THE AMERICAN GROWTH OPPORTUNITY ACT IMPACT ON U.S. TRADE WITH KENYA

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ABSTRACT

The American Growth Opportunity Act legislations provide duty-free access of selected African products into the US market. Kenya became eligible for participation in the year 2000. This study analyzes trade creation in Kenya after the legislation`s implementation. The available literature shows that trade increases after the implementation of free trade agreements. The data included historical trade data, historical exchange rate data and US tariffs data. The study used a regression model and the results showed that positive trade was created after the implementation of the legislations.

JEL: F13, F14

KEYWORDS: Kenya, AGOA, Trade Creation

INTRODUCTION

The American Growth Opportunity Act (AGOA) is a United States legislation that provided duty-free access to selected products from eligible African countries into the US market. The first AGOA was signed into law in 2000 by US President Bill Clinton. Subsequent amendments were signed in 2002, 2004 and 2006 by US President George Bush. The eligible goods included textile, agricultural and chemicals products. These goods were chosen because they do not compete with US products. The textile and apparel industries considerably expanded with hundreds of thousands of jobs created in Africa since 2000. Kenya officially became AGOA-eligible in 2000. Table 1 shows the Kenyan exports to different trade partners from 1999 to 2006.

Table 1: Kenya`s exports with trade partners, 1999-2006 (In million of Kenya Shillings)

Year	1999	2000	2001	2002	2003	2004	2005	2006
Europe	39,741	41,804	42,499	49,478	56,579	60,933	66,451	71,415
USA	2,761	2,804	3,414	3,377	2,790	4,502	12,053	20,326
Canada	433	473	359	440	435	461	492	606
Africa	57,320	61,930	72,513	83,085	84,653	101,853	120,790	101,305
Asia	20,754	22,241	25,351	25,914	27,781	33,038	38,692	37,915
Australia	654	615	835	559	747	618	894	723
Other	798	4,345	2,093	6,009	6,635	12,335	20,335	11,630
Total exports	122,559	134,527	147,590	169,250	183,154	214,593	260,422	250,993

This table shows the different trade partners of Kenya. Kenya`s main trade partner is Africa. The second trade partner is Europe. The USA-Kenya trade has increased during the period 1999-2006. Source: Kenya Bureau of National Statistics

Before the AGOA, Kenya was an eligible country of the United States Generalized System of Preferences (GSP). The US government instituted the GSP in an effort to promote economic growth in developing countries. The program provided duty-free treatment for over 3400 products from 131 countries. The eligible products include agricultural and fishery products. Textile and apparel products were not included in the GSP program. Lair and Sapir (1987) found a significant increase of exports from developing countries to the US, because of GSP. Table 2 shows selected Kenyan exports to the US from 1996 to 1999: The AGOA legislations liberalized market access to the US and were widely cheered in African countries because of the anticipated benefits. Table 3 shows the Kenyan exports (AGOA-eligible products) to the US from 2000 to 2007. Table 4 shows the Kenyan exports (AGOA-eligible products) to the US from 2000 to 2007. This study attempted to analyze the trade creation in Kenya after the implementation of the AGOA legislations. A trade creation model was used in this study. The results showed that the AGOA created positive trade between Kenya and the US. The rest of this paper is as follows: Section 2 covers the literature review on the research topic. Section 3 describes the data and methodology used in this research study. Section 4 provides the research results and finally Section 5 concludes the study.

Table 2: Kenyan exports to the US (In thousand dollars)

Year	1996	1997	1998	1999
Agriculture Exports to US	34,252	38,508	41,442	42,371
Chemicals Exports to US	1,393	3,744	670	773
Textile Exports to US	27,908	31,554	33,561	39,460

This table shows the Kenyan exports to the US before the implementation of the AGOA. Agricultural and textile exports have increased during the period 1996-1999. Agricultural exports continuously increased from 1996 to 1999. The growth rates are as follows: 12% in 1997, 7.6% in 1998 and 2.2% in 1999. Textile exports continuously increased as well from 1996 to 1999. The growth rates are as follows: 13% in 1997, 6.3% in 1998 and 17.5% in 1999 Source: www.census.gov

Table 3: Kenyan exports to the US, 2000-2003 (In thousands of US $)

Year	2000	2001	2002	2003
Agriculture Exports to US	31,856	62,067	45,482	54,274
Agriculture Duty-Free AGOA	4,564	8,845	6,730	8,483
Chemicals Exports to US	1,956	2,162	4,820	5,381
Chemicals Duty-Free AGOA	751	1,308	2,591	2,733
Textile Exports to US	44,048	64,682	125,904	187,561
Textiles Duty-Free AGOA	41,074	62,896	100,001	152,466

This table shows Kenya`s exports to the USA for the period 1999-2003. Agricultural, textile and chemical products are AGOA-eligible products. Source: Kenyan Ministry of Trade

Table 4: Kenyan exports to the US, 2000-2003 (In thousands of US $)

Year	2004	2005	2006	2007
Agriculture Exports to US	47,508	45,012	58,300	52,204
Agriculture Duty-Free under AGOA	6,149	4,983	6,490	3,796
Chemicals Exports to US	2,945	4,944	5,251	5,112
Chemicals Duty-Free under AGOA	1,445	3,073	3,323	813
Textile Exports	277,325	278,043	284,074	290,894
Textiles Duty-Free AGOA	265,991	256,082	257,896	260,685

This table shows Kenya`s exports to the USA for the period 2004-2007. Agricultural, textile and chemical products are AGOA-eligible products. Source: Kenyan Ministry of Trade

LITERATURE REVIEW

The AGOA was cheered in Africa because of anticipated trade benefits. Accordingly, some research studies have analyzed the benefits and changes in trade volumes between the US and African eligible countries. Ikaria (2003) noted that, within only two years of qualifying for AGOA, Kenya`s exports of clothing and investments in the textile sector experienced remarkable growth. Shapiro (2003) also found that many African countries were successful in taking advantage of the US market opportunities through AGOA. Nove (2003) analyzed if the AGOA would indeed increase African agricultural exports to the US. The study showed that the predicted increase of agricultural exports is unlikely.

Economists such as Krugman (1991) and Kruger (1999) agree that trade liberalization lowers tariffs and therefore creates trade between partners (trade creation). The country's national welfare will be raised with the increased trade. There is an extensive literature on the benefits of trade liberalization. The general model used in these studies looks at the trade volumes before and after the implementation of the free trade agreements. Klausing (2001) studied the Canada-US Free Trade agreement and showed strong evidence of trade creation of about $42 billion increase in US imports from Canada for the period 1989-1994. Other economists have researched trade creation from the North American Free Trade Agreement (NAFTA). Krueger (1999) found that Mexico experienced a tremendous increase of exports to the US and Canada in the first five years of the treaty. Sunsato (2006) said that the US started importing more agricultural products from Mexico after implementation of NAFTA. Daeber (2010) found significant trade creation between the US and Mexico after implementation of the NAFTA.

DATA AND METHODOLOGY

The data included monthly trade data from the Kenyan National Bureau of Statistics and the Kenyan Ministry of Trade. US Tariffs historical data were pulled from the US Trade Commission Harmonized Tariffs database. Table 5 shows the summary statistics of the data used in this study.

Table 5: Summary Statistics data

	Mean	SDev	Monthly observations
Kenya`s Exports to USA (Million US $)	17.51	9.09	107
Kenya`s Exports to other countries (Million US $)	322.04	14.56	107
US Tariff rate	5.4	9.15	107
Other countries tariff rate	6.1	24.60	107
Exchange rate Kenya Shilling – US Dollar	73.69	14.21	107

This data is for years 1999-2007. The tariff rate is the duty paid relative to the value of the commodity in the year. The data was pulled from various resources including the US Harmonized tariff system, Kenya`s Ministry of Trade and the Kenya Central Bank database.

The trade creation model analyzed the change of Kenya`s exports to the US after implementation of the AGOA legislation in 2000. The regression equations were developed from import-demand schedules and export-demand schedules (US import-demand schedules and US export-demand schedule). The import-demand supply is:

$$Di = \gamma d + \delta dp \; ln\, Pi + \delta dz\, E \qquad (1)$$

Where δdp is negative so that a higher price implies a lower import demand; E is the exchange rate and Pi is the price

The export supply is:

$$Si = \gamma s + \delta sp \; ln\, Pi + \delta sz\, Z \qquad (2)$$

Where δdp is positive so that export supplies increases with higher prices and Pi is the price

Tariffs increase the price paid by consumers of imports and reduce the prices received by producers of exports. By adding the tariff Ti, the price becomes Pi (1+ Ti). The demand curve becomes:

$$Di = \gamma d + \delta dp \; ln\, Pi + \delta dp \; ln\,(1 + Ti) + \delta dz\, Z$$

By setting the supply and the tariff-inclusive demand equal, we can determine the equilibrium price and the quantity traded (in presence of tariffs).

$$Ln\, Di \;=\; Constant\, term \;+\; B\, ln\,(1 + Ti) \;+\; CZ$$

Where B is a term that depends on price elasticity of import demand and export supply (δdp δsp / δsp - δdp). C also depends on this elasticity.

The change in trade is measured as follows:

$$Ln\, Di,t - ln\, Di,t-1 \;=\; B\,(\,ln\,(1+Ti,t) - ln\,(1+Tt-1)\,) \;+\; C\,(\,Zi,t - Z\, i,t-1)$$

Or

$$\%\, Change\, Imports\, i,t \;=\; \alpha \;+\; \beta i\, Change\, Tariffs\, i,t \;+\; \beta t\, E$$

RESULTS

Table 6 shows the change of trade (between Kenya and the US) after the implementation of the AGOA. Change is imports were measured from a base year.

Table 6: Change of Trade after AGOA I

Tariff Change	**0.1072** **(0.475)**
Year dummy 2000	0.1971 (0.271)
Year dummy 2001	0.1410 (0.260)
Year dummy 2002	0.1377 (0.258)
Year dummy 2003	(0.0362) (0.347)
Year dummy 2004	0.1211 (0.280)
Year dummy 2005	0.1431 (0.291)
Year dummy 2006	(0.1555) (0.288)
F Stat	69.20
Probability (F)	0.00
R-2	0.017

This table shows the results of the study. Standard errors are in parentheses. For every 1% tariff change, there is a 10.72% increase in Kenya`s exports to the US. In the year 2000, US imports from Kenya increased by 19.71% after the change of tariffs; In the year 2001, US imports from Kenya increased by 14.10% after the change of tariffs; In the year 2002, US imports from Kenya increased by 13.77% after the change of tariffs; In the year 2003, US imports from Kenya decreased by 3.62% after the change of tariffs; In the year 2004, US imports from Kenya increased by 12.11% after the change of tariffs; In the year 2005, US imports from Kenya increased by 14.31% after the change of tariffs; In the year 2006, US imports from Kenya increased by 15.55% after the change of tariffs.

The implementation created positive trade between Kenya and the US. A 1% tariff change created 10.72% of Kenya`s exports to the US. At the exception of year 2003, US imports from Kenya have significantly increased.The review of the Pre-AGOA and Post-AGOA trade statistics showed a significant increase in trade volumes. The trade volume increase was more significant for textile products. The results showed that a 1% tariff change created an extra 10.72% Kenyan export to the US. After the implementation of the AGOA, the research results also showed positive growth in terms of trade volumes.

CONCLUSIONS

The AGOA legislations provided duty-free access for selected African products into the US market. Kenya became AGOA-eligible in the year 2000. The goal of this paper was to analyze the impact of the AGOA legislation on the trade between Kenya and the US. The data used included Kenyan monthly trade data, historical exchange rate data and historical US tariffs data. The regression analysis focused on the change of trade patterns after the implementation of the AGOA legislations. The results showed that a 1% tariff change created an extra 10.72% Kenyan export to the US. This research study is a contribution to the literature on Trade Creation and Diversion. At this time, more FTAs are being negotiated and/or enacted. We recommend future potential research to analyze the trade created after the implementation of newer FTAs such as the East African Community (EAC) and Common Market of Eastern and Southern Africa COMESA in Africa.

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