U.S. GOVERNMENT ACCOUNTABILITY OFFICE
441 G St. N.W.
Washington, DC 20548

July 21, 2014

Congressional Requesters

African Growth and Opportunity Act: Observations on Competitiveness and Diversification of U.S. Imports from Beneficiary Countries

The African Growth and Opportunity Act (AGOA), signed into law in 2000,[1] is a U.S. trade preference program intended to stimulate economic development through export-led growth and help integrate Africa into the global economy.[2] AGOA allows eligible Sub-Saharan African (SSA) countries to export qualifying goods to the United States without import duties.[3] Prior U.S. government reports have indicated that integrating SSA countries into the global economy will require greater competitiveness of their exports. In addition, as we reported in 2008, an important goal of trade preferences is to help developing countries diversify the range of products that they export, and preferences are of little use in countries lacking the ability to produce goods desired by importers.

We were requested to examine a number of issues relating to AGOA countries' trade expansion and economic development, and factors affecting their trade with the United States and other countries. This report is the first in a series responding to the request and provides our observations on AGOA countries' trade expansion as shown by import competitiveness and diversification. This report also formally transmits the information we provided to congressional staff on July 14, 2014 (see encl. I).

---

[1]AGOA was originally enacted as Pub. L. No. 106-200, May 18, 2000. Since its enactment, AGOA has been amended three times, by Pub. L. No. 107-210, August 6, 2002; Pub. L. No. 108-274, July 12, 2004; and Pub. L. No. 109-432, December 20, 2006.

[2]Trade preference programs offer unilateral tariff reductions to eligible developing countries for the import of specified products into the United States. AGOA authorizes the President to designate countries as eligible to receive AGOA program benefits if they are determined to have established, or are making continual progress toward establishing, the following: market-based economies; the rule of law and political pluralism; elimination of barriers to U.S. trade and investment; protection of intellectual property; efforts to combat corruption; policies to reduce poverty and increase availability of health care and educational opportunities; protection of human rights and worker rights; and elimination of certain child labor practices.

[3]We defined AGOA countries as the group of 40 countries that were eligible for the AGOA trade preference program as of January 2014. The 40 AGOA countries included in this report are Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Chad, Comoros, Cote d'Ivoire, Republic of Congo, Djibouti, Ethiopia, Gabon, The Gambia, Ghana, Guinea, Kenya, Lesotho, Liberia, Malawi, Mali, Mauritania, Mauritius, Mozambique, Namibia, Niger, Nigeria, Rwanda, Sao Tome and Principe, Senegal, Seychelles, Sierra Leone, South Africa, South Sudan, Swaziland, Tanzania, Togo, Uganda, and Zambia.

To estimate competitiveness and diversification of U.S. imports from AGOA countries, we used U.S. Census data on U.S. imports from 40 countries in Sub-Saharan Africa that were participating in the AGOA program as of January 2014.[4] We analyzed these data for calendar years 2001 to 2013. To estimate competitiveness, we calculated the share of total amount of U.S. imports from AGOA countries in 2013. In addition, we analyzed total U.S. imports from AGOA countries, including both imports under AGOA (i.e., imports that received duty-free access claiming AGOA preference benefits) and other imports (i.e., imports that received duty-free access under other preference programs and international trade agreements, and imports with tariffs).[5] For our analysis of diversification of total U.S. imports of products from AGOA countries, we constructed an index using a measure of trade and commodity concentration to chart the level of diversification from 2001 to 2013. We used U.S. census trade statistics for both the competitiveness and diversification analysis. We assessed the reliability of the data by checking for internal consistency and reviewed documents related to data collection and revision processes. We determined the data were sufficiently reliable for our purposes. Enclosure II has more details on our scope and methodology.

We conducted this performance audit from March 2014 to July 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In summary, since 2001, U.S. imports from AGOA countries have increased, although AGOA countries' share of overall U.S. imports remained small and experienced declines in recent years. From 2001 to 2008, total U.S. imports both under AGOA and other imports from these countries grew from $20 billion to $82 billion, an increase of 300 percent. However, since 2008, total imports have decreased by 53 percent. With regard to U.S. imports under AGOA, since 2008, they have also declined, from $56 billion to $25 billion, a decrease of 56 percent. We also found that AGOA countries' share of U.S. imports remains small and in 2013, this market share was 2 percent.[6]

U.S. imports from AGOA countries are dominated by petroleum; however, the share of non-petroleum imports has increased, leading to higher diversification in recent years. From 2001 to 2013, petroleum products accounted for over 80 percent of U.S. imports under AGOA. The share of non-petroleum products during the same period increased from 9 to 14 percent. In 2013, the top three non-petroleum products imported under AGOA were machinery and transportation equipment (59 percent), textiles and apparel (25 percent), and minerals and resources (8 percent). Imports of machinery and transportation equipment products increased from 37 percent of non-petroleum products imported under AGOA in 2001 to 59 percent in 2013. In addition, imports of textiles and apparel have declined from 40 percent of non-petroleum products imported under AGOA in 2001 to 25 percent in 2013. We also found that a few countries represent most of the products imported under AGOA. For example, in 2013, 90

[4]We did not include imports from countries which were eligible for AGOA in the past but were no longer eligible as of January 2014 or imports from countries which have never been eligible for AGOA.

[5]The AGOA program provides duty-free access to products in addition to those products covered under Generalized System of Preferences (GSP), another trade preference program. AGOA countries continue to have duty-free access to the commodities covered under the GSP after the program expired in 2013.

[6]Over the 2001 to 2013 period, the market share of AGOA countries ranged from 1.8 to 3.9 percent and averaged at 2.7 percent.

percent of the petroleum products were imported from three countries—Nigeria (51 percent), Angola (28 percent), and Chad (11 percent); all machinery and transportation equipment products were imported from one country—South Africa; and 91 percent of the textile and apparel products were imported from three countries—Lesotho (36 percent), Kenya (34 percent), and Mauritius (21 percent).

Diversification of U.S. imports from AGOA countries, as measured by the index that we constructed,[7] has increased since 2001, but there were declines in the earlier years. From 2002 to 2011, the diversification of these imports declined from 24 percent to a low of 8 percent, grew to 10 percent in 2009, then declined to 9 percent in 2011. However, since 2011, the diversification of imports of products under the AGOA preference program has increased from 9 to 21 percent as measured by our index of commodity concentration.

Enclosure I provides more details on our observations along with graphical representations of the results of our data analyses. We are not making any recommendations in this report.

Agency Comments

We provided a draft of this report to the Departments of Commerce, State, and the Treasury; the U.S. Agency for International Development; the U.S. International Trade Commission; the U.S. Trade Representative; and the Millennium Challenge Corporation. We received technical comments from U.S. Trade Representative and incorporated them as appropriate into this report.

We are sending copies of this report to appropriate congressional committees, to the Secretary of Commerce, the Secretary of State, and the Secretary of the Treasury, the Administrator of the U.S. Agency for International Development, the Chairman of the U.S. International Trade Commission, the U.S. Trade Representative, and the Chief Executive Officer of the Millennium Challenge Corporation. In addition, the report will be available at no charge on the GAO website at http://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-8612 or gianopoulosk@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to

[7]An important goal of trade preferences is to help developing countries diversify the range of products that they produce and export. Our analysis of diversification of total U.S. imports from AGOA countries uses a measure of trade and commodity concentration. We constructed an index to show a value of 0 percent when products are extremely concentrated and a value of 100 percent when products are most diversified. We conducted the analysis at a fairly high level of product aggregation—that is, at the four-digit level of product classification in the U.S. Harmonized Tariff System.

this report are Ming Chen (Assistant Director), Farahnaaz Khakoo-Mausel, Gezahegne Bekele, Kenneth Bombara, John O'Trakoun, Fang He, Leah DeWolf, Jill Lacey, Ernie Jackson, David Dayton, Etana Finkler, Ozzie Trevino, and Jena Sinkfield.

Kimberly Gianopoulos
Acting Director, International Affairs and Trade

Enclosures – 2

List of Requesters

The Honorable Ron Wyden
Chairman
The Honorable Orrin G. Hatch
Ranking Member
Committee on Finance
United States Senate

The Honorable Robert Menendez
Chairman
The Honorable Bob Corker
Ranking Member
Committee on Foreign Relations
United States Senate

The Honorable Chris Coons
Chairman
Subcommittee on African Affairs
The Honorable Jeff Flake
Ranking Member
Subcommittee on African Affairs
Committee on Foreign Relations
United States Senate

The Honorable Johnny Isakson
Ranking Member
Subcommittee on International Trade, Customs, and Global Competitiveness
Committee on Finance
United States Senate

The Honorable Edward R. Royce
Chairman
The Honorable Eliot L. Engel
Ranking Member
Committee on Foreign Affairs
House of Representatives

The Honorable Dave Camp
Chairman
The Honorable Sander M. Levin
Ranking Member
Committee on Ways and Means
House of Representatives

The Honorable Christopher H. Smith
Chairman
The Honorable Karen Bass
Ranking Member
Subcommittee on Africa, Global Health, Global Human Rights, and International Organizations
Committee on Foreign Affairs
House of Representatives

The Honorable Devin Nunes
Chairman
The Honorable Charles B. Rangel
Ranking Member
Subcommittee on Trade
Committee on Ways and Means
House of Representatives

GAO

African Growth and Opportunity Act: Observations on Competitiveness and Diversification of U.S. Imports from Beneficiary Countries

Briefing to Congressional Requesters' Staff

July 2014

Contents

- Background
- Briefing Objective
- Observations

Page 2

GAO

Background

- In 2000, the African Growth and Opportunity Act (AGOA) was signed into law.
- AGOA provides duty-free access to a range of commodities, including agriculture, textiles and apparel, and petroleum.
- 40 countries in Sub-Saharan Africa (SSA) are beneficiaries of AGOA, as of January 2014.
- The program expires after September 30, 2015.

Notes: Eligibility for textiles and apparel benefits is only available to select AGOA countries.

Background (continued)

- SSA countries are vulnerable to economic shocks, partly due to their dependence on few commodities.
- SSA countries' integration into the global economy requires greater competitiveness of their exports.
- A goal of U.S. trade preferences is to help developing countries diversify and increase competitiveness.

Page 4

GAO Objective and Key Observations

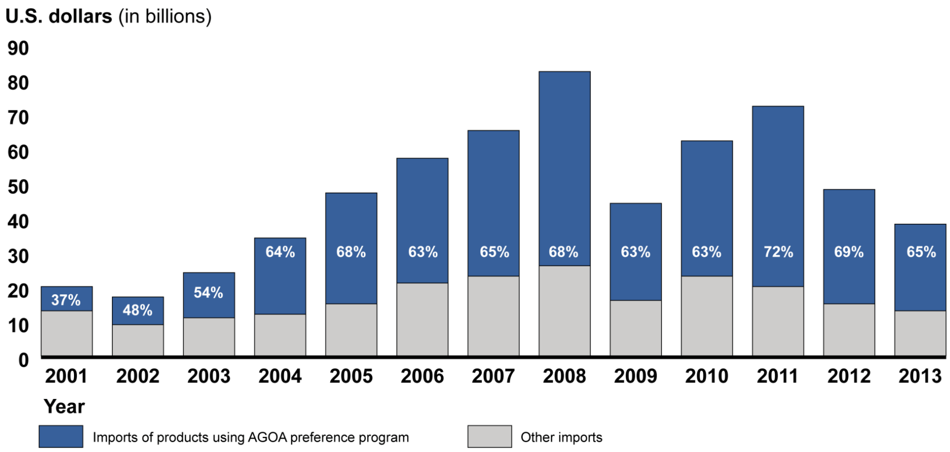
Since AGOA was enacted in 2000, how have AGOA countries improved the competitiveness and diversification of their imports to the United States?

- U.S. imports from AGOA countries declined recently, after increasing in earlier years.
- AGOA countries' share of U.S. imports remains small.
- Petroleum imports dominate; however, the share of non-petroleum imports has increased.
- U.S. imports under AGOA are dominated by a small number of countries.
- Diversification of U.S. imports under AGOA increased recently, after declining in earlier years.

5

U.S. Imports from AGOA Countries Declined Recently, after Increasing in Earlier Years

U.S. Imports from African Growth and Opportunity Act (AGOA) Countries, 2001-2013



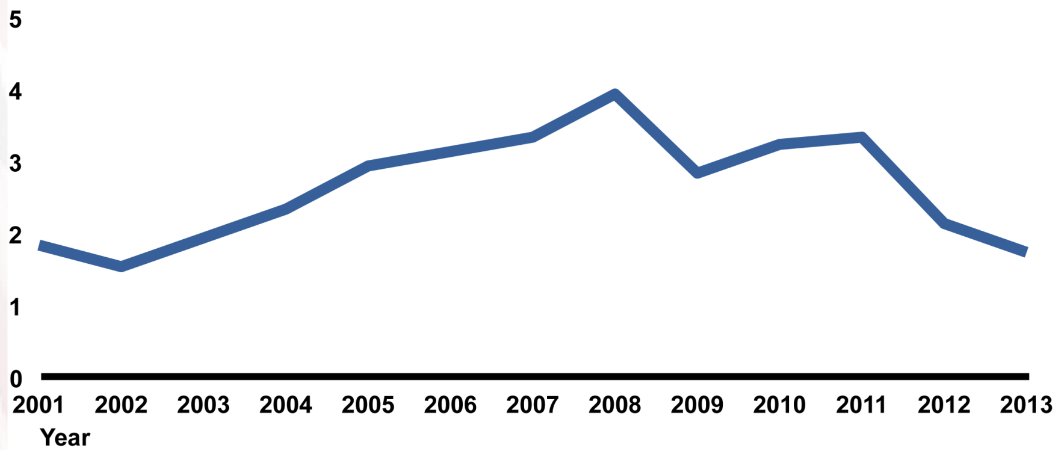
Source: GAO analysis of U.S. Census Bureau data. | GAO-14-772R

Notes. We defined AGOA countries as the group of 40 countries that were eligible for the AGOA trade preference program as of January 2014. We did not include imports from countries which were eligible for AGOA in the past but were no longer eligible as of January 2014 or imports from countries which have never been eligible for AGOA. Totals are in nominal dollars, unadjusted for inflation. Other imports include imports that received duty-free access under other preference programs (e.g., Generalized System of Preferences (GSP)) and international trade agreements (e.g., Most Favored Nation status) and imports with tariffs. The AGOA program provides duty-free access to products in addition to those products covered under GSP, another trade preference program. AGOA countries continue to have duty-free access to the commodities covered under the GSP after the program expired in 2013.

GAO

AGOA Countries' Share of U.S. Imports Remains Small

African Growth and Opportunity Act (AGOA) Countries' Share of U.S. Imports, 2001-2013



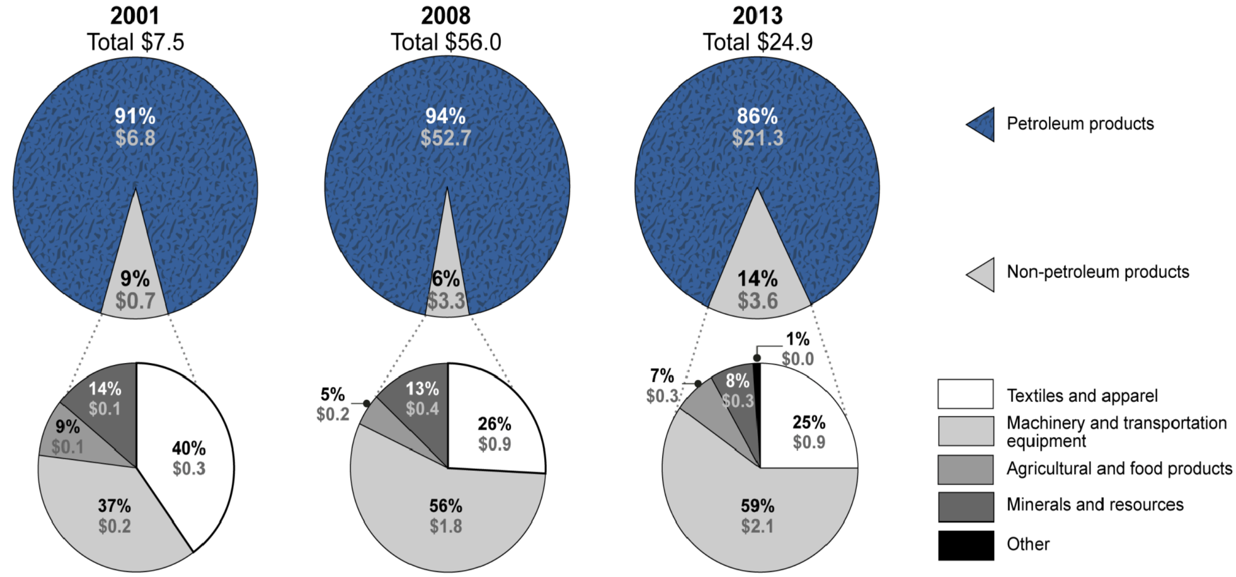
Source: GAO analysis of U.S. Census Bureau data. | GAO-14-772R

Notes: We defined AGOA countries as the group of 40 countries that were eligible for the AGOA trade preference program as of January 2014. We did not include imports from countries which were eligible for AGOA in the past but were no longer eligible as of January 2014 or imports from countries which have never been eligible for AGOA.

Page 7

Petroleum Imports Account for Over 80 Percent under AGOA, but the Share of Non-Petroleum Imports Has Increased

Product Composition of U.S. Imports from African Growth and Opportunity Act (AGOA) Countries under AGOA, 2001, 2008, and 2013 (Dollars in billions)



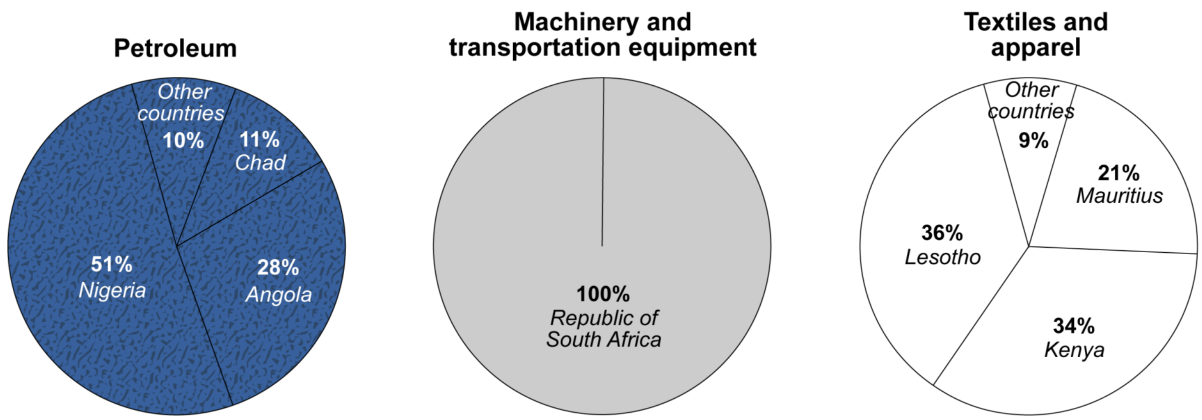
Source: GAO analysis of U.S. Census Bureau data. | GAO-14-772R

Page 8

GAO

U.S. Imports under AGOA Are Dominated by a Small Number of Countries

Country Composition of Petroleum and Non-Petroleum U.S. Imports from African Growth and Opportunity Act (AGOA) Countries under AGOA, 2013

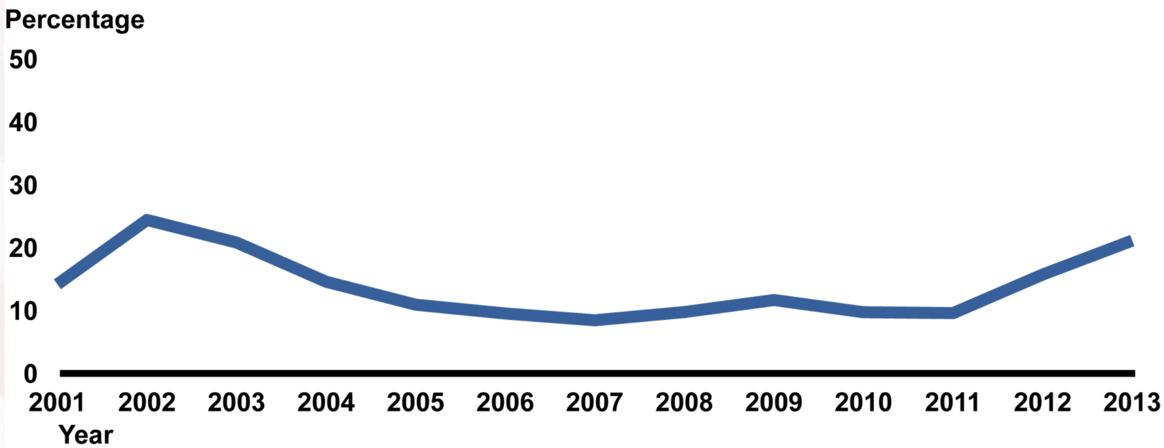


Source: GAO analysis of U.S. Census Bureau data. | GAO-14-772R

Page 9

Diversification of U.S. Imports under AGOA Increased Recently, after Declining in Earlier Years

Diversification Index of U.S. Imports from African Growth and Opportunity Act (AGOA) Countries under AGOA, 2001-2013



Source: GAO analysis of Census data. | GAO-14-722R

Note: Our analysis of diversification of total U.S. imports from AGOA countries uses a measure of trade and commodity concentration. We constructed an index to show a value of 0 percent when products are extremely concentrated and a value of 100 percent when products are most diversified. We conducted the analysis at a fairly high level of product aggregation—that is, at the four-digit level of product classification in the U.S. Harmonized Tariff System.

Page 10

Enclosure II: Objective, Scope, and Methodology

In this report, we reviewed the competitiveness and diversification of U.S. imports from the African Growth and Opportunity Act (AGOA). We mainly relied on U.S. Census trade data for imports by trading partners and by products from 2001, the first year after the enactment of AGOA, to 2013, the most recent year for which annual trade data are available. To examine competitiveness, we calculated the share of total U.S. imports from AGOA countries in 2013. We defined AGOA countries as the group of 40 countries that were eligible for the AGOA trade preference program as of January 2014.[8] In addition, we analyzed total U.S. imports from AGOA countries, including both imports under AGOA (i.e., imports that received duty-free access claiming AGOA preference benefits) and other imports (i.e., imports that received duty-free access under other preference programs and international trade agreements, and imports with tariffs).

Our analysis of diversification examines the distribution of total U.S. imports from AGOA countries at the four-digit level of product classification. We calculated a measure of diversification based on a normalization of a commonly used indicator of industry concentration known as the Herfindahl-Hirschman Index.[9] For purposes of exposition and intuitive appeal, we re-based the index by subtracting it from one to show lower values as indicating lower diversification (more concentration). Specifically, the formula used to calculate the index is:

$$H^* = 1 - \frac{\sqrt{\sum_{i=1}^{N} (x_i / X)^2} - \sqrt{1/N}}{1 - \sqrt{1/N}}$$

where x_i represents the import/export value of the *i*th commodity, X is United States' total imports from the AGOA countries in a particular year, and where N is the number of products. The index value (H*) ranges from 0 to 100 percent. If the products are evenly distributed, the value of the index would be 100 percent, and the more concentrated the product distribution, the closer the value is to 0 percent. For diversification, in addition to constructing the Herfindahl-Hirschman Index, we also examined the product composition of U.S. imports from AGOA countries. We consolidated the import products into six groups: agricultural and food, machinery and transportation equipment, minerals and resources, petroleum, textiles and apparel, and other products. We calculated the share of each product group in 2001, 2008, and 2013. We used U.S. Census trade statistics for both the competitiveness and diversification analysis. We assessed the reliability of the data by checking for internal consistency and reviewed documents related to data collection and revision processes. We determined the data were sufficiently reliable for our purposes.

[8]We did not include imports from countries which were eligible for AGOA in the past but were no longer eligible as of January 2014 or imports from countries which have never been eligible for AGOA.

[9]According to Hirschman (1964), the index is designed as a measure when concentration is a function of both unequal distribution and skewness. Albert O. Hirschman, "The Paternity of an Index," *The American Economic Review*, vol. 54, no. 5, Sept. 1964, 761.

We conducted this performance audit from March 2014 to July 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

(321029)

GAO's Mission

The Government Accountability Office, the audit, evaluation, and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's website (www.gao.gov). Each weekday afternoon, GAO posts on its website newly released reports, testimony, and correspondence. To have GAO e-mail you a list of newly posted products, go to www.gao.gov and select "E-mail Updates."

Order by Phone

The price of each GAO publication reflects GAO's actual cost of production and distribution and depends on the number of pages in the publication and whether the publication is printed in color or black and white. Pricing and ordering information is posted on GAO's website, http://www.gao.gov/ordering.htm.

Place orders by calling (202) 512-6000, toll free (866) 801-7077, or TDD (202) 512-2537.

Orders may be paid for using American Express, Discover Card, MasterCard, Visa, check, or money order. Call for additional information.

Connect with GAO

Connect with GAO on Facebook, Flickr, Twitter, and YouTube. Subscribe to our RSS Feeds or E-mail Updates. Listen to our Podcasts. Visit GAO on the web at www.gao.gov.

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Website: www.gao.gov/fraudnet/fraudnet.htm
E-mail: fraudnet@gao.gov
Automated answering system: (800) 424-5454 or (202) 512-7470

Congressional Relations

Katherine Siggerud, Managing Director, siggerudk@gao.gov, (202) 512-4400, U.S. Government Accountability Office, 441 G Street NW, Room 7125, Washington, DC 20548

Public Affairs

Chuck Young, Managing Director, youngc1@gao.gov, (202) 512-4800
U.S. Government Accountability Office, 441 G Street NW, Room 7149
Washington, DC 20548