



ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

**THE IMPACT OF WITHDRAWAL FROM THE AFRICAN
GROWTH AND OPPORTUNITY ACT ON ETHIOPIAN
ECONOMY**

By

Anteneh Girma

February 2023

Addis Ababa, Ethiopia

DECLARATION

I, Anteneh Girma Beyene, the undersigned, declare that this is my original work and has not been presented to any other institution for a master's degree or academic purposes. Due acknowledgment made of any material previously published and used as a reference.

Name

Signature and Date

CERTIFICATE

This is to certify that this study, the impact of withdrawal from the African growth and opportunity act on Ethiopian economy, undertaken by Anteneh Girma for the partial fulfillment of the requirements for the degree of Master of Business Administration in Finance at AAU, College of Business and Economics, is an original work and not submitted earlier for any degree either at this university or any other University.

Research Advisor: **Abebe Yitayew (Ph.D.)**

**Addis Ababa University College of Business and
Economics Department of MBA in Finance**

**THE IMPACT OF WITHDRAWAL FROM THE AFRICAN
GROWTH AND OPPORTUNITY ACT ON ETHIOPIAN
ECONOMY**

By

Anteneh Girma

Approved by the Board of Examiners:

_____	_____	_____
Advisor	Signature	Date

_____	_____	_____
Internal Examiner	Signature	Date

_____	_____	_____
External Examiner	Signature	Date

Table of Contents

ACKNOWLEDGEMENTS	VI
LIST OF ABBREVIATIONS AND ACRONYMS	VII
ABSTRACT.....	IX
CHAPTER ONE	1
1. Introduction.....	1
1.1. Background of the Study	1
1.2. Economic Background of Ethiopia.....	4
1.2.1. Ethiopia under AGOA	8
1.2.1.1. U.S. Exports to Ethiopia.....	9
1.2.1.2. Ethiopia Exports the U.S. under AGOA.....	9
1.2.1.3 Trade Balance	10
1.3. Statement of the Problem.....	10
1.4. The objective of the study.....	11
1.4.1. Specific Objectives	12
1.5. Significance of the Study.....	12
1.6. Scope of the Study	13
1.7. Organization of the Thesis	13
CHAPTER TWO	15
2. LITERATURE REVIEW	15
2.1. Theories on Preferential Trade Agreements	15
2.2. The Concept of AGOA	18
2.2.1. Investment/Trade Relations.	20
2.2.2. U.S. Dominance on SSA Using Trade Pacts	28
2.3. Economic Relations between the US and SSA.....	29
2.4. Empirical Studies on AGOA	33
CHAPTER THREE	36
3. RESEARCH METHODOLOGY.....	36
3.1. Introduction.....	36
3.2. Research design	36

3.3. Study population	36
3.4. Data collection method	37
3.5. Data Presentation and analysis method.....	37
CHAPTER FOUR.....	38
4. DATA PRESENTATION, ANALYSIS & FINDINGS	38
4.1. Introduction.....	38
4.2. U.S. Imports under AGOA	38
4.3. Ethiopia Exports to the rest of the world	41
4.4. Ethiopia under AGOA	43
4.4.1. Ethiopia's Major Products to Export under AGOA.....	47
4.5. Presentation of Data and Findings	50
4.5.1. Impact of Ethiopia suspended from AGOA.....	50
4.5.2. The suspension is expected to affect three major sectors in Ethiopia.	51
4.6. After AGOA's withdrawal, Ethiopia should adopt a new strategy.	52
CHAPTER FIVE	55
5. CONCLUSION, AND RECOMMENDATIONS	55
5.1. Introduction.....	55
5.2. Conclusion	55
5.2.1. The SSA Continental Expand Free Trade Area.....	58
5.3. Recommendation	59
5.4. Suggestions for future studies	60
REFERENCES	II

ACKNOWLEDGEMENTS

The completion of this thesis was not easy. Behind my effort, there were many invisible hands with direct support and assistance. First, I would like to thank my advisor Dr. Abebe Yitayew (Ph.D.) for his guidance, patience, and support from selecting the title to the end of the thesis.

I would also like to acknowledge the encouragement from my wife, Rahel Nadew, who sacrifices to support the family and motivates me to pursue the course.

I am deeply indebted to my respected instructors and other members of the MBA department for their invaluable help in preparing this thesis.

I humbly extend my thanks to all concerned persons who co-operated with me in this regard.

Anteneh Girma

LIST OF ABBREVIATIONS AND ACRONYMS

AGCI - African Global Competitiveness Initiative

AGOA - African Growth Opportunity Act

ASEAN - Association of Southeast Asian Nations

A.U. - African Union

BIT - Bilateral Investment Treaty

CFTA - Continental Free Trade Area

DBIA - Doing Business in Africa

EIF - Enhanced Integrated Framework.

EPZ - Export Processing Zone

EU - European Union

FCS - Foreign Commercial Service

FDI - Foreign Direct Investment

FTA - Free Trade Areas

FY - Financial Year

GDP - Gross Domestic Product

GSP - Generalized Scheme of Preferences.

LDCs - Least Developed Countries

NEPAD - New Partnership for Africa Development

PEPFAR - Presidents Emergency Plan for Aids Relief

POTUS - President of the United States

SAP - Structural Adjustment Programs

SME - Small and Medium Enterprises

SSA - Sub-Saharan Africa

TFTA - Tripartite Free Trade Area

TPEA - Trade Preferences Extension Act

TRQ - Tariff Rate Quota

UN - United Nations

UNCTAD - United Nations Conference on Trade Development

US - United States

USABF - United States Business Forum

USAID - United States Agency for International Development

USITC - United States International Trade Commission

USTR - United States Representative

WAIBL - West African International Business Linkages

WTO - World Trade Organization

ABSTRACT

For many years, the US and Sub-Saharan Africa have not had strong trade and investment relations. In 2000, the African Growth Opportunity Act (AGOA) was introduced to promote public Act 106-200, whose goal has benefited the Sub-Saharan African Countries by eliminating the trade barriers, duties, levies, and quotas that would encourage trade between these countries. AGOA is a unilateral and non-reciprocal trade program that gives eligible Sub-Saharan African (SSA) countries the export of goods to the United States. The primary objectives of AGOA are to promote Sub-Saharan Africa's economies and improve economic relations between the United States and the SSA. But in the other way, AGOA is a tool to execute U.S. interests in Africa. So AGOA as an instrument of American domination over sub-Saharan Africa in their trade and investment. It is a good example of interfering in Ethiopia's internal issues direct in the name of AGOA. As a result, AGOA is more of a political tool than a tool for promoting trade between the U.S. and SSA. On paper, the AGOA is to encourage exports of African products, and open markets, and promote inclusive development, solid regional integration, and good governance on the continent of Africa. However, there has been significant growth in U.S. content domination since its inception, especially in Ethiopia. The point must make that SSA no longer needs aid; what we need in Ethiopia and other African countries is trade. This thesis shows the impact of withdrawal from AGOA on the Ethiopian Economy and what is another alternative available to the country. This research uses a quantitative and qualitative methods. Secondary data was the main data for this research. The researcher choose a purposive sampling technique that involves examining the entire population that has a particular set of characteristics to import and export data since AGOA was enacted. The data are collected through official Statistics, AGOA annual reports, previous research publications & annual reports.

Keywords; AGOA, FDI, Employment, firm-level, SSA, Ethiopia

CHAPTER ONE

1. Introduction

1.1. Background of the Study

On May 18, 2000, Congress approved and enacted the Trade Development Act of 2000. As part of AGOA, tariffs, and restrictions on products from nations in the Sub-Saharan African region, including Ethiopia, were reduced or eliminated. Furthermore, AGOA mandates that the government provide annual reports to Congress on its trade policies in Sub-Saharan Africa. 2009 (Whitaker)

Ethiopia has been an AGOA beneficiary since 2000 when the U.S. passed AGOA. Section 104 of the AGOA legislation includes a list of requirements that must be satisfied to be eligible for AGOA preferences. Countries in sub-Saharan Africa ought to be qualified. Every nation eligible to receive assistance from the AGOA program must make efforts to enhance its rule of law and human rights, implement economic policies to reduce poverty, and respect fundamental labor standards such as the elimination of trade barriers. To be eligible for the AGOA, SSA must complete Section 104 of the law. SSA countries use AGOA, and the African Growth Opportunity Act gives about 40 countries to its beneficiaries, which changes from time to time (Ozden, Caglar, and Olarreaga 2005).

The U.S. determines the eligibility annually, with a set out in legislation. Regardless SSA has met the eligibility requirements. Therefore, the President has the discretion to grant or revoke beneficiary status. Beneficiary nations do not have any legal options available to them for the resolution of this dispute. AGOA's non-reciprocal preferences are distinguished from those of bilateral and reciprocal trade agreements by this element of uncertainty. (Oyebade, 2014).

The African Growth and Opportunity Act (AGOA) was created with the primary intention of fostering economic growth, fostering inclusive development of all Africans, fostering an open market, fostering solid regional consolidation, and fostering good governance across the African continent. Since AGOA's inception, the United States' influence on the continent has increased significantly, and there appears to be a rush to lay claim to the continent's vast wealth. The AGOA framework prioritizes concepts such as partnership and development.

A closer look at the policy shows that the idea that Americans are kind and care about Africa is not accurate. This is perhaps best shown by what U.S. Ambassador to the African Union Michael Battle was quoted as saying: "If we do not finance the African continent now, China and India will gobble up its resources without us, and we will wonder what happened to our golden investment opportunity." (Mason, 2008)

The United States and SSA established the AGOA alternative trade program in 2000. (Asmah, 2013). As stated in Asmah, the act is unilateral, so it does not require African nations to reduce barriers to U.S. goods but encourages them. Like other U.S. alternative trade programs, AGOA is unilateral and non-reciprocal (AGOA 2000). The preference applies ONLY to U.S. imports and NOT to U.S. exports; therefore, only U.S. government action is required for reauthorization (Condon, 2012). The act extends the 1974 U.S. trade preference system, which permits more than a hundred countries, primarily in the underdeveloped SSA, to export many of their products to the U.S. duty-free.

As reported by Frazer, African Growth Opportunity Act gives more, offering entry six thousand products from its 40 current Countries. It also approved the executive branch to increase U.S. development assistance to Sub-Saharan African states in Burundi, the Democratic Republic of the Congo, Equatorial Guinea, Eritrea, Gambia, Somalia, South Sudan, Swaziland, and Zimbabwe are now suspended. Because they abused human rights, Ethiopia, Mali, and Guinea were kicked out of a duty-free trade program in 2020.

According to the International Monetary Fund (IMF) report, the AGOA has formed the basis of economic interactions between the United States and sub-Saharan Africa since

2000. The Act created the annual U.S.–SSA Economic Cooperation Forum, also known as the AGOA Forum, to encourage high-level communication on problems relating to trade and investment (Buch 2012). The Generalized System of Preferences (GSP), which enables almost all marketable items produced in AGOA-eligible countries to enter the U.S. market duty-free, is at the heart of the AGOA. This system provides multiple trade choices that were not previously available. Additionally, some African nations have benefited from AGOA's assistance in diversifying their economies.

As International Monetary Fund IMF reported, the economic relations between The U.S. with sub-Saharan Africa since 2000 have been the AGOA. The Act sets up the annual U.S.–SSA Economic Cooperation Forum (the AGOA Forum) to encourage high-level talks about trade and investment (Buch 2012). At the heart of AGOA are important trade options under the generalized system of preferences (GSP), which lets almost all marketable goods made in AGOA-eligible countries enter the U.S. market without paying duties. AGOA has also helped many African countries make their economies more diverse. On the other way, it has also a lot of problems.

First, only the U.S. president has the authority to grant admission and annually reevaluate each country's AGOA eligibility. The eligibility requirements imposed by the United States are stringent. The United States has complete control over which nations receive AGOA benefits and can influence events in African nations. Creating economic policies to reduce poverty, upholding the rule of law, political pluralism, and the right to due process, building a system to stop bribery, avoiding gross violations of human rights, protecting workers' rights, upholding collective bargaining, banning forced and child labor, and making sure workers are safe and healthy at work.

However, these regulations are not implemented in the same manner in each African country. Cameroon, Chad, and other nations like them have routinely been granted eligibility for the AGOA program even though they have broken these rules. This is due to the vast oil and mineral deposits in the United States (Kimenyi, 2009). From a constructivist point of view, world politics depends on how states make and accept reality images and how they react to the meanings of power politics given to them. As

definitions change, new ways of doing things may lead to conflict or cooperation (Kegley & Blanton, 2014). The United States sets the social, political, and economic conditions to meet its needs. Conditions in addition to occupational health and safety.

The second problem with AGOA is that it requires the beneficiary to promote "a market-based economic policy that protects private property rights." A liberal economy demonstrates that the United States' primary objective is to protect American investors and facilitate their rapid entry into the African continent. AGOA also emphasizes the importance of African countries working on policies that eliminate U.S. trade and investment barriers, resulting in an inflow of American goods that undermine local industries.

The third issue with AGOA is how it treats countries deemed non-compliant. Once a country has been expelled from AGOA by the U.S. president, they have no recourse and are not permitted to defend its position, which is dictatorial (Mason, 2008). In addition, countries participating in AGOA cannot captivate in activities that undermine the national security or foreign policy interests of the United States. In addition to their "concern" for Africa, US interests come before. Lastly, and perhaps most importantly, no African president or stakeholders interested in Africa are given a seat at the negotiation table during the formulation of decisions and policies. The United States decides what it considers best for Africa without consulting its stakeholders (Kelly, 2010).

1.2. Economic Background of Ethiopia

Ethiopia, Africa's second-largest country, is a one-party state with a planned economy. Before 2016, GDP increased between 8% and 11%, making it one of the fastest-growing economies among the 188 IMF member countries. According to official figures from the World Bank, Ethiopia's Gross Domestic Product (GDP) was valued at 107.65 billion U.S. dollars in 2020, and GDP per capita was 826.95 USD (Depicted as Figures 4.1 and 4.2). Ethiopia's GDP accounts for 0.10 percent of the global economy. Government infrastructure investment and continuous improvement in the agricultural and service industries fueled this expansion. Although agriculture employs more than 70% of

Ethiopia's people, services have surpassed agriculture as the country's primary source of GDP.

With a Gini coefficient equivalent to that of Scandinavian countries, Ethiopia has the lowest level of income inequality in Africa and one of the weakest in the world. Despite progress toward poverty eradication, Ethiopia remains one of the world's poorest countries, owing to fast population growth and a low starting point.

The economy is essential to the country. Infrastructure developments include power generation and distribution, highways, trains, airports, and industrial parks. Telecommunications, banking and insurance, and power distribution are all state-owned businesses.

The services sector, including the state-owned Ethiopian Airlines, generates most of Ethiopia's foreign exchange revenues, followed by commodity exports. While coffee remains Ethiopia's principal source of foreign cash, the country diversifies its exports, with commodities like gold, sesame, khat, cattle, and horticulture items becoming more critical. Manufacturing exports accounted for less than 8% of overall exports in 2016. However, due to a rising international presence, manufacturing exports should increase in the following years.

The banking, insurance, telecommunications, and micro-credit businesses are only open to Ethiopians, although the country has received around \$8.5 billion in foreign direct investment (FDI), mainly from China, Turkey, India, and the E.U.; US FDI is \$567 million. Infrastructure, building, agriculture/horticulture, processing, textiles, leather, and leather products have significant investments.

The COVID-19 epidemic, a severe locust infestation, isolated instability in numerous nation sections, political tensions, and a destructive conflict in the Tigray region have all harmed Ethiopia's economy. In Ethiopia's fiscal year 2020/21, the IMF expects economic growth to decline by two percentage points (starting July 8, 2020). The timescale for recovery is unknown, given the epidemic, potentially disruptive national elections on June 5, 2021, and the fighting in Tigray. On the other hand, the government has made significant headway in its

ambitious economic reform plan. The Ethiopian government has amended its sixty-year-old commercial law, implemented a new investment policy, sold two telecom spectrum licenses to international operators, and devised a finance sector liberalization plan in the last year alone. Despite this, Ethiopia ranked 159 out of 190 economies in the World Bank's Ease of Doing Business Index in 2020, a metric reflective of the numerous hurdles that every investor in the nation faces.

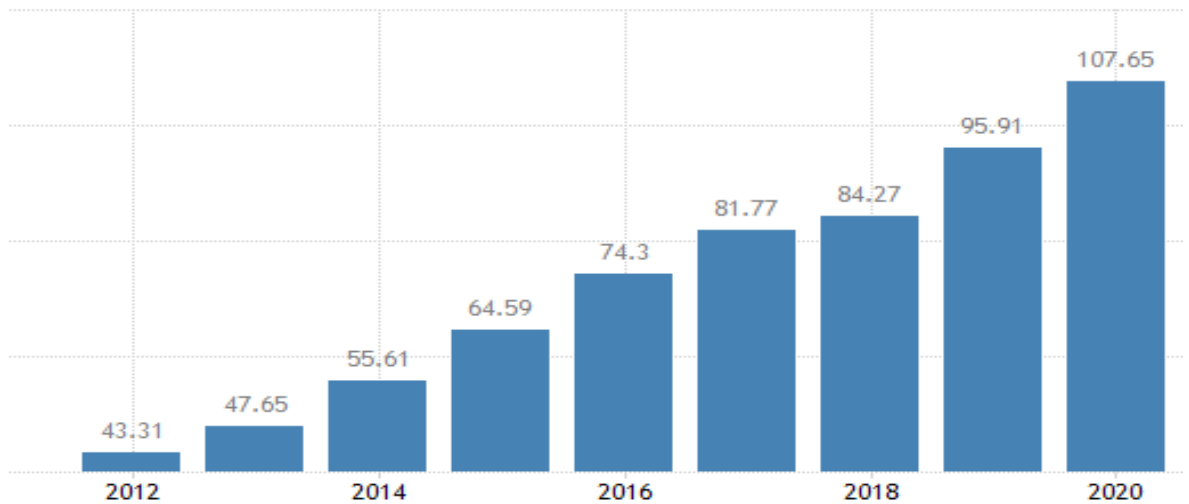
The Ethiopian government released its "Homegrown Economic Reform Plan" in September 2019 as a formalized plan for comprehensive macro, structural, and sectoral changes, focusing on boosting the private sector's participation in the economy and attracting more FDI. The ambitious three-year strategy prioritized mining, ICT, agriculture, tourism, and manufacturing. The IMF authorized a three-year, 2.9 billion dollar program to support the reform in December 2019. The initiative aims to cut government borrowing, control inflation, and modernize the exchange rate system.

The challenges are still enormous. Ethiopia's imports have decreased slightly during the last four years, resulting in a drop in governmental investment programs and a severe foreign dollar shortage. The country's export performance has remained poor as it tries to diversify its exports beyond essential commodities (coffee, gold, and oilseeds). An overvalued currency and illegal trade have also impeded official exports. The absence of financial markets and a severe foreign exchange shortage (the Ethiopian birr is not a freely convertible currency) stifle private sector growth. Due to logistical bottlenecks, corruption, high land-transportation costs, and regulatory delays, companies sometimes suffer significant lead times when importing commodities and shipping exports. Ethiopia is not a signatory to any important accords relating to intellectual property rights.

The government governs all land in Ethiopia; private ownership is prohibited, and "land-use rights" have been registered in most populous regions. The GOE retains the ability to expropriate land for the "common good," including commercial farms, industrial zones, and infrastructural development. Successful Ethiopian investors execute extensive due diligence on land titles at the regional and federal levels and consult with local communities about the land's proposed use.

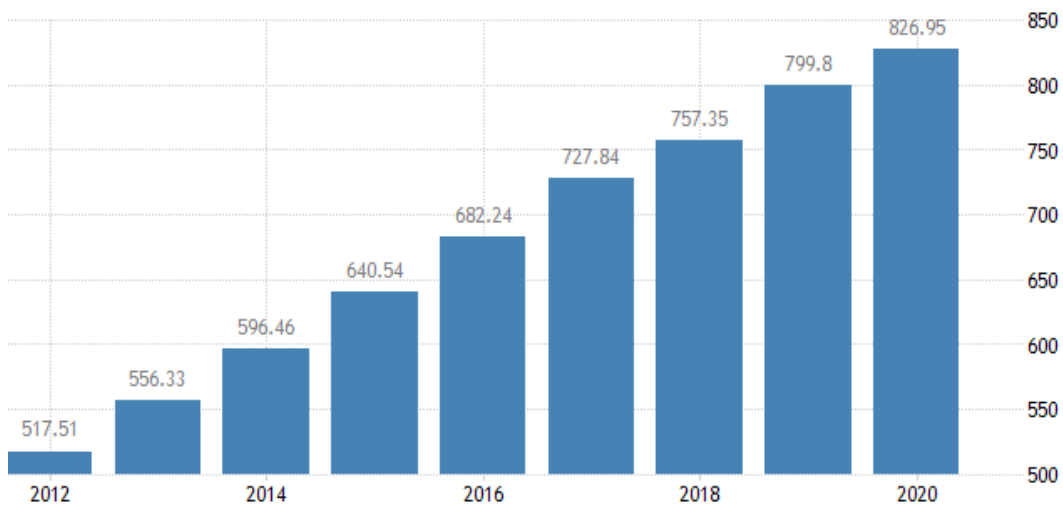
China, Saudi Arabia, and Turkey account for most of Ethiopia's foreign direct investment (FDI). Political instability linked to ethnic conflicts, most notably the conflict in Tigray, could harm the investment climate and reduce future FDI inflows.

Figure 4.2. Ethiopia's GDP in Billions of Dollars



Source: World Bank

Figure 4.3. Ethiopia's GDP per Capital



Source: World Bank

1.2.1. Ethiopia under AGOA

Ethiopia has been an AGOA beneficiary since the Act was passed in 2000. Over the last twenty years, Ethiopia's performance under the AGOA has been uneven. On the one hand, AGOA exports have increased in volume and product mix over time. Ethiopia's AGOA exports climbed by 80 percent each year from a low base of 28 million USD in 2000 to 525 million USD in 2020. On the one hand, AGOA has increased the number of export options available. Ethiopia has increased its exports of non-traditional export categories such as textiles and apparel, leather goods, and manufactured goods to the U.S. market. Exports of textiles and garments, for example, have increased from 163 thousand USD in 2001 to 230 million USD in 2012, representing a 90 percent annual growth rate.

Compared to countries in the region and elsewhere around the world, Ethiopia's performance under AGOA is unacceptably low Ethiopia's share of AGOA exports at its peak is only 3.55% and 0.15 % of total East African and SSA AGOA Exports, respectively.

For the fourth largest economy in Africa, this is a significant performance by any measure.

As Ethiopia strives for its modern economy, AGOA offers an unparalleled opportunity that it cannot afford to pass up. Given AGOA's enormous potential, it is paramount that Ethiopia approaches the AGOA market more strategically: hence the need for the National AGOA Response Strategy.

In 2019, Ethiopia's GDP was an estimated \$91.2 billion (current market exchange rates); real GDP was up by 9.0%, and the population was 96 million. (Source: IMF)

Ethiopia is our 84th largest goods trading partner, with total (two-way) goods trade worth \$1.6 billion in 2019. Exports reached \$1.0 billion, while imports totaled \$572 million. In 2019, Ethiopia's U.S. goods trade surplus was \$442 million.

1.2.1.1. U.S. Exports to Ethiopia

- ✓ Ethiopia was the U.S.'s 77th largest goods export market in 2019.
- ✓ U.S. exports to Ethiopia in 2021 were \$585.5 million, down 35.7% (\$325 million) from 2020.
- ✓ U.S. goods exports to Ethiopia in 2020 were \$910 million, down 9% (\$90 million) from 2019 but up 279.8% from 2009.
- ✓ U.S. product exports to Ethiopia in 2019 were \$1.0 billion, down 22.5% (\$295 million) from 2018 and 279.8% from 2009.
- ✓ The top export categories (2-digit HS) in 2019 were: aircraft (\$736 million), cereals (wheat) (\$63 million), machinery (\$38 million), electrical machinery (\$38 million), and special other (returns) (\$26 million).
- ✓ U.S. exports of agricultural products to Ethiopia totaled \$109 million in 2019. They were leading domestic export categories, including wheat (\$62 million), pulses (\$10 million), vegetable oils (ex. soybean) (\$7 million), prepared food (\$2 million), and coarse grains (ex. corn) (\$1 million).

1.2.1.2. Ethiopia Exports the U.S. under AGOA

- ✓ Ethiopia was the United States' 88th largest supplier of goods imports in 2019.
- ✓ Ethiopia's exports to the U.S. in 2021 totaled 601 million dollars. (\$76 million or 14.4% went up compared to 2020)
- ✓ Ethiopia's exports to the U.S. in 2020 totaled 525 million dollars. (\$47 million or 8% went down compared to 2019)
- ✓ U.S. goods imports from Ethiopia totaled \$572 million in 2019, up 28.6% (\$127 million) from 2018 and 406.5% from 2009.
- ✓ The top import categories (2-digit H.S.) in 2019 were: coffee, tea & spice (coffee) (\$131 million), woven apparel (\$112 million), knit apparel (\$98 million), special other (returns) (\$95 million), and electrical machinery (\$45 million).
- ✓ U.S. imports of agricultural products from Ethiopia totaled \$151 million in 2019. Leading categories include unroasted coffee (\$130 million), nursery products

(\$6 million), spices (\$3 million), planting seeds (\$357 thousand), and wine and beer (\$271 thousand).

1.2.1.3 Trade Balance

In 2021, Ethiopia's goods trade surplus with the United States was \$16.4 million, a 2% trade surplus. In 2020, the United States goods trade surplus with Ethiopia was \$343 million, resulting in a 39.5 percent trade deficit with the United States. In 2019, Ethiopia's U.S. goods trade surplus was \$442 million, down 48.8% (\$422 million) from 2018. As a result, Ethiopia only had a trade surplus with the United States in 2021. (For more information, see Table 1.1.)

Table 1.1. Trade Defect between Ethiopia and the U.S.

Year	Export	Import	Balance
2021	601.8	585.4	16.4
2020	524.5	910.9	-386.4
2019	571.5	1010.8	-439.3
2018	444.8	1308.2	-863.4
2017	291.1	877.2	-585.7
2016	236.2	826.1	-589.9
2015	310.3	1555.2	-1245.0

Source: *United States Census*

1.3. Statement of the Problem

African Growth Opportunity Act aims to remove trade barriers and grant Sub-Saharan African countries unrestricted access to the U.S. market. At the same time, it incentivizes SSA governments to liberalize their internal markets and fill out freedom and opportunity to their people. In the activation process, duty-free access to the U.S. market covers about

6,500 goods tariff lines, including footwear and garments, agricultural products, vehicle spare parts, and many other commodities.

AGOA has been at the center of U.S. economic and investment policy with sub-Saharan Africa since it was signed into law in 2000. Before AGOA, the primary way the U.S. interacted with Africa was as a donor to a country that needed help. Ethiopia was one of the top beneficiaries of the program and actively leveraged AGOA to attract foreign investment and expand its manufacturing export drive via the development of unique industrial parks. The Biden government has recently announced Ethiopia's suspension from the African Growth and Opportunity Act (AGOA) and two other African countries, citing "gross violations of internationally recognized human rights" as a cause for suspension.

This paper attempts to address the following questions. The first question is what is the economic impact of Ethiopia's exit from AGOA on the short-term and long-term periods? Another question is, what is the effect of trade and investment relations between the US and Ethiopia? The last question is, is there any significant effect of exit from AGOA on the overall Ethiopian Economy?

1.4. The objective of the study

The general objective of this paper is to examine the impact of withdrawal from the African growth and opportunity act on the Ethiopian economy. Also, turn to the east for other trading partners, such as developing trade ties with China as a market option to the western market, regional integration, and bolstering the quest for the African Continental Free Trade Area (AFcTA). This should be Ethiopia's long-term goal, and the government should consider the home market. Ethiopia must expand trade access to reach its full potential as a wealthy nation.

1.4. 1. Specific Objectives

- What is the possible alternative available to readdress the exit impact from AGOA?
- Identifying alternative markets to fill the gap of AGOA
- To establish the impact of trade and investment relations between Ethiopia and the U.S.
- The general problems of AGOA.
- What is the alternative to forward AGOA in SSA?

1.5. Significance of the Study

Ethiopia has been an AGOA beneficiary since 2000 when the AGOA Act was passed. While there is a misleading that AGOA only helps the SSA economy, the U.S. also has a significant benefit to the U.S. economy.

According to the African Diplomatic Corps report, AGOA has created 100,000 direct jobs, half a million indirect jobs in Ethiopia, and 100,000 in the United States. It is critical to emphasize Ethiopia's job gains and the benefits of economic connections for the United States. Furthermore, after AGOA, U.S. exports to Ethiopia grew from \$500 million to \$1 billion. This figure could climb if trade barriers are further lowered, giving more accessible access to the Ethiopian market and vice versa. Another facet of economic ties that the United States should think about is the type of product it exports to Ethiopia.

Ethiopia and the United States have a very long trade relationship, but it does not significantly affect its economy. For Ethiopia to emerge as a strong trading partner, the U.S. must be re-evaluated its trade agreement with the region.

This study's findings will be beneficial:

- Policy Makers: They will have a better trade agreement and choose alternatives other than AGOA, where new policies and regulations or adjustments can better trade relations between Ethiopia and the U.S.
- Other Researchers: The current study provides a static picture of trade relations between the United States and Ethiopia. This study will add to the existing literature on the theoretical framework and approaches of another alternative to trade between the United States and Ethiopia.

1.6. Scope of the Study

This study only examines how the impact of withdrawal from AGOA on the Ethiopian Economy. Ethiopia is one of the beneficiaries of 49 SSA countries. The period ranges from 2000 to 2021. Since AGOA is signed in 2000, the period 2022, Ethiopia and other two African Countries to suspended from AGOA.

1.7. Organization of the Thesis

This thesis is organized into five chapters as follows. The first chapter has already introduced the study area of investigation.

The second chapter will examine the literature on how AGOA has facilitated the growth of trade between the United States and Ethiopia and how the United States has used it to dominate Ethiopia.

The Third Chapter will present the preliminary study's methodology, research design, and analysis strategy. Furthermore, methods for ensuring validity and dependability will be discussed.

The fourth chapter will show the primary data that answer the research question, "What are the effects of trade and investment between the U.S. and Ethiopia?" How has the U.S. ruled over Ethiopia with the help of AGOA? Also, how far has the U.S. gone in controlling and influencing Ethiopia with the help of AGOA?

The fifth chapter will discuss the findings and their relationship to the existing literature. The chapter will also provide guidelines and implications for answering the research questions.

CHAPTER TWO

2. LITERATURE REVIEW

2.1. Theories on Preferential Trade Agreements

2.1.1. Old Trade Theory

Trade theorists have reached a consensus on the welfare-enhancing nature of global free trade. According to Adam Smith, free trade enhances the wealth of a nation because it permits the best allocation of resources across national borders. On the other hand protectionists (mercantilists) interfere with this optimal allocation of resources, reduce the size of the market, and hinder an appropriate division of labor there by 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 PTA, while others remain e.g. other intra-PTA domestic policies and tariffs on non-PTA trade (Burfisher, Robinson, and Thierfelder, 2003).

Several PTAs contain selected elements of each of the Free trade areas and customs unions 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 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.

The effect of PTAs on terms of trade depends on the country's 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). A PTA is likely to improve the terms of trade for its members and worsen them for non-members. Lower demand for non-member imports (because imports from member countries become cheaper due to tariff preference, despite a possible cost advantage of the non-member country) may lead to lower export prices for the non-member country. Furthermore, increased trade within the PTA may lead to a decline in the availability of goods 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 countries is of course the mirror image of the terms of trade improvement experienced by the PTA member. So even if a PTA member loses tariff revenue in connection with a diversion of trade from non-members, these losses may be outweighed by improved terms of trade vis non-members. The effect on national, regional, and global welfare depends on the relative size of each of these effects.

Trade theorists have reached a consensus on the welfare-enhancing nature of global free trade. According to Adam Smith, free trade enhances the wealth of a nation because it permits the best allocation of resources across national borders. On the other hand protectionists (mercantilists) interfere with this optimal allocation of resources, reduce the size of the market, and hinder an appropriate division of labor there by 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 PTA, while others remain e.g. other intra-PTA domestic policies and tariffs on non-PTA trade (Burfisher, Robinson, and Thierfelder, 2003).

Several PTAs contain selected elements of each of the Free trade areas and customs unions 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 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.

The effect of PTAs on terms of trade depends on the country's 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). A PTA is likely to improve the terms of trade for its members and worsen them for non-members. Lower demand for non-member imports (because imports from member countries become cheaper due to tariff preference, despite a possible cost advantage of the non-member country) may lead to lower export prices for the non-member country. Furthermore, increased trade within the PTA may lead to a decline in the availability of goods 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 countries is of course the mirror image of the terms of trade improvement experienced by the PTA member. So even if a PTA member loses tariff revenue in connection with a diversion of trade from non-members,

these losses may be outweighed by improved terms of trade vis a vis non-member. The effect on national, regional, and global welfare depends on the relative size of each of these effects.

2.1.2. New Trade Theory

The new trade theory considers a variety of effects of preferential trade agreements by attempting to integrate the more recent aspects of regional integration. This theory includes an 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. More specially, PTAs are thought to lead to better opportunities for the 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 and hence increase in productivity; exploitation of different factor proportions for parts of the production process; and 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 effects through FDI or productivity increases may encourage domestic policy reform creation thereby enhancing the welfare benefits from regional trade agreements.

2.2. The Concept of AGOA

On May 18, 2000, President Clinton signed the African Growth and Opportunity Act (AGOA) into law of the Trade and Development Act of 2000. In a strategy statement included in the Act, Congress expressed support for "motivating increased trade and

investment between the United States and SSA," "reducing tariff and non-tariff barriers to Sub-Saharan African and U.S. trade," and "filling out United States assistance to Sub-Saharan Africa's regional integration efforts." The policy statement also endorsed the negotiation of reciprocal and mutually beneficial trade agreements, strengthening and expanding the private sector, and facilitating the development of civil societies and political freedom. AGOA's authority to provide the primary trade preferences is currently in effect until September 30, 2025.

Beneficiary African countries were allowed duty-free access to over 1,800 tariff-line products under the original AGOA law. This was counting to the usual GSP list of 4,600 products available to GSP recipient countries outside of Africa. Footwear, luggage, handbags, watches, and flatware were not included in these extra GSP-qualifying purchases. AGOA enhanced preferential access prospects for SSA exports to the U.S. However, when a product is of African origin, it can only benefit from GSP duty-free status following a formal finding that it is not imported sensitive. According to these authors, GSP covered approximately 17 percent of African exports, which could increase to 72 percent due to AGOA.

In terms of GSP provisions, AGOA provides two extra benefits. First, while the GSP provisions for other beneficiary nations expire in 2006, AGOA-qualified countries are allowed a two-year extension (until September 2025). Second, whereas GSP benefits are capped in non-SSA beneficiary countries, they are not limited to AGOA recipient countries.

Despite these benefits, AGOA countries confront numerous barriers to increased export development. Limited skilled labor, poor levels of technological innovation, a lack of scale economies, and high-cost, unstable energy are all characteristics that make AGOA countries less competitive in global markets. Many potentially exportable items from SSA are also cost-competitive because of weak transportation infrastructure (awful rural roads and inadequate port facilities) and costly customs processes.

Beneficiary countries must agree that they will strengthen their economic policy environment, participate more actively in globalization, maintain political and economic stability, and promote human and worker rights in Africa (Mattoo, Roy, and Subramanian, 2002). A broad spectrum of players supported and opposed the concept of introducing a new type of trade preference, especially for SSA, in addition to the existing Generalized System of Preferences (GSP).

2.2.1. Investment/Trade Relations.

The United States' trade strategy in Africa has revolved around the premise that commerce in Africa will encourage economic growth, stability, and democracy (WTO, 2015). The U.S. is attempting to strengthen its ties with SSA by encouraging its multibillion-dollar corporations to invest there. The World Bank (2012) reported that in a 2010 AGOA meeting, new deals totaling \$14 billion were signed between several African countries and U.S. multinational firms in clean energy, aviation, banking, and construction.

In addition, the U.S. government has pledged \$7 billion in new funding to encourage trade and investment with Africa. According to (Jonnes and Mueller, 2012), the U.S. deals offer little comfort to a continent seeking immediate impact in job creation, poverty eradication, market access for its produce, and direct economic contribution. This is because the benefits of the agreements will take years to manifest.

According to Millimet (2014), AGOA is the best choice for developing SSA-US economic relations. However, the US-SSA commercial relationship is still in its infancy. Since 2011, U.S. trade with Africa has been falling. AGOA is crucial for attaining more significant U.S. aims, including market reform and democracy strengthening. These objectives are met through the organization's role in broadening growth prospects in SSA.

According to a survey by Sanso (2012), U.S. companies seeking to enter the SSA market are losing out to their competitors. According to the study, the European Union (E.U.) already has numerous reciprocal trade agreements with African countries, giving its businesses a competitive advantage over their American counterparts. To capitalize on business opportunities in African markets, Chinese state-owned industries and corporations rely on

factors including cheap labor costs, economies of scale, concessional finance, and state relations.

According to Nouve (2013), U.S. corporations attempt to use AGOA to improve their market access. According to him, countries must demonstrate their commitment to advancing democracy, reducing trade and investment barriers, and respecting human rights to continue to profit from AGOA. U.S. companies that believe certain SSA nations do not adhere to the AGO's eligibility rules can request that U.S. authorities review their benefits.

In addition to domestic agency programs, the United States engages in international institutions that promote trade volume building in SSA and other developing country regions, supporting AGOA's objectives. Trade capacity assistance is provided by the World Bank and regional development institutions, primarily through loans. The primary multilateral endeavor in trade capacity building is the Enhanced Integrated Framework (EIF). It is a method for assisting LDCs in incorporating trade challenges into their national development plans.

The U.S. has provided technical support to SSA on various global trade concerns, including trade facilitation, services, and sanitary and phytosanitary measures. According to WTO (2015), the U.S. has also provided technical assistance to other SSA countries, including Togo and Ethiopia, in their aspirations to join the WTO. Bilateral Investment Treaties (BIT) protect U.S. foreign direct investment and boost economic growth, according to the World Bank (2013), by promoting essential reforms and encouraging the adoption of policies that facilitate and encourage foreign investment.

Generally speaking, BITs ensure that U.S. investments receive national treatment, limit expropriations, free repatriation of funds, and limit the imposition of trade-distorting or inefficient practices on U.S. investments. These practices include hiring requirements and the right to submit investment disputes to international arbitration. The U.S. government promotes these accords to encourage the development of international law and trade norms in partner countries. Small firms in the United States engage in minimal trade with Africa, and few in the small business community are aware of AGOA.

According to Hoekeman (2013), AGOA may benefit U.S. small firms while also assisting in diversifying African exports. According to Hoekeman, AGOA may help small firms while also assisting in diversifying African exports. Small firms, according to Hoekeman, engage in limited trade with Africa, and few in the small business community are aware of AGOA.

There are two examples of expanded investment and an emphasis on using USAID's trade centers as a channel for U.S. small businesses entering SSA or an increased minor business emphasis within the U.S. foreign commercial policy mandate. As the African market begins to be regarded seriously, the concept of a new and innovative Africa capable of participating in FTA will help the world economy. Furthermore, expanding trade agreements will provide SSA with the growth, infrastructure, and riches it requires, lowering the need for future foreign aid (WTO, 2015).

The relationship between Sub-Saharan Africa and the United States is currently developing. In reality, their commercial relations have deteriorated since 2011, which is the opposite of what one would expect from parties to a bilateral trade deal. Sub-Saharan Africa accounts for barely 1.5 percent of all U.S. exports. Africa's economic growth rate averaged 5.8% from 2004 to 2014, while only 3.75% in 2015. This clearly illustrates the drop in commodity prices, a crucial export for many African nations. The percentages show that the trade treaty has had almost no impact on the predicted SSA economic growth.

For Africa to accomplish the development goals set for the millennium and keep up with the rest of the world, the continent will require significant economic growth. Increased involvement with the global economy and participation in international trade are two ways to enhance African growth and opportunity. Since its inception, the AGOA, which governs commercial transactions between the U.S. and SSA, has been renewed and reauthorized four times, the most recent of which was in 2015 and will remain in effect until 2025. Because of the trade deal, exports from SSA now have privileged access to markets in the United States, while SSA products now have preferential access to the GSP. The Generalized System of Preferences (GSP) is a policy that gives preferential

treatment to imports and exports from nations with low per capita income (LDCs). The AGOA-eligible countries can still participate in this initiative despite ending in 2013. Because of AGOA and GSP, at least 38 countries in SSA can export 6,400 products duty-free to the United States.

Seventy percent of all U.S. imports from the U.S. are covered by AGOA, with exports increasing dramatically from \$7.6 billion to \$24.8 billion from 2001 to 2013 but then declining to \$11.6 billion in 2014 due to decreasing petroleum exports in the U.S. According to anecdotal and survey-based evidence, Africans regard AGOA as a significant component of their commerce with the United States.

AGOA helps local firms succeed in their efforts to integrate into the global economy, which has resulted in increased commerce. AGOA also inspires foreign investment in the SSA by allowing enterprises to tap into a new pool of market access. Clothing stores in the United States, such as GAP, Target, and Old Navy, source their export goods from Africa. The United States of America has also utilized AGOA to promote broader U.S. goals, including promoting and creating democracies and market reforms. These goals are among the United States' top priorities worldwide regarding foreign policy. In a significant manner, the United States of America has achieved these aims' important and noticeable role in enhancing and developing growth possibilities in SSA. Keep in mind that for a nation in the SSA to be eligible for AGOA and the trade preferences it provides, the country in question needs to comply with the following conditions:

- ✓ The nation must demonstrate that it is open to participating in and supporting the development of a market-based economy.
- ✓ To promote and uphold adherence to the rule of law
- ✓ Make strides toward removing obstacles to trade and put measures in place to deter and address instances of graft.
- ✓ It must not participate in activities that could jeopardize or undermine the United States' national security and protect workers' rights. In addition to the many other regulations listed in this document, the country in question must be a leader in promoting and upholding human rights.

AGOA-eligible countries in SSA have made significant progress in implementing economic reforms, strengthening their ability to grow and offering them new prospects. This has substantially strengthened their commercial ties with the United States. Apart from that, trade growth between the U.S. and SSA has been dismal and negligible since AGOA, and there is an opportunity for it to be expanded in scope and depth. Exports from Africa to Europe are ten times higher than those to the United States. The motto of Europe's trade program, "everything but armaments," is more effective, with a greater use rate than AGOA. It is thought to have produced nearly twice as many exports as AGOA.

Since 2011, U.S. crude oil exports from SSA have decreased. Because the United States currently produces oil, most data suggest that the trend will continue. As a result, the SSA's non-oil exports to the U.S. will experience a significant drop in growth, resulting in a severed economic link between the two nations.

Apparel exports, which rose over 250 percent from \$355 million in 2001 to over \$901 million in 2013, are the only ones that have exhibited the most significant impact under AGOA. However, their exports have decreased from \$1.13 billion in 2008, owing to price and cost competition from East Asian firms with market access in the United States. This is the outcome of the WTO multi-fiber accord, which enshrined textile and apparel exports, being phased out in 2005. With the phasing down of other restrictions on China's textile exports under the WTO accession agreement from 2001 to 2014, agriculture exports from SSA to the U.S. went from \$59 million to \$261 million, a significant but not huge jump. The United States buys mostly cocoa paste, cocoa powder, citrus fruits, nuts that can be eaten, wine, and tobacco that has not been processed. As was already said, even though the number of agricultural exports is growing, the total amount of exports is still tiny. Even though SSA's agricultural exports have increased, they have decreased from 6.2% in 2001 to 2.2% in 2014. This is not true for all non-oil exports from SSA to the U.S. (except motor vehicles). Their share of exports has also gone down, even though crude oil exports to the U.S. have grown slightly. Countries in SSA eligible for AGOA have made much progress in implementing economic reforms, which has helped them grow and given them new opportunities. This has made their business ties with the United States much stronger. In the 2020 World Bank report on how easy it is to do

business, the SSA made the most changes to regulations, making doing business cheaper. The World Bank alleviate of Doing Business Report found that Sub-Saharan Africa had the most regulatory changes that made doing business cheaper worldwide. The World Bank alleviate of Doing Business Report found that sub-Saharan Africa had the most regulatory reforms that made doing business cheaper. Governance in the SSA has also become more democratic. Based on the report by Freedom House, the most critical gains in freedom have come from and to the SSA.

There is room for progress and expansion in commerce between the U.S. and SSA. Agriculture and increased trade in the same areas require a lot of focus and attention. Agricultural exports to the United States currently account for less than 3% of total exports under AGOA. The SSA agriculture sector will spur growth and raise employment rates. This industry accounts for 30% of the GDP and 70% of employment in the SSA. If this level of development is attained, women, who make up half of the agricultural labor force in the SSA, will have more opportunities to work. Foster a better understanding and realize the need for digital trade and data flow.

- ↳ Development of custom processes and logistics which would mean the ratification of the Trade Facilitation Agreement by the WTO
- ↳ The online payment mechanism access should be improved and increased.
- ↳ By implementing critical regulatory reforms, consumers and businesses that make purchases online from African enterprises should be given more reason to have faith in the marketplace.

AGOA has set up mechanisms for creating plans to expand the trade of manufactured goods and products. The most important is the need for African nations to develop "utilization strategies for AGOA," aiming to enhance AGOA-eligible countries' manufactured goods exports. The Office of the United States Trade Representative, tasked by the AGOA with assessing the chances for a free trade agreement (FTA) with Africa, must publish such suggestions on its website.

Any discussion of expanding US-Africa commerce should consider that the international trading climate has changed dramatically and continues to do so. Completing the Trans-Pacific Partnership (TPP) negotiations in 2015 was the most important event. Chile, Mexico, Malaysia, Vietnam, Australia, Canada, Japan, and the United States are among the 12 countries that have joined forces to form this partnership. These nations are responsible for forty percent of the world's GDP, thirty percent of global imports, and twenty-five percent of global exports.

The United States and the European Union have been negotiating the Transatlantic Trade and Investment Partnership (TTIP), which, when combined with the Trans-Pacific Partnership (TPP), should cover about 60% of global GDP. These two crucial FTAs will impact international commerce since their regulations will become de facto worldwide standards. Furthermore, the United States, the European Union, Japan, and 21 other countries are negotiating a trade-in services agreement, an FTA, to lower trade barriers. To summarize, China, Japan, Korea, India, Australia, and New Zealand are negotiating the Regional Comprehensive Economic Partnership with ASEAN.

Africa has been noticeably absent from these mega-regional trade agreements. The WTO international trade negotiations of the Doha Round are nowhere near completion. As a result, there is currently no global trade discussion in which Africa's perspectives and efforts for improvement can be considered. This creates a risk for Africa. Because of the new regulations and access to markets created by these mega-regional FTAs, it would be more difficult for African businesses to compete globally. This would limit Africa's share of world trade and make the continent less appealing as a location for foreign direct investment. Despite this, Africa is currently in the process of initiating a trade integration program that might be described as ambitious.

The Tripartite Free Trade Agreement (TFTA), comprising three critical regional African economic groupings, began discussions in 2008. The agreement was signed in 2016 and included 26 nations with a total population of 640 million and a GDP of \$1.2 trillion. However, the FTA only covers goods commerce. The TFTA has served as a foundation for the continent's CFTA, which the African Union had promised to complete by 2017. It

included 54 African countries with a combined population of nearly a billion people and a GDP of \$3 trillion. By 2022, a successful conclusion of the CFTA will increase intra-African trade by about 50% (35 billion dollars).

Any effort to make trade between SSA and the U.S. bigger and better should consider how the TPP will affect how competitive African goods are in the U.S. market. The possible CFTA and the TFTA should show that they are aware of the progress in opening up trade on the continent. African governments should be happy about this effort to open up trade, and the U.S. should back it.

These African trade agreements also allow the U.S. to help guarantee that the process leads to rules and market access opportunities consistent with and establish bridges between Africa and other US-led trade initiatives like the TPP. Working to build the capacity of African standards bodies, making headway on 21st-century concerns like digital commerce, and enhancing African knowledge of the TPP in the trade and labor norms are all possibilities.

The WTO should stay at the forefront of talks about clothing between the U.S. and Africa. Remember that the WTO Doha Round is no longer valid because the U.S. and other wealthy country members did not reaffirm the Doha mandates at the 2015 WTO ministerial meeting in Nairobi. However, progress was made on important issues for African countries, such as extending the waiver to help LDC exports of services get better treatment from service providers and more technical support.

A trade relationship between the U.S. and SSA based on one side's preferences will no longer be enough to build a more complex and stable connection. Expanding commerce in manufactured commodities, services, and digital trade is critical. For these reasons, expanding agricultural export access from the SSA is one thing that could bring immediate and reasonable economic and development effects.

2.2.2. U.S. Dominance on SSA Using Trade Pacts

While it is undeniable that AGOA has increased trade between the United States and Africa, the appeal of AGOA and the subsequent over-reliance on the program and how the U.S. leverages it to eventually dominate SSA remain significant concerns and threats for smaller African countries.

According to certain studies, countries should acknowledge that relying too heavily on AGOA benefits is unsustainable and could lead to economic calamity. If these countries do not diversify their markets, or at the very least, their product offering to the United States, the "free lunch" that they have enjoyed for years under AGOA will see their economies becoming intertwined with one partner (the United States), resulting in a fate similar to that of Madagascar and Swaziland. This will happen if these countries do not diversify their markets.

While the eligibility conditions for AGOA beneficiaries are spelled forth in the law, only the United States evaluates whether countries have met the published eligibility standards annually. As a result, the POTUS has the authority to grant or revoke beneficiary status. Beneficiary nations do not have access to dispute resolution in this area. As a result, these nations are forced to formulate their economic policies, policies on the rule of law, human rights, political pluralism, workers' rights, and rights to due process in a manner that is acceptable to the United States, regardless of how these structures affect the economies of these nations. The implication is that the United States has complete authority over these countries and can thus dictate how they handle their internal affairs.

The U.S. asserts its supremacy over the SSA by requiring that no AGOA beneficiary engages in actions that jeopardize U.S. national security or foreign policy objectives, demonstrating that U.S. interests always come first. Perhaps this is why no African foreign ministers are allowed a seat at the negotiating table when the U.S. makes decisions and policies for Africa under AGOA.

2.3. Economic Relations between the US and SSA

Even though AGOA has been called the "cornerstone" of U.S. trade policy with Africa because it has helped increase non-oil exports from the continent from \$8.1 billion to \$53.8 billion in ten years. Its effects and benefits have been negligible. Only a few industries, like oil, textiles, manufacturing, and antiques, have benefited from the pact, which lets 6000 products enter the U.S. market duty-free.

U.S. President Barack Obama made increasing U.S. trade and investment with Africa, developing Africa's trade capability, and extending preferential access to the U.S. market for African exports a top priority. As a result, since 2009, non-petroleum imports from Africa have climbed by 46%, while goods exports to Africa have increased by 59%, indicating strengthening commercial links between the two countries.

The Doing Business in Africa Campaign was a great way for the whole government to work together to improve the economic relationship between the United States and Africa at the time. Africa was diverse, with much potential for trade and investment across national and regional markets. Nine of the twenty fastest-growing economies in the world are in SSA, giving American businesses many opportunities.

During the U.S.-Africa Business Forum and U.S.-Africa Leaders' Summit, U.S. government departments and agencies promised to spend \$7 billion on projects across the continent. Many of these projects are almost done. After how well the USABF went, President Obama said he would go to the next US-Africa Business Forum held in the U.S. in 2016.

The President's Advisory Assembly on Doing Business in Africa was founded in November 2014 after unveiling during the USABF. The Assembly has been working closely with the U.S. administration to identify strategies to expand the trade and investment between the United States and Africa.

The United States and the East African government have achieved significant progress in developing best trading practices in EAC member nations under President Obama's Trade

Africa Initiative, launched in 2013. The United States and the EAC signed an agreement in February 2015 at a Ministerial meeting on the application of World Trade Organization (WTO) rules and strengthening collaboration and support in the following three essential areas:

- ↳ Trade facilitation,
- ↳ Sanitary and phytosanitary measures,
- ↳ Technical trade barriers.

The first U.S.-EAC Commercial Dialogue was also held there. Since the Leaders' Summit, the U.S. Agency for International Development's Trade Hubs have helped local governments and regional economic communities meet WTO commitments, establish the framework for national single windows and trade information portals, and modernize customs procedures, facilitating nearly \$220 million in African exports and \$75 million in local investment through Trade Africa.

The U.S. government has been urging African states to use the World Trade Organization's Trade Facilitation Agreement (TFA) to simplify customs and other border control procedures and lower the cost and time of doing business across borders as part of the Trade Africa project. TFA implementation would assist African enterprises in participating more completely in global value chains, facilitating the movement of goods across African borders, and increasing the competitiveness of African interests in international markets.

Despite the substantial prospects provided by the AGOA framework, recent commerce between the U.S. and SSA nations has not performed as well as predicted (WTO, 2015). Another potential growth area is trading in manufactured goods and services. Supporting African firms' ability to engage in digital trade and offer goods and services online to customers in the U.S. and worldwide should be a priority. This would entail assistance in expanding internet access, particularly in the mobile sector, and building the rules, regulations, and institutions necessary for digital trade to thrive. AGOA has various faults that have prevented countries from further improving their relationship. AGOA has

several inherent flaws that have failed to assist countries in further enhancing this relationship. African Growth Opportunity Act has been unsuccessful in supporting SSA countries to overcome some of the structural constraints of their economies. U.S. businesses have failed to facilitate adequate market access in African countries.

The results of the AGOA Forum in Togo in 2017 show that these problems still exist and are almost impossible to solve with the current system. After almost 20 years of AGOA benefits, many African countries have not taken full advantage of the program. This is partly because their economies are small, so they can only take advantage of a few duty-free lines. It is also partly because the United States market requires prudence in manufacturing and exports to be competitive, even with a duty-free advantage. Poor infrastructure makes it more expensive to trade, and non-tariff barriers like quality standards also make it harder (WTO, 2015). According to the WTO, the U.S. and SSA governments are interested in advancing economic cooperation. AGOA has demonstrated how a preferential trade agreement may increase trade and employment for both parties. However, AGOA is no longer the optimal tool for promoting US-Africa commercial cooperation. Instead, a deal that provides reciprocal market access and technical assistance to overcome structural issues in SSA countries would be more desirable.

Petroleum, agricultural products, and manufactured goods are among SSA's exports, while finished goods such as engineering items and vehicles account for most imports (WTO, 2015). Even though the region only makes up a small part of global trade, the World Trade Organization says that international trade makes up more than half of GDP in some parts of the SSA. Instead of seeing Africa as a poor place that needs much help, we should see it as a place with a lot to offer. The U.S. should start to see trade as an excellent way to help SSA because it can help the U.S. and SSA's economies. This can be done by lowering trade barriers by giving African countries duty-free tariffs and quotas.

Congress set out to boost SSA's economic development and strengthen U.S. trade links with the region through AGOA. Several nations have extensively used the preference program, resulting in increased employment in industries that benefited from AGOA's duty-free status. Lesotho, for example, one of the largest AGOA textile exporters,

estimates that manufacturing employment increased from 19,000 in 1999 to 45,700 in June 2015. A peer-reviewed economic analysis revealed a direct correlation between AGOA preferences and higher U.S. imports from recipient countries. These higher SSA exports were not simply diverted from other potential export destinations (e.g., the European Union and the Middle East). This correlation was most pronounced in apparel and other industries with high U.S. import tariffs. Despite these achievements, obstacles remain, such as the small number of countries taking advantage of the preferences and questions regarding whether AGOA countries have translated these short-term preference benefits into long-term improvements in their manufacturing capabilities and overall competitiveness. Most AGOA non-oil imports come from South Africa, as illustrated above. Apparel exports account for most AGOA exports in the other nations that have extensively used the benefits. While the garment industry has been recognized as a possible launching pad for more complex manufacturing industries, many AGOA beneficiary countries' manufacturing sectors remain underdeveloped.

According to research, AGOA apparel production focuses on low-skill occupations with little knowledge transfer to local workers, and AGOA exporters' worldwide competitiveness is still reliant on preferential treatment. In addition to the practical economic development and trade goals, AGOA helps attain additional strategic objectives, and AGOA is the focal point for U.S.-SSA economic cooperation.

Suppose most of SSA continues to see rapid economic growth. In that case, the U.S. may become more interested in the region's potential as a consumer market and a destination for both U.S. exports and foreign direct investment (FDI). According to a McKinsey report, the number of African households earning more than \$5,000 per year, the threshold for discretionary expenditure, will increase from 85 million in 2008 to 128 million in 2020.

Although AGOA is primarily focused on U.S. imports, it fosters dialogue between the U.S. and SSA countries on bilateral trade and investment issues through the annual AGOA Forum, and the U.S. retains some influence over the beneficiary countries' political and economic structures through the eligibility criteria, which are solely dictated

by the the the U.S. As other foreign countries, such as China, expand their business and political ties with SSA, these strategic components of AGOA may become increasingly essential.

2.4. Empirical Studies on AGOA

Given that the AGOA program has a short history, there is relatively little, if any, literature on the program's effectiveness to date. Earlier studies on Sub-Saharan Africa's trade have focused on trade performance in general (e.g., Amjadi et al. 1997).

While the AGOA initiative was initially greeted with a lot of skepticism and some cynicism, current statistics on Africa exports to the US and increasing evidence from the continent suggest that some of the 38 eligible African countries may be taking advantage of the initiative (Nouve, 2003). The US official page on AGOA (www.agoa.gov) provides evidence of success stories in multiple countries, including Lesotho, Ghana, Mali, and Uganda. In addition, several authors, including Lall (2003) and Gibbon (2003), have suggested that African textile and apparel exports to the US responded positively to AGOA preferential opportunities.

According to USAID (2006), between 2004 and 2005 alone, there has been a 40 percent increase in the total volume of US imports from SSA countries. Analysis of US-SSA trade data that extend from 1989 to 2004 also reveals a 46.3 percent increase in US imports of non-manufactured goods and a 1030.4 percent increase in US imports of manufactured goods from SSA countries pre- to post-AGOA periods. Although these figures appear to indicate a rise in the post-AGOA US imports from SSA, whether the changes are the result of the unilateral trade policy concession, the inertia in the eligible SSA country's global trade pattern, or adjustment in other economic policies of the SSA countries, or a combination of these factors is not clear cut (USAID, 2006).

Mueller (2008) uses a Prais-Winston gravity model to assess the extent of the contribution of AGOA to exports from eligible countries from 2000 to 2004. His results show a negative but non-significant coefficient for AGOA, implying that AGOA

eligibility is found to have no significant impact on non-oil trade for eligible countries. On his finding the effect of AGOA on apparel export is also not statistically different than zero, though the coefficient in this case is positive. Seyoum (2007) employing the gravity model finds that AGOA has had a marginally positive but statistically non-significant impact on total SSA exports to the US up to 2004.

Tadesse and Fayissa (2008) took into account the impact of AGOA on the initiation of imports (i.e., trade initiation, when AGOA product or country imports were negligible before its enactment) and on the volume of exports (trade intensification), using data at the HS 2-digit level. They found a trade intensification effect for coffee, tea, mate, spices, and knit apparel, which collectively make up 15% of AGOA exports. They also found evidence of substantial export initiation for 12 products, most of which had very small trade shares including cosmetics, plastics, and cotton (knit apparel was included).

Among the available studies, using panel data of US agricultural trade with 46 SSA countries, Nogueira and Staats (2003) found that gains induced by AGOA in increasing agricultural exports of Africa were not significantly different from zero, although the response of African exports to the Act was positive as stipulated in the legislation. Employing the triple difference-in-difference method of controlling for the “endogeneity of policy” Frazer and Van Biesebroeck (2007) conduct an in-depth study of important policy implications with greater data coverage. The authors found that AGOA has had a large and robust impact on US apparel imports from SSA countries. Citing positive achievements under AGOA, Collier, and Venables (2007) also indicate that trade preferences such as AGOA catalyze trade in manufactured goods, leading to rapid growth in exports and employment. Their study thus stresses the need for designing trade preferences that are consistent with international trade in fragmented „tasks“ (as opposed to complete products) and making them open countries with sufficient levels of complementary inputs such as skills and infrastructure. Nogueira (2003) using a dynamic panel trade model assesses the impact of AGOA on aggregate exports from SSA to the US up to 2004. He finds that AGOA has had a strong positive effect on aggregate SSA exports to the US.

Existing studies on the impact of AGOA on Africa have been mostly counterfactual (e.g., Mattoo, Roy, and Subramanian, 2002). Actual evaluation of the impacts has been either preliminary (UNTAD, 2003), or overwhelmingly dominated by the analysis of the textile sector (e.g., Olarreaga, Ozden, 2005; Lall, 2003). The impact of AGOA on other sectors, such as agriculture, has also been considered in the literature (Nouve and Staatz, 2003; Shappouri and trueblood, 2003). Systematic studies that examine the effect of AGOA on overall exports from SSA to the United States are very few in the literature. Thus, the present paper is an attempt to fill this gap.

CHAPTER THREE

3. RESEARCH METHODOLOGY

3.1. Introduction

This chapter is organized under the following sections: research design, data collection, and data analysis methods.

3.2. Research design

This research established the impact of withdrawal from the African growth and opportunity act (AGOA) on the Ethiopian economy. The study employs both quantitative and qualitative methods. The quantitative analysis follows descriptive statistics. The researcher uses descriptive statistics to describe and interpret findings from secondary data. It uses bar charts, pie charts, graphs, and case studies.

3.3. Study population

The target population groups for the study were the USA and major Ethiopian stakeholders involved in promoting and implementing AGOA opportunities, including the Ethiopian Government and Non-Government organizations like industrialists. The researcher choose a purposive sampling technique that involves examining the entire population that has a particular set of characteristics to import and export data since AGOA is enacted. The period covers from 2001 to 2021. The reason for selecting 2000 as the starting year for AGOA enacted and 2022 Ethiopia suspended from AGOA.

3.4. Data collection method

Secondary data was the main data for this research. The data were collected through official Statistics, AGOA annual report Journals, previous research publications & annual reports, to ensure a comprehensive overview of the issues to be considered. The electronic search site was also employed extensively for up-to-date materials on the topic.

3.5. Data Presentation and analysis method

In data analysis, primary the data were organized categorically and chronologically. The qualitative and quantitative data collected were compiled, evaluated & summarized using techniques such as tabulation, appropriate statistical graphs, charts & percentages. This offered a pictorial presentation to enhance the understanding of the data. Eventually, the interpretation of data and discussions of the findings were followed.

Data analysis was made by using an excel application. The following elements will be taken into account when determining the data's validity and reliability: As long as the sites or publications are reputable, i.e., government, education, or textbook. Whether the information is present (check date).As long as the data connects to the problem. The authors' credentials, i.e., is the author qualified in this area?

CHAPTER FOUR

4. DATA PRESENTATION, ANALYSIS & FINDINGS

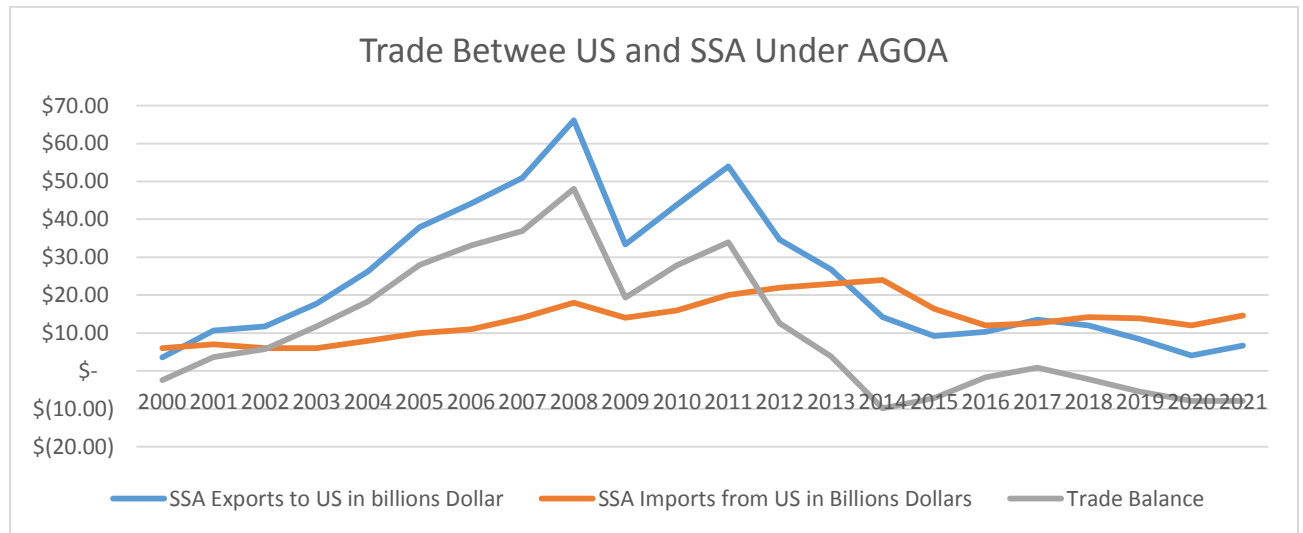
4.1. Introduction

This chapter discusses the results of the study based on descriptive analysis, mainly tables, graphs charts, and case studies. This contains two sections: the presentation of findings and the discussion concerning the objectives mentioned in chapter one above.

4.2. U.S. Imports under AGOA

Since AGOA's establishment, two-way trade between Sub-Saharan African countries and the United States has increased significantly. Exports of African goods to the United States vastly outnumber imports, resulting in a trade surplus for African countries. However, due to lower oil prices and export volumes in this sector, which accounts for most African exports to the U.S., AGOA beneficiary countries' trade surplus has diminished. Total AGOA imports in the United States were \$4.2 billion in 2020, down 51% from \$8.4 billion in 2019, owing to a drop in crude oil imports. The implications are still concentrated in a few nations and industries, but they are becoming more diverse. The two-way goods trade in 2015 was \$36 billion (\$50 billion in 2014, \$61 billion in 2013, and \$66 billion in 2012).

Figure 4.2. Trade between AGOA countries and the United States



Source: AGOA.info website

Total U.S. imports in 2021 under AGOA were \$ 6.7 billion compared with 2020, which increased by 63%. U.S. AGOA imports were \$4.1 billion in 2020, down 50% from \$8.4 billion in 2019, due mainly to a decline in oil imports. Implications remain concentrated in a few countries and industries, but diversification has grown.

- Imports of energy products (crude oil) fell by 85 percent to \$695 million in 2020, accounting for only 17 percent of AGOA imports. This is a noteworthy change, as crude oil has traditionally accounted for most AGOA imports (e.g., \$48 billion at their peak in 2011). Nigeria was the biggest supplier in 2020 (\$461 million).
- Non-energy imports under AGOA fell by 9% to \$3.4 billion in 2020 but have tripled since the program began in 2001. Textiles and apparel (\$1.2 billion), transportation equipment (\$652 million), agricultural products (\$626 million), minerals and metals (\$332 million), and chemicals (\$329 million) are the top non-energy import categories.

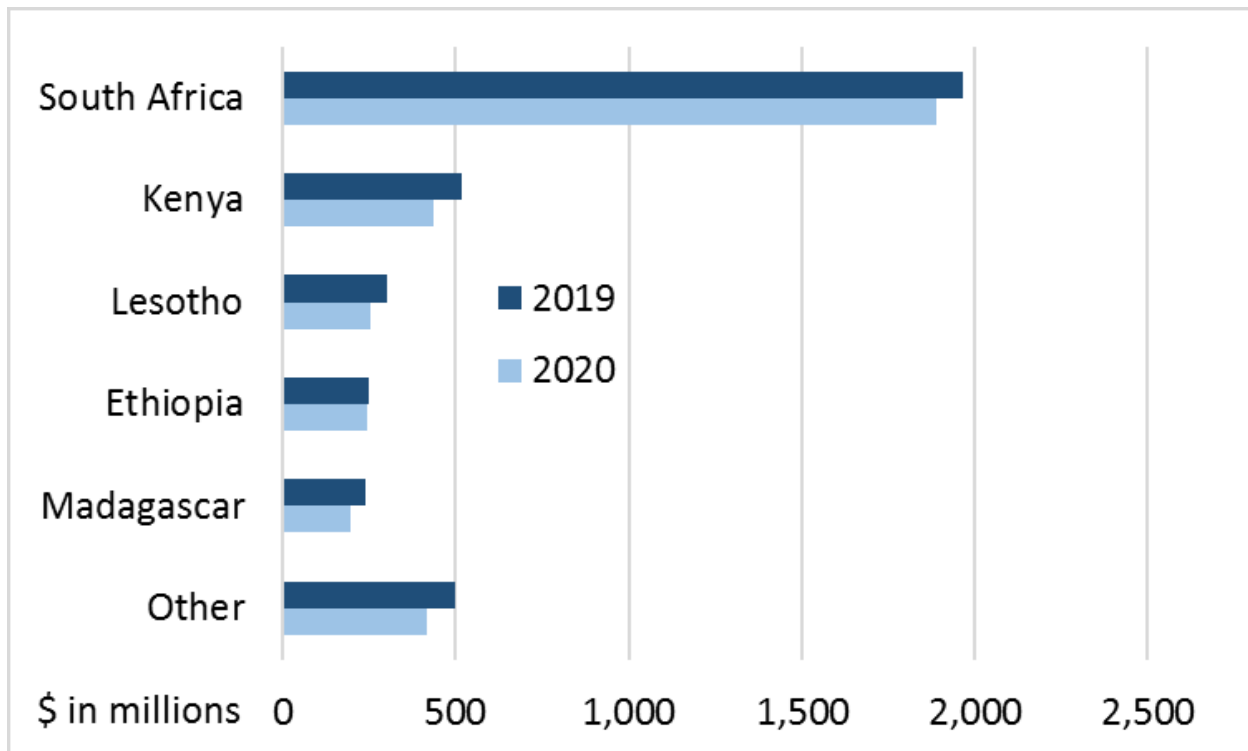
- South Africa continues to be the leading source of AGOA non-energy imports (Figure 4.1), but its dominance is declining. The key trends driving this transition are decreased vehicle imports from South Africa and increased garment imports from other countries.
- Ethiopia is the fourth supplier of AGOA non-energy imports (Figure 4.1); in the last two or three years, Ethiopia has used AGOA aggressively, mostly garments, leather footwear, and other leather goods and products such as flowers and vegetable products.

Imports under AGOA (including GSP) totaled \$8.4 billion in 2019, up 2.4 percent from 2001. Petroleum goods made up most of AGOA imports, accounting for 55 percent of all AGOA imports. In 2019, AGOA non-oil imports totaled \$3.8 billion, more than double of 2001. Several non-oil sectors, such as clothing, cocoa powder, cocoa paste, macadamia nuts, and footwear, saw significant rises. South Africa is AGOA's largest non-oil recipient.

Nigeria (\$3.1 billion; primarily crude oil), South Africa (\$2.0 billion; mostly vehicles and parts, ferroalloys, nuts, jewelry, and wine), Angola (\$605 million; primarily crude oil), Kenya (\$518 million; especially apparel, macadamia nuts, and cut flowers), Ghana (\$441 million; mainly oil, cocoa powder, and cocoa paste, clothing, and baskets), and the Republic of Congo (\$410 million; primarily crude oil) were the top AGOA Lesotho (\$301 million; essentially fashion), Ethiopia (\$246 million; especially apparel, travel products, cut flowers, and footwear), Madagascar (\$240 million; primarily apparel), and Mauritius (\$143 million; mainly clothing, optical frames and parts, and jewelry) were among the other significant AGOA recipients.

Crude oil (\$4.6 billion in 2019, down 42 percent from 2018), textiles and apparel (\$1.4 billion, up 17 percent), agricultural products (\$656 million, up 9.5 percent), minerals and metals (\$510 million, down 34 percent), transportation equipment (\$499 million, down 29 percent), and chemicals and related products (\$434 million, down 11 percent) were the most popular AGOA import categories in 2019.

Figure 4.1. Top AGOA Countries, Non-Energy Products



Source: Analysis by CRS. Data from USITC.

4.3. Ethiopia Exports to the rest of the world

Ethiopia's vast domestic market is approximately 110 million people, Africa's second-most populous country after Nigeria. Ethiopia has had one of the world's fastest-growing economies in the recent decade, with an average annual growth rate of 9.4%. According to the World Bank, Ethiopia's real Gross Domestic Product (GDP) dropped to 6.1 percent in 2019/2020 because of COVID-19, and growth is predicted to continue close to 6.4 percent in 2021 due to COVID-19 the World Bank.

Ethiopia has a growing trade deficit, with total imports rising at 12.5% per year over the last ten years. Imports, which increased from \$3.6 billion in 2010 to \$12.5 billion in 2017, the top of Ethiopia's trade deficit, have propelled the trade imbalance. Concerned about the rising trade imbalance, Ethiopia's government has worked to decrease imports and implemented other macroeconomic policies in recent years, resulting in a reduction

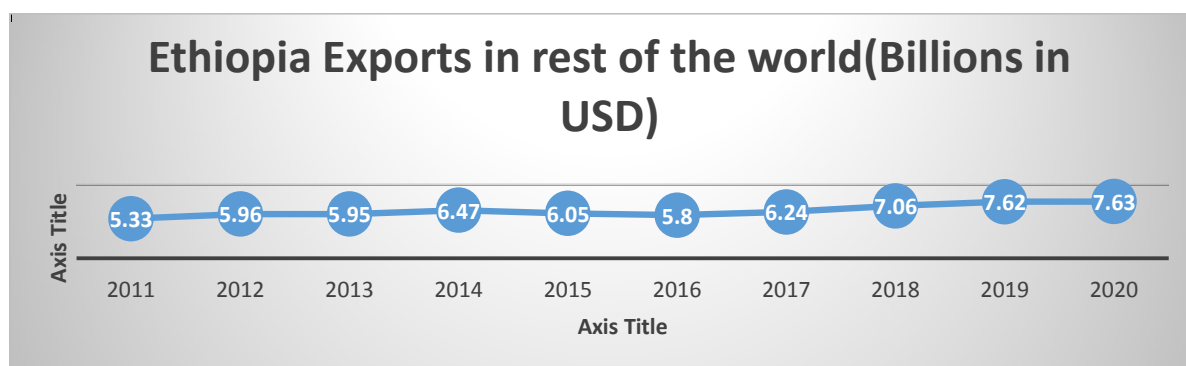
in the trade deficit to \$12.3 billion in 2018 and \$11.6 billion in 2019. Meanwhile, according to a World Bank analysis, exports are increasing.

Ethiopia's government has unveiled its new economic policy framework, dubbed the Home-Grown Economic Reform Agenda, which aims to address macroeconomic imbalances and set the groundwork for long-term, equitable prosperity. The reform attempts to move Ethiopia's economy away from a public-sector-driven paradigm and a private-sector-driven model. According to government sources, the IMF approved a nearly \$3 billion program for Ethiopia in December 2019 to support the Home Grown Reform, which will require a total of \$10 billion in new money.

Exports of goods and services also climbed from 2011 – to 2020, as depicted in figure 4.3. For that indicator, we provide data for Ethiopia from 2011 to 2020. The average value for Ethiopia during that period was 6.41 billion U.S. dollars, with a minimum of 5.33 billion U.S. dollars in 2011 and a maximum of 7.63 billion U.S. dollars in 2020.

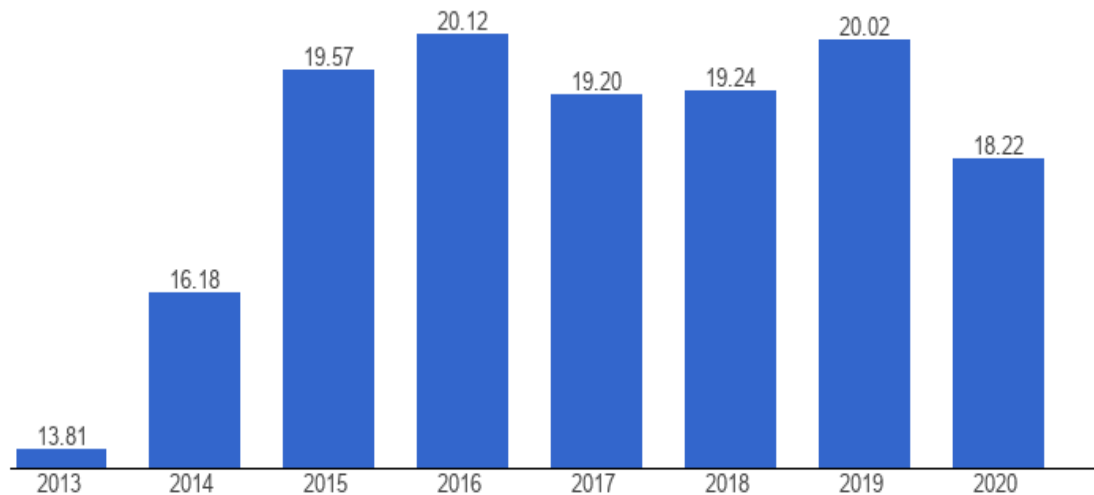
Ethiopia: Imports of goods and services, USD, 2011 – 2020 as figure 4.4. For that indicator, we provide data for Ethiopia from 2011 to 2020. During that period, the average value for Ethiopia was 17.01 billion U.S. dollars, with a minimum of 10.08 billion U.S. dollars in 2011 and a maximum of 20.12 billion U.S. dollars in 2016. The latest value from 2020 is 18.22 billion U.S. dollars.

Figure 4.3. Ethiopia Exports to the rest of the world



Source: National Bank of Ethiopia

Figure 4.3. Ethiopia Imports from the rest of the world



Source: *National Bank of Ethiopia*

4.4. Ethiopia under AGOA

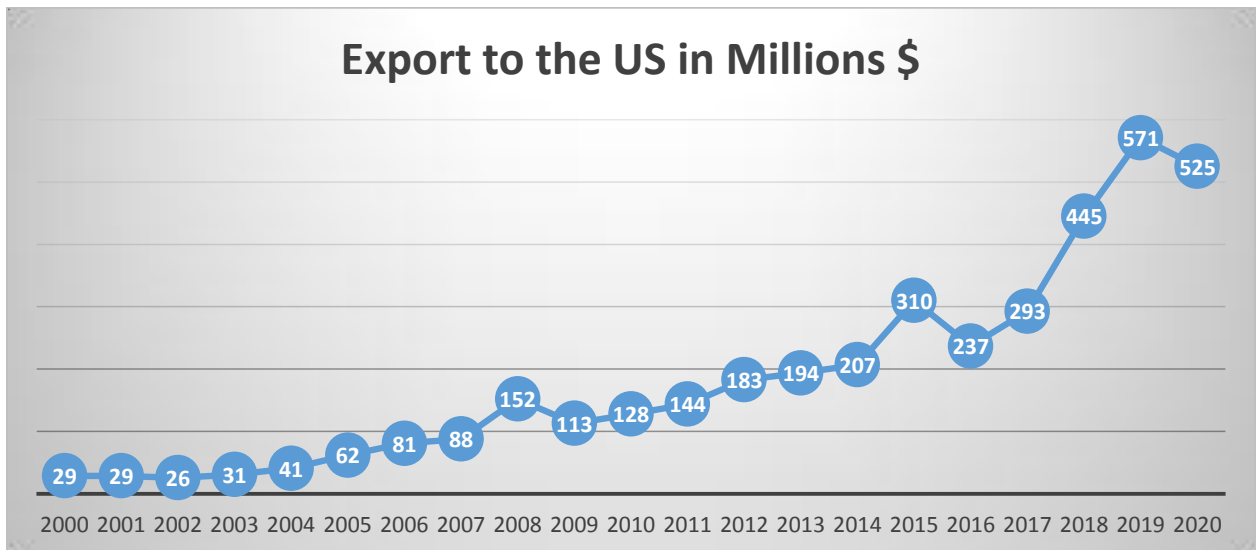
Since the AGOA Act was enacted in 2000, Ethiopia has been an AGOA beneficiary country. Ethiopia's performance under AGOA has produced mixed results during the last two decades. On the one hand, AGOA exports have experienced poor volume and product mix growth. Ethiopia's AGOA exports have expanded from a low base of \$28.5 thousand in 2000 to \$601.8 million in 2021, with an average growth rate of 19 percent per year, as indicated in table 4.6. On the one hand, AGOA has provided new chances for export. Ethiopia has increased its export volume to the US market in non-traditional export categories such as textiles and apparel, leather products, and manufactured goods.

Table 4.6 Ethiopia Exports and import data after AGOA intent

Year	Export	Import	Trade Balance
2000	\$ 28.50	\$ 165.30	\$ (136.80)
2001	\$ 28.90	\$ 61.20	\$ (32.30)
2002	\$ 25.70	\$ 60.40	\$ (34.70)
2003	\$ 30.50	\$ 409.10	\$ (378.60)
2004	\$ 41.20	\$ 302.70	\$ (261.50)
2005	\$ 61.80	\$ 455.60	\$ (393.80)
2006	\$ 81.10	\$ 137.30	\$ (56.20)
2007	\$ 88.20	\$ 167.50	\$ (79.30)
2008	\$ 152.20	\$ 301.60	\$ (149.40)
2009	\$ 112.90	\$ 266.90	\$ (154.00)
2010	\$ 127.90	\$ 773.20	\$ (645.30)
2011	\$ 144.40	\$ 689.90	\$ (545.50)
2012	\$183.10	\$1,274.70	\$ (1,091.60)
2013	\$193.60	\$ 688.50	\$ (494.90)
2014	\$207.20	\$1,668.90	\$ (1,461.70)
2015	\$310.30	\$1,555.20	\$ (1,245.00)
2016	\$236.20	\$ 826.10	\$ (589.90)
2017	\$291.10	\$ 877.20	\$ (585.70)
2018	\$444.80	\$1,308.20	\$ (863.40)
2019	\$571.50	\$1,010.80	\$ (439.30)
2020	\$524.50	\$ 910.90	\$ (386.40)
2021	\$601.80	\$ 585.40	\$ 16.40

Ethiopia's export performance under AGOA has shown an upward trend in Figure 4.5. The textile industry, followed by the leather industry, has taken advantage of the chance to export textiles and apparel, leather products, and manufactured goods in significant quantities. Ethiopia's garment manufacturing industry is the country's most extraordinary AGOA recipient. Ethiopia sold \$722 million in duty-free clothes to the United States under AGOA between 2000 and 2020.

Figure 4.5. Ethiopia Exports to the USA under AGOA



Source: National bank of Ethiopia

Figure 4.6. Trade Balance between Ethiopia and the US

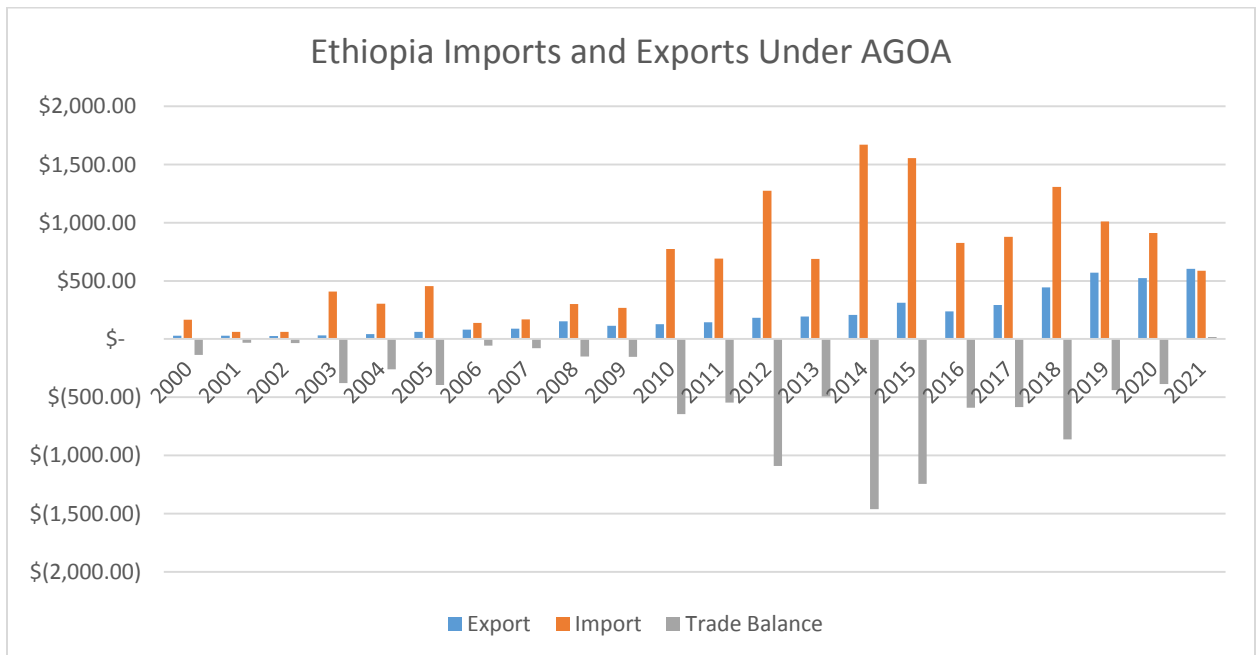
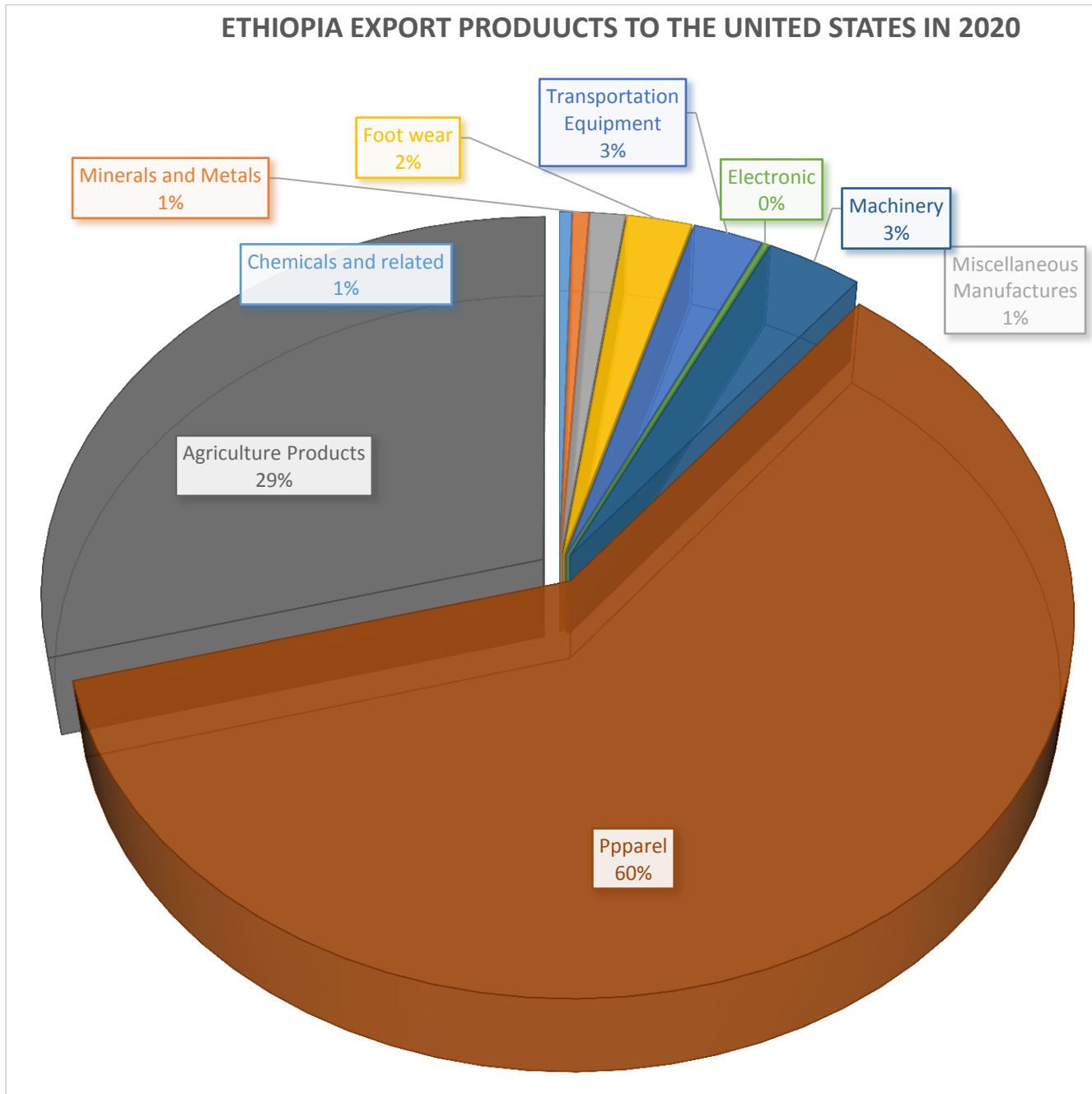
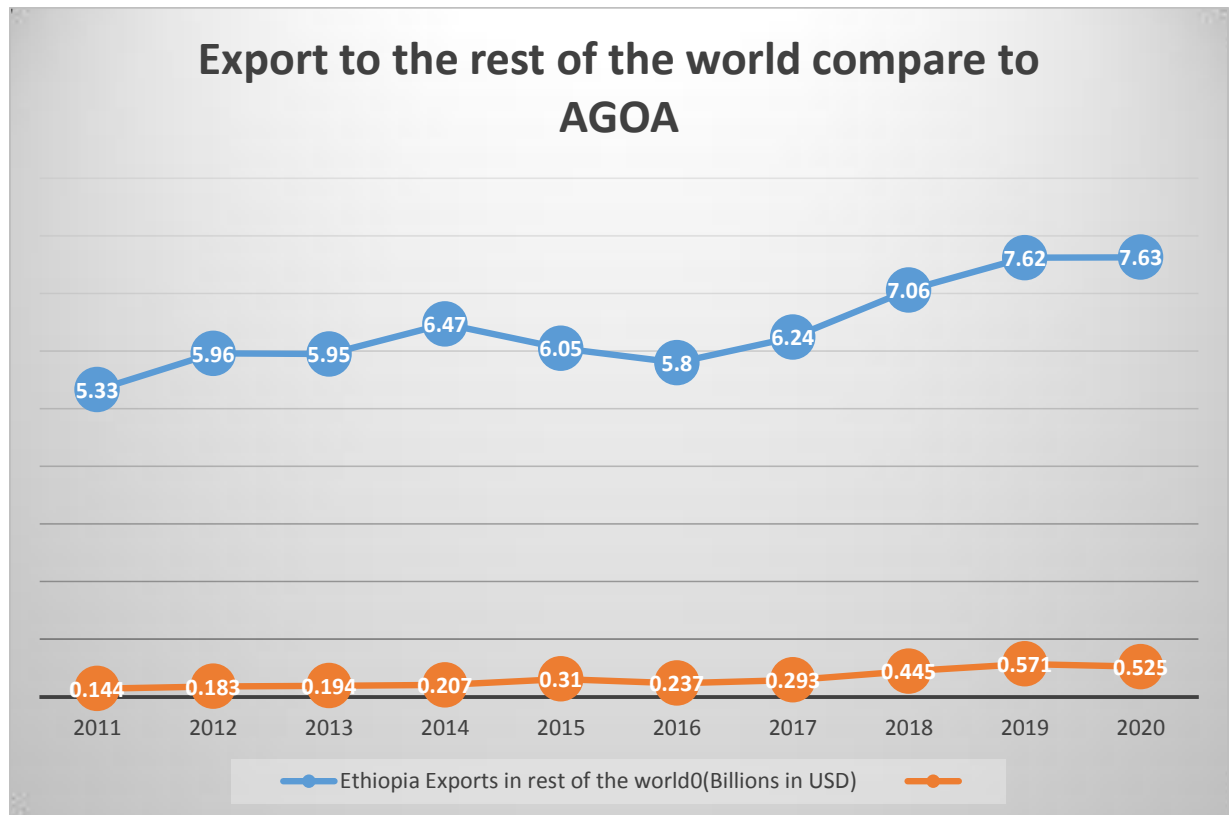


Figure 4.7. Ethiopia exports Products to the US



Source: AGOA performance and country profile Website

Figure 4.7. Ethiopia exports to the US compared to the rest of the world



4.4.1. Ethiopia's Major Products to Export under AGOA

Oil export countries from Angola, Nigeria, Chad, and the Republic of Congo have traditionally been the most significant contributor to AGOA-eligible trade. This percentage has dropped dramatically in recent years. Non-oil AGOA exporters include South Africa, Kenya, Ethiopia, Lesotho, Ghana, and Madagascar. South Africa's exports, for instance, are relatively diverse across the extractive and manufacturing sectors, but Kenya, Ethiopia, and Madagascar's exports are not. The apparel industry is in charge. Ethiopia was the third-largest export in 2017 and the fourth-largest in 2020, as indicated in figure 4.7.

Ethiopia is a net importer of products from the United States; its exports to the US have expanded dramatically, nearly doubling from \$28 million to \$525 million between 2000 and 2020. Under AGOA, about half of Ethiopia's US-bound exports are passed duty-free, including clothes, leather footwear, other leather goods, and flowers and vegetable products. The US has a substantial trade surplus with Ethiopia: in 2020, US exports to Ethiopia totaled \$868 million, while Ethiopian imports totaled \$525 million. Goods must be classified as AGOA / GSP qualified to be eligible for preferential market access, and it must be shown that they are Ethiopian products by completing the origin requirements. Import tariffs of \$0.9 million were levied on US imports from Ethiopia in 2020, primarily on particular footwear, headgear, and apparel.

4.4.1.1. Apparel and Footwear

Ethiopia's garment manufacturing industry is the country's most excellent AGOA recipient. Ethiopia sold \$722 million in duty-free clothes to the United States under AGOA between 2000 and 2020. One of the primary beneficiaries of AGOA preferences is Ethiopia's leather footwear sector (and, to a lesser extent, footwear with textile uppers). Ethiopian footwear exporters benefit from AGOA, which waives the standard 10-20% import tariffs on US shoe imports. Since 2012, sector exports have doubled, with \$186 million in shoe exports under AGOA.

4.4.1.2. Coffee

Ethiopian coffee has a long and illustrious history and a reputation for producing high-quality coffee. Ethiopia's coffee exports to the United States have increased dramatically, and Ethiopia has exported a \$1.5 billion benefit of coffee to the United States since 2000. Coffee exports totaled \$131 million in 2020, down from \$147 million in 2017.

Figure 4.7. Major Export Countries under AGOA in 2017

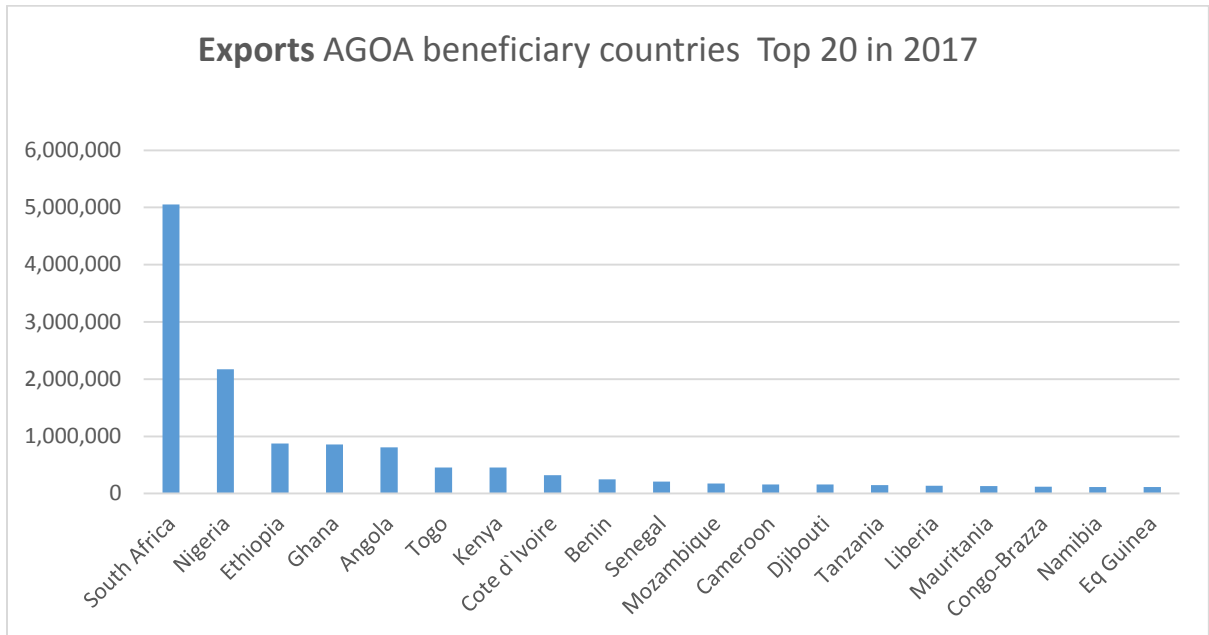
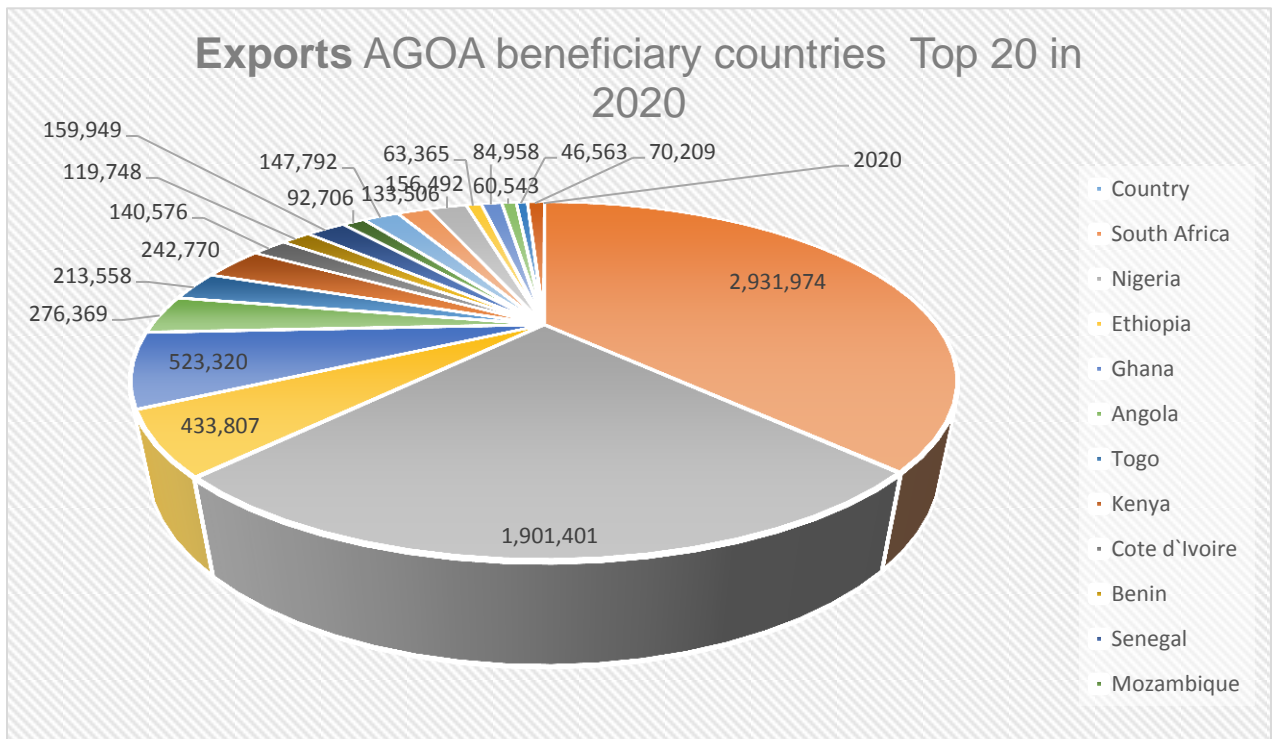


Figure 4.7. Major Export Countries under AGOA in 2020



Source: AGOA performance and country profile Website

4.5. Presentation of Data and Findings

4.5.1. Impact of Ethiopia suspended from AGOA

The Biden administration has suspended Ethiopia and two other African countries from the African Growth and Opportunity Act (AGOA), alleging "serious abuses of internationally recognized human rights" as the suspension. Since 2000, African Growth Opportunity Act has been at the center of the United States' economic and business strategy toward Sub-Saharan Africa. Before AGOA, the US relations with Africa were governed by Cold War considerations and donor-recipient partnerships based on humanitarian and poverty-relief aid. Ethiopia was one of the program's top beneficiaries, using it to attract foreign investment and increase its manufacturing export push by creating unique industrial parks. AGOA has aided Ethiopia in becoming one of the leading Sub-Saharan African garment exporters to the United States over the last two decades. Half of Ethiopia's \$ 525 million exports to the US in 2020 were duty-free under AGOA, mainly clothing, leather footwear, other leather items, flowers, and vegetable products.

Ethiopia's exports through AGOA more than tripled between 2000 and 2020, with an average annual growth rate of 43 percent. Despite its tremendous expansion, Ethiopian exports through AGOA account for only 9.4% of total exports. When Ethiopia's AGOA-EXIT took effect in January 2022, it was on a steady growth path to expand its exports to the United States. Garment manufacturing is the most beneficial sector under AGOA, with over 80% of workers being young women. Workers will be negatively impacted if AGOA benefits are terminated.

Factories in Hawassa Industrial Park, including the PVH (Phillips-Van Heusen Corporation, an American clothing company that owns brands such as Tommy Hilfiger, Calvin Klein, Warner's, Olga, and True & Co.) factory that produce goods that primarily to the United States, will be forced to close, with workers losing their jobs. This is not in

the union's best interests. PVH employees are concerned about their future and expressed concern when they learned of AGOA."

The textile, garment, shoe, and leather sectors have created over 200,000 direct jobs, and over a million indirect jobs are now at risk. Ethiopia's industrial policies have prioritized export-based manufacturing, which has the potential to create jobs for hundreds of thousands of young workers.

4.5.2. The suspension is expected to affect three major sectors in Ethiopia.

Ethiopia's 20-year expansion plan emphasizes export-led economic growth as the primary driver of jobs and growth by strengthening competitiveness, expanding market opportunities, and extending the diversity of export products. The government has funded more than \$1.5 billion in the country's flagship industrial parks, which are central to this transformational initiative.

The suspension of AGOA is already having an impact on this goal. Anchor investor models will be severely impacted, which will draw a prominent global brand and its group of suppliers to a single garden to develop an integrated production system. Following Ethiopia's resignation from AGOA, Hawassa Industrial Park, the country's largest industrial park, recently lost its anchor investor in PVH. Following the ban, PVH, whose labels include Calvin Klein and Tommy Hilfiger, has declared that it will halt its operations in the park. Because their operations are inextricably linked to PVH, many of the park's 20+ investors are expected to follow suit. Despite the COVID-19 pandemic, the park generated over \$95 million in export revenue and employed over 35,000 people in Ethiopia's fiscal year 2020/21.

Furthermore, Ethiopia's developing manufacturing economy may lose many jobs. Officials had warned that the suspension might result in the loss of 1 million jobs, with young women accounting for most garment workers. Many jobs will be lost unless

alternative market access is found to fill the void, which will have significant economic and political ramifications.

Supply chain interruptions will be another area of influence. Established market linkages that take advantage of AGOA market access are disrupted, resulting in a drop in exports. "Ethiopia figures out to find a market to export 64 percent of its hides and skins products," Minister of Industry H.E. Melaku Alebel said recently, "as about 78 percent of the footwear and leather goods were previously exported to the US, a significant decline in production and export earnings until the industry established new market linkages to make up for the loss."

The suspensions may harm Ethiopia's reputation as a viable investment location, particularly for western investors. Access to AGOA was one of Ethiopia's main draws for foreign investment. Despite a 6.1 percent drop in new FDI due to the COVID-19 epidemic and continuous war in 2020, the country was the most influential African recipient of FDI. As the struggle drags on, it will have a more challenging time attracting investment. It loses one of its primary exporting markets, which has much-untapped potential, and past foreign investors like PVH.

4.6. After AGOA's withdrawal, Ethiopia should adopt a new strategy.

Possible alternative Ethiopia should readdress the impact of Exit AGOA. Finding other markets to fill the gap should be a top priority for businesses and the government. The current situation should encourage policymakers to think beyond quick fixes to find long-term solutions to diversify Ethiopia's industrial export destinations.

As an alternative to the western market, look to the east and the increasing economic relations with China. China's Foreign Minister recently stated that his country wants to create a "green channel" to broaden the extent of the zero-tariff treatment for African products, increase imports to \$300 billion, and invest \$10 billion in the next three years. Ethiopia exported \$519 million to China in 2019 but imported \$2.37 billion. Most

containers transporting Chinese products to Africa remain unused on the return routes, indicating a potentially cost-effective logistical alternative for African products.

Second, Ethiopia's long-term goals should be regional integration and a stronger push for the African Continental Free Trade Area (AfCFTA). The AfCFTA's goal of \$560 billion in regional commerce, especially manufacturing, is projected to be met. The agreement's full implementation might help 67.9 million people on the African continent and 8.2 million in Ethiopia escape moderate poverty. Similarly, one of "New Ethiopia's" objectives is to play a leading political and economic role in the area. Following the completion of the Eritrean peace deal in September 2018, Prime Minister Abiy went on to sign a trilateral cooperation pact with Eritrea and Somalia. Ethiopia's consumer manufacturing export will be suitable for the horn of Africa, which has a population of 454 million people.

The government should explore leveraging the home market to make the industrial direct through industrial parks more sustainable. Ethiopia's home market has enormous potential as the continent's second-largest population and fourth-largest economy, and when we consider that Ethiopia imports the exact things, it wants to export. For example, an average of \$75 million in garments and clothing accessories was imported yearly between 2016 and 2020. Although enabling industrial parks to sell domestically will necessitate legal legislation, unleashing the import substitution potential of gardens will have essentially the same impact as export.

Ultimately, while it is difficult to estimate the actual impact of AGOA on the overall economy, it is clear that without a well-thought-out policy response from the government, the short-term disruption could turn into a long-term challenge for Ethiopia's fast-growing manufacturing industry and ambition to become Africa's manufacturing hub.

ACE Advisors is an independent advising firm with extensive expertise in increasing public-sector delivery and private-sector development from a strategic cross-domain viewpoint. ACE is committed to living its principles of equity, professionalism,

meticulousness, and empowerment of voices connected to the partners we seek to serve as a woman-owned and led company.

Despite encouraging changes in Ethiopia that have facilitated national discourse and reconciliation among various political interest groups, it is unclear how long the impasse between the US and Ethiopian administrations will last. As a result, readmission to AGOA may not be in the cards very soon.

CHAPTER FIVE

5. CONCLUSION, AND RECOMMENDATIONS

5.1. Introduction

This chapter's conclusion is drawn from the result and discussion, recommendations based on significant findings, and future areas of study are highlighted.

5.2. Conclusion

According to the studied literature, AGOA has aided in facilitating trade in SSA, while more may be done to make it a success. It also illustrates how the United States has used AGOA to advance its goals, such as market reform and democracy strengthening (Mueller, 2012). These objectives are met due to the organization's efforts to improve growth in Sub-Saharan Africa. AGOA-eligible nations in Sub-Saharan Africa are implementing critical economic reforms that increase their potential to grow and open new opportunities to deepen their financial relationships with the United States.

However, the appeal of AGOA and the accompanying over-reliance on this program remains a significant worry and threat for SSA countries. According to a study, countries should acknowledge that relying too heavily on AGOA advantages is unsustainable and could lead to economic calamity. If these countries do not diversify their markets, or at the very least their product offering to the US, the "free lunch" they have enjoyed under AGOA will end. The leaving their economies are tightly intertwined with one partner, similar to what Madagascar and Swaziland have experienced. Other governments should learn from this country's example and act quickly.

AGOA has also opened up new markets for African exports, particularly non-traditional and value-added products, allowing African businesses to produce higher-value goods and become more globally competitive. This has contributed to improving economic growth and poverty reduction in Africa. Oil has been the most critical export commodity

under AGOA. However, non-oil exports such as textiles, chemical items, footwear, equipment, electronics, toys, athletics, fruits, nuts, and cut flowers have experienced significant growth. (2008) Tadashi and colleagues

Furthermore, it can be argued that AGOA promotes a better business climate in many African countries by providing incentives and assistance for African economic reforms. The act has also strengthened efforts to enhance infrastructure, reduce bureaucratic red tape, streamline customs procedures, and gain expertise in producing and marketing value-added products for the US market by bringing the government and business sector closer. (Lucke, 2004), (Lucke, 2004), (Lucke 2004), Despite the benefits listed above, it should be recognized that the AGOA framework is not ideal and, in some cases, works against African countries' interests.

Thus, greater export diversification of goods exported to the United States is still required to avoid a situation in which African countries become overly reliant on a single commodity for their economic prosperity while enriching America by providing her with ready access to the goods she requires.

Currently, the AGOA framework does not adequately cover goods of particular significance to African exporters, such as certain agricultural commodities and textiles. AGOA's promotion of economic growth through trade would be considerably enhanced if expanded to embrace a more extensive range of agricultural commodities. (2006, Mattoo, Devesh, and Arvind)

Furthermore, the annual eligibility assessments generate uncertainty, preventing African countries from exploiting AGOA's potential fully. A country that qualifies for AGOA membership draws foreign investment in specified industries. Firms can only make sound investments if they can sell their goods on the American market without paying taxes. So, losing AGOA eligibility means that investments in these countries are a "sunk cost." This may keep potential investors from investing in African countries for fear of losing their AGOA membership. A long-term extension of AGOA would significantly restore investor confidence in African countries eligible for the program. (2009, Kimenyi)

Finally, there is no institutional structure in the AGOA framework for member nations to negotiate with US policymakers. This could lead to scenarios in which revisions to the act are made without regard for the interests of African countries instead of focusing entirely on boosting the US economy. The AGOA Forum would be more effective if the African perspective was discussed in advance and states agreed on particular views. They may then use the AU, which has formal representation in Washington, to advocate for their concerns more effectively. (2009, Kimenyi)

In summary, it cannot be denied that AGOA has helped expand trade between the United States and Africa. Non-oil exports have increased due to AGOA, and foreign direct investment from the United States has increased significantly. Despite this, AGOA's benefits are still disproportionately dispersed in favor of the United States.

AGOA must be changed to be more inclusive and accessible to become a vehicle for long-term prosperity and development on the African continent. AGOA could be made more effective by lowering non-tariff barriers, setting up a formal structure for African countries to negotiate, and increasing the number of goods the U.S. imports from Africa under AGOA. These are just some of the steps that could be taken.

The current extension of AGOA will be beneficial in the short term, but it will not entirely address the issues associated with its full potential not being realized. This suggests that trade preferences would emphasize a strong focus on US-SSA trade relations in the correct development context, encouraging structural transformation in SSA.

This method would increase production capacity and add value to the top of the list. This would help Ghana turn cocoa beans into chocolate, which could be used in drinks and other products, and exported at a lower price along the value chain. The link between agro-industry, manufacturing, and service capacity growth would be strengthened. Offering duty-free access across several tariff lines where Africa's manufacturing capacity is prospective will not be enough to achieve this. Instead, the US would have to concentrate its interventions and investments in the SSA on bringing about a revolution in agricultural and industrial services.

This would necessitate collaborations to empower local businesses and individuals to participate in their industrial growth as owners rather than spectators or casual laborers. If the question is framed differently, it will imply that both parties will need to adjust their thinking in this regard. Therefore:

- There should be a greater emphasis on investment for trade from the United States.
- Africa should try to work with groups that the US backs to give the SSA more power and help it reach sustainable development through trade.
- Africa needs to put money into making and implementing industrial policies that encourage local ownership and the growth of local capacity in many sectors.

Under AGOA, the United States grants SSA countries duty-free status on nearly 6,500 tariff categories. For this to occur, African nations must demonstrate a commitment to advancing human rights, labor standards, and the rule of law in general.

The United States will assess whether the previous standards and a slew of others were reached. A country's benefit status can be terminated without recourse at the discretion of the President of the United States. For example, Rwanda, Uganda, and Tanzania had their AGOA favorable status reviewed in June 2017 because of their proposal to outlaw second-hand clothing, also known as mitumba, which was seen as a move that would jeopardize US economic interests (Kiunguyu, 2017).

SSA countries must work out how their future relationship with the US may support their efforts to solve challenges in a way that supports local ownership and the building of industrial capacity with a longer lifespan than preferential schemes' uncertainty (Graham, 2010). AGOA has benefited trade and investment in the SSA and shows how US imports into the SSA dominate SSA imports to the US.

5.2.1. The SSA Continental Expand Free Trade Area

One such factor is intra-African trade coordination. The East African Community, the Southern African Development Community, and the Common Market for Eastern and Southern Africa established a free trade area in 2015. It marked a significant step toward

a more comprehensive free trade area that permits unfettered African commerce with zero tariffs. Intra-African trade highlights the continent's ability to reach a large-scale trade agreement, which would help stimulate the African economy and improve growth. At its most basic level, demonstrating Africa's ability to trade and participate in removing tariffs and trade barriers is a means to persuade the American public that Africa can make critical economic decisions such as free trade.

5.3. Recommendation

The Ethiopian government and policymakers should Identify alternative markets to fill the gap should be a critical mission for both industrialists and the government. The current situation should provide policymakers with the motivation to look beyond short-term fixes and identify long-term solutions to diversify Ethiopia's manufacturing export destinations.

First, look to the east, towards the growing trade links with China as an alternative to the western market. The Chinese Foreign Minister recently announced his country aims to facilitate a "green channel" to further expand the scope of the zero-tariff treatment for products from Africa and increase imports from the continent to \$300 billion and invest about \$10 billion in the next three years. In 2019, Ethiopia exported \$519 Million to China while importing \$2.37 Billion. Containers used to import Chinese products to Africa are mostly unused on the return routes, indicating a potentially cost-effective logistical alternative for African products.

Secondly, regional integration and strengthening the push for the African Continental Free Trade Area (AfCFTA) should be the long-term goal for Ethiopia. Materializing the vision of the AfCFTA is estimated to boost regional trade by \$560 billion, mostly in manufacturing. The full implementation of the agreement could lift 67.9 million in the continent out of moderate poverty, of which 8.2 million in Ethiopia.

The government should also consider leveraging the domestic market to make the industrial drive through industrial parks sustainable. As the second-biggest country in

terms of population and the 4th largest economy in Africa, Ethiopia's domestic market has immense potential. Especially when we remember, Ethiopia imports the same products it seeks to export. For instance, between 2016 and 2020, an average of \$75 million worth of apparel and clothing accessories were imported annually. Although it will require a legislative reform to enable industrial parks to sell domestically, unlocking the import substitution potential of parks will essentially have the same impact as export.

Ultimately, even though it is difficult to account for the actual impact of AGOA on the overall economy, it is quite clear that without a structured policy response from the government, the short-term disruption could turn into a long-term challenge to Ethiopia's fast-growing manufacturing industry and its aspiration to become a manufacturing hub of Africa.

5.4. Suggestions for future studies

This study focused primarily on the impact of the Ethiopian Economy's suspension from AGOA. There are many challenges facing removal from AGOA or termination, and an investigation should be carried out to identify these challenges and determine the long-term and short-term impacts. The researcher recommends conducting a related study in the future.

REFERENCES

- Agbor J., Olumide. T, and Jessica Smith, Saharan Africa’s Youth Bulge: A Demographic Dividend or Disaster? in *Foresight Africa 2012*, Brookings Press 2012.
- Aid Transparency Index results (2016). <http://ati.publishwhatyoufund.org/index-2016/results/> and further analysis on results information <http://www.publishwhatyoufund.org/updates/by-topic/iati/open-results-information-what-do-we-know/> Accessed 2 February 2019.
- Behraves, M. (2011, February 3). Constructivism: An Introduction. *E-International Relations*.
- Beyond AGOA. *Looking to future of U.S.-Africa Trade and Investment*. Office of the U.S. Trade Representative. September 2016.
- Brenton, P. and Mombert H. (2006), “The African Growth and Opportunity Act, Exports, and Development in Sub-Saharan Africa,” *World Bank Policy Research Working Paper*, No. 3996
- Cadot, O., Gourdon, J., Hoppe, M., Treichel, V., (2012, March). Import Bans in Nigeria Create Poverty. *Africa Trade Policy Notes*.
- Collier, Paul and Anthony Venables (2007) “Rethinking Trade Preferences: How Africa Can Diversify its Exports,” *The World Economy* 30(8): 1326-1345.
- Dollar D., (April 2016)., “China’s engagement with Africa,” Brookings Paper, 2016; Prizzon and Hart, „Kenya in the new development finance landscape,” ODI report.

- E. Davies and L. Nilsson (2013), “A Comparative Analysis of EU and US Trade Preferences for the LDCs and the AGOA Beneficiaries,” European Commission Chief Economist Note, Ref Ares(2013)157432 – 07/02/2013.
- Filmer, D. et al. (2014) “Agriculture as a Sector of Opportunity for Young Africans,” in Youth Employment in Sub-Saharan Africa (Vol. 2): Full Report (World Bank Group 2014). Freedom in the World 2015, Freedom House.
- Gibbon, Peter (2003a), “AGOA, Lesotho’s „Clothing Miracle“ and the Politics of Sweatshops,” *Review of African Political Economy* 30(96): 315-320.
- Harrison, Graham (2010). *Neoliberal Africa: The Impact of Global Social Engineering*. New York: Zed Books. International Relations Organization. (n.d.). Retrieved from http://internationalrelations.org/constructivism_in_international_relations/
- Kegley, C. W., & Blanton, S. L. (2014). *World Politics: Trends and Transformations*. Boston: Cengage Learning
- Kelly, Kevin (2010), “Happy 10th Birthday AGOA but Why is There no Party?” *The East African*, May 24, <http://www.theeastafrican.co.ke/business/-/2560/923770/-/3w4y6tz/-/index.html>.
- Kelly, Kevin. Kenya won’t lose AGOA status, but its EAC partners may be thrown out. *Daily Nation*, June 21, 2017.
- Keohane, Robert O. & Nye, Joseph S. (2011). *Power and Interdependence revisited*. Longman Classics in Political Science

- Kimenyi, Mwangi S. (2009), “African Growth and Opportunity Act: A Case of Vanishing Benefits,” Retrieved on July 15th, 2017, Retrieved from: http://www.brookings.edu/opinions/2009/0730_agoa_kimenyi.aspx.
- Kingsley, Jeremiah (2017, April 6). Nigeria: Experts Canvass measures to boost non-oil exports through AGOA This Day Nigeria. <https://agoa.info/news/article/15118-empowering-the-nigerian-textile-industry.html>
- Kiunguyu, Kylie (2017)... Rwanda Will Proceed with the Ban on Used Clothes Despite Threats by the United States. Rwanda Podium.
- Loayza, N. and D. Raddatz (2006),” The Composition of Growth Matters for Poverty Alleviation,” World Bank Policy Research Paper 4077.
- Lucke, Lewis (2004), “Swaziland has used AGOA to make Great Economic Strides,” report on US Senate testimony, 15 June, <http://allafrica.com/stories/200406181003.html>.
- Mason, Amy M. (2008), “The Degeneralization of the Generalized System of Preferences (GSP): Questioning the Legitimacy of the U.S. GSP,” Duke Law Journal, 54(2), November, pp. 513-547
- Mattoo, A, Devesh Roy & Arvind Subramanian (2006), The Africa Growth and Opportunity Act and its Rules of Origin: Generosity Undermined, World Bank Policy Research Working Paper, No. 2908
- Meltzer, Joshua P. 2016 “Maximizing the Opportunities of the Internet for International Trade” E15 Expert Group on the Digital Economy – Policy Options Paper. Initiative. Geneva: International Center for Trade and Sustainable Development and World Economic Forum.

- Mevel, S., et al. (2013), “The African Growth and Opportunity Act: An Empirical Analysis of the Possibilities Post-2015”, Economic Commission for Africa and Brookings 2013.
- Nigeria Export Promotion Council (2013). Nigerian Export Promotion Council Activities/ Projects for 2013.
- Oyebade, A (2014) (ed.) The United States Foreign Policy in Africa in the 21st Century Issues and Perspectives, Durham, North Carolina: Carolina Academic Press.
- Ozden, Çaglar and Marcelo Olarreaga (2005), “AGOA and Apparel: Who Captures the Tariff Rent in the Presence of Preferential Market Access?”, in *World Economy*, 28, pp 63 – 77
- Rana, W. (2015). Theory of Complex Interdependence: A Comparative Analysis of Realist and NeoLiberal Thoughts. *International Journal of Business and Social Science*, 290-297.
- Schneidman, W. (2012), “The African Growth and Opportunity Act: Looking Back, Looking Forward,” Africa Growth Initiative, Brookings Institution, July 2012.
- Slantchev, B. L. (2005, April 19). Rational Actor Model. Introduction to International Relations. San Diego: University of California.
- Steven Metz, “American Attitudes toward Decolonization in Africa” *Political Science Quarterly*, Vol. 99, No. 3 (Autumn, 1984), pp. 515 -533
- Sy, A. “Managing Economic Shocks: African Prospects in the Evolving External Environment,” *Foresight Africa 2015*, Africa Growth Initiative, Brookings Institution.

Tadesse, Bedassa and FayissaBichaka (2008), “The Impact of AGOA on US Imports from Sub Saharan Africa,” in *Journal of International Development*, 20 (7), pp 920 – 941

Walle, N. v. (2010, Jan). *US Policy Towards Africa: The Bush Legacy and the Obama Administration*. The Royal African Society, 109(434), 1-21.

Whitaker, Rosa (2009), “AGOA – Africa’s Best Friend,” *The African Executive*, 16-23 September,
<http://www.africanexecutive.com/modules/magazine/articles.php?article=4645&magazine=247>

World Bank Doing Business 2015: Going Beyond Efficiency, World Bank 2014.

WTO Ministerial Conference, Nairobi, “Implementation of Preferential Treatment in Favour of Services and Service Suppliers of Least Developed Countries and Increasing LDC Participation in Services Trade,” WT/MIN(15)/48, 21 December 2015.