tool were crafted for in-depth interview to gather information on three major areas from key government and non-government organizations, that are affiliated in the promotion, provision of technical assistance and implementation of AGOA in Ethiopia.

This tool is specifically designed to get the perception of these organizations towards AGOA as an opportunity; its contribution in Ethiopia's export trade performance to the USA to fulfill the set objectives by the Act; and to identify major challenges in utilizing the opportunity.

Part I: General information

1) General Information
    1. Name:____
    2. Functional title:____
    3. Organization:____
    4. Telephone:____
    5. Email: ____

Part II: Basic Interview Questions

1 Is AGOA an opportunity to Ethiopia?

1.1 If you consider AGOA is an opportunity, how important is it?

1.2 What can you mention to consider AGOA as an important opportunity?

2 Do you think the utilization of AGOA at a country level is satisfactory against the opportunity?

3. How diversified Ethiopia’s response is for the opportunity is? What sectors are performing better?
4. What do you think the level of foreign direct investment (FDI) achieved as a result of this opportunity?
5. Do you think Ethiopia’s utilization of AGOA is satisfactory as compared to other eligible Sub-Saharan African Countries?
6. What supply side constraints can you list that you believe are limiting Ethiopia from benefiting better from the opportunity?
7. What demand side constraints can you mention that hinder Ethiopia from benefiting better from the opportunity
8. Is there any international support to encourage investors and exporters to benefit from AGOA?
9. Do you think AGOA should be extended beyond 2015?
10. General comment!

Appendix II

Product Categories Eligible for Duty-Free Treatment under AGOA if Exported to the U.S From an AGOA beneficiary Country (In HTS 2 Heading)

HTS2 Code	Product Category
35	Albuminoidal Substances
76	Aluminum & Aluminum products
05	Animal Products NESOI
01	Animals (Live)
61	Apparel accessories
93	Arms and Ammunition
68	Asbestos
22	Beverages (non-alcoholic)
90	Bicycle Equipment
69	Ceramic Products
10	Cereals
19	Cereals (Preparations)
38	Chemical products, Miscellaneous
28	Chemicals Inorganic
29	Chemicals, Organic
91	Clock Parts
18	Cocoa and Cocoa Products
74	Cooper & Cooper
82	Cutlery
19	Dairy Preparation (excluding cheeses)
04	Dairy Products, Honey
32	Dyes, pigments & coloring matter
33	Essential oils
36	Explosives & Pyrotechnic Products
15	Fats & Oils (animal & vegetable)
23	Feed for Animals
21	Food Stuffs (Miscellaneous Privations)
64	Foot ware
08	Fruits, Nuts
20	Fruits Preparations

HTS2 Code	Product Category
62	Garment Articles
43	Fur skin Articles
70	Glass & Glassware
12	Grain, seeds & Nuts (Miscellaneous)
13	Gums, Saps & Resins
72	Iron & Steel
73	Iron & Steel Products
71	Jewelry
41	Leather & Skins (raw hide)
42	Leather Articles
34	Lubricating Preparations
84	Machinery & Parts
96	Manufactured Articles (Miscellaneous)
94	Mattresses
02	Meat
16	Meat (Prepared)
83	Metal Articles (Miscellaneous)
81	Metals and Products of Metals
92	Musical Instruments
20	Nuts (Preparation)
26	Ores
27	Petroleum Oils & Products (excluding Plastics)
06	Plants or Trees (live)
39	Plastics
85	Radio Equipment
86	Railway parts
40	Rubber & Products of Rubber
03	Seafood
16	Seafood (prepared)
09	Spices
22	Spirits
95	Sport Equipment
19	Starch (Preparations)
46	Straw Products

HTS2 Code	Product Category
17	Sugars & Sugar Confectionery
82	Tableware (excluding cutlery)
71	Tableware (with silver)
32	Tannings
85	Television Equipment
34	Textile Preparations
24	Tobacco
82	Tools
46	Vegetable Fiber Products
20	Vegetable Preparations
07	Vegetables
14	Vegetables Products NESOI
87	Vehicles and Parts
91	Watches & watch parts
11	Wheat or meslin flour
22	Wines
44	Wood & Article of wood
79	Zinc & Zinc Article

Appendix III : Export and Gross Domestic Product Data

Year	Exporter	Importer	Value in Million USD			
			Total Annual Export through AGOA (AGOA Export)*	Gross Domestic Product-Ethiopia (GDP-ET)**	Gross Domestic Product - United States (GDP-US)**	Ethiopia's Total Annual Export Value to the U.S (Total Export)*
2001	ETH	USA	0.22	8,168.59	10,233,900.00	28.9
2002	ETH	USA	1.32	7,791.03	10,590,200.00	25.7
2003	ETH	USA	1.77	8,558.01	11,089,300.00	30.5
2004	ETH	USA	3.53	10,053.97	11,797,800.00	41.2
2005	ETH	USA	3.65	12,306.61	12,564,300.00	61.8
2006	ETH	USA	5.00	15,164.30	13,314,500.00	81.1
2007	ETH	USA	4.74	19,556.75	13,961,800.00	88.2
2008	ETH	USA	9.39	26,860.56	14,219,300.00	152.2
2009	ETH	USA	6.72	32,188.96	13,898,300.00	112.9
2010	ETH	USA	6.88	29,706.22	14,419,400.00	127.9
2011	ETH	USA	10.89	31,708.85	14,991,300.00	144.4
2012	ETH	USA	18.29	43,133.07	15,684,800.00	183.1

**Source: www.dataworldbank.org

* Source: www.usitc.org