

AFRICAN GROWTH AND OPPORTUNITY ACT: GROWTH, COMPETITIVE AND DIVERSIFICATION OF CAMEROON EXPORT.

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I- INTRODUCTION

Economic and trade relations between Cameroon and the United States began tritely in 1986, with the signing of the BIT (Bilateral Investment Treaty). These treaties were intended to encourage developed countries, especially Cameroon to adopt a macroeconomic framework and structural policy can promote growth. Despite the signing of these treaties, the African countries had experienced few years later a deeply economic crisis, which high up the delays of their development comparing to other regions. Such situation

In view of the difficulties faced by African countries to integrate into the world trade, the US had established new agreements called AGOA (**African Growth and Opportunity Act**). Cameroon was eligible for AGOA agreements proposed and implemented by the US in 2000. As previously all trade agreements signed between Cameroon and other countries, these integrate the investment component to boost economic growth. These agreements which had been added to a multitude of trade agreements signed between Cameroon and the West. We can name the countries that recently signed with China and the Economic Partnership Agreements (EPAs) signed with the European these are just those mentioned

In reality it was the arrival of the Chinese strength on the African continent that drops down the relationship and different treaties which had been before between Africans countries and western powers. By the step of trade what Africa buy from china begin to slowly change

while China continues to concentrate on raw materials and energy resources in Africa. Its exports to Africa are turning to high-end products, a trend that should be followed. Indeed, in 2013, bilateral trade between China and Africa was at 172.83 billion dollars, up 5.5% from the previous year. Thus, the race of the strategic positioning has boosted investment and trade in Africa.

It is through this sense that under pressure from the WTO, the European Union revised its agreements with the ACP (African, Caribbean and Pacific). Pursuant to the provisions of the Cotonou Agreement signed in 2000 and revised in Luxembourg in 2005, the ACP Group of States and the European Union have agreed to conclude new trading arrangements compatible with the rules of the World Trade Organization (WTO), progressively removing barriers (tariff and customs) to trade between them and enhancing cooperation in all areas related to trade. To better meet the objectives of the Cotonou Agreement in terms of poverty reduction, inclusive growth, sustainable development and the gradual integration of ACP countries into the world economy, the Economic Partnership Agreements provide extensive liberalization not only trade in goods but also trade in services. Which will result in a major restructuring of the various markets?

This is the same as in 2000 launched the US had signed with the African countries preferential agreements on trade and investment. Called African Growth and Opportunity Act (AGOA), the agreements were intended to stimulate economic development through growth driver's exports and easier the integration of African countries in globalization. These agreements allow the AGOA countries of sub-Saharan Africa to export quality goods to the US duty free. In this sense, the US wants to assist sub-Saharan African countries to the process of industrialization and diversification of their economies. Thus, the US government is investing in the countries concerned.

Cameroon, through these agreements has intensified relationship trade with the United States. As illustrated by the figure below, we see that the trade balance is in favor of Cameroon.

Figure 1 : Bilateral goods trade United States – Cameroon



Source: AGOA info web site

Since the signing of the AGOA agreements, exchanges between Cameroon and the United States have evolved upward, indicating a privileged trading relationship in favor of Cameroon. But statistics observation show that in recent year, the US crisis is severely affecting trade relations between the United States and its Western partners. In the case of Cameroon, US imports of agricultural products increased from 36,204 in 2011 to 32,759 Dollars in 2012 and 21,421 in 2013. Dollars textiles, US imports were valued at 67,000 dollars in 2011 to 7000 Dollars 2012. An overall assessment of trade between the US and Cameroon under the AGOA agreements shows that Cameroon export to the US goods worth 137,525 dollars in 2011, 144,567 in 2012 and 57,000 Dollars in 2013.

As part of these agreements, the United States provided financial supports to various eligible African countries. Therefore, we propose to evaluate the impact of these funds on industrialization and the development of trade in Cameroon. Indeed we evaluate the evolution and diversification of trade competitiveness of Cameroon since the implementation of these agreements. Thus, the influence of trade policies on trade and structural transformation of African States is the central issue of our work. The question that guides this work is: **What is the impact of AGOA Agreements on the foreign trade in Cameroon?** or **what is the impact of AGOA agreements diversification and competitiveness of Cameroonian exports?**

II- Background

The African Growth and Opportunity Act (AGOA) is a nonreciprocal trade preference program that provides duty-free treatment to U.S. imports of certain products from eligible sub-Saharan African (SSA) countries (Brock, 2014). Congress first authorized AGOA in 2000 to encourage export-led growth and economic development in SSA and improve U.S. economic relations with the region. Its current authorization expires on September 30, 2015.

Mattoo and al (2002) describes the United States enacted Growth and Opportunity Act (AGOA) and assesses its quantitative impact on Africa exports. They found that, the AGOA expands the scope of preferential access of Africa's exports to the United States in key areas such as clothing. However, its medium-term benefits would have been nearly five times greater if no restrictive conditions had been imposed on the terms of market access.

According to Jones (2013), the U.S. Generalized System of Preferences (GPS) program provides non-reciprocal, duty-free tariff treatment to certain product imported from designated beneficiary developing countries. It is one of several US trade preference programs through which United States seeks to help developing countries expand their economies. Other U.S. trade preference programs include the African Growth and Opportunity Act (AGOA), the Andean Trade Preference Act (ATPA), and the Caribbean Basin Initiative (CBI). The GPS program provides duty-free entry for over 3500 products from 127 designated countries and territories, and duty-free status to an additional 1500 products from 44 GPS beneficiaries that are additionally designated as least-developed beneficiary developing countries. U.S. implementation of the GPS program requires that eligible countries and products conform to certain criteria (Jones, 2013). First, to be designated a beneficiary developing country, developing countries must be taking steps to grant internationally recognized workers rights and to reduce trade-distorting investment policies and practices, among other things. Second, at least 35% of the appraised value of the product must be the growth, product, or manufacture of the beneficiary developing country. Third, the GPS program also includes certain curbs on product eligibility intended to shield U.S. manufacturers and workers from harm due to the duty-free treatment. These include specifically excluding certain import sensitive products from GPS, and placing limits on the quantity or value of any one product imported under the program. Fourth, GPS country and product eligibility are subject to an annual review.

U.S. imports from AGOA beneficiary countries (AGOA countries) represent a small share (2%) of total U.S. imports and are largely concentrated in energy-related products. Oil is consistently the top duty-free U.S. import from AGOA countries, accounting for 77% of such imports in 2013. Despite remaining the top U.S. import under AGOA, U.S. oil imports from the region have fallen by more than half or nearly \$30 billion, since 2011. Among non-energy products, apparel is the top export for a number of AGOA countries. U.S. apparel imports typically face relatively high tariffs and are excluded from duty-free treatment in GSP, but are included in the AGOA preferences giving AGOA countries a competitive advantage over other apparel producers. Still, only a handful of countries, primarily Lesotho, Kenya, and Mauritius, make significant use of the apparel benefits. Apart from apparel and energy products, South Africa accounts for the bulk of U.S. imports under AGOA. As the most economically-advanced country in the region, South Africa also exports a much more diverse range of manufactured goods than other AGOA countries; vehicles in particular have become a major South African export under AGOA.

Unlike other U.S. preference programs, AGOA directs the President to target U.S. government technical assistance and trade capacity building (TCB) in AGOA beneficiary countries.²⁵ This assistance is intended to encourage governments to (1) liberalize trade policy; (2) harmonize laws and regulations with WTO membership commitments; (3) engage in financial and fiscal restructuring; and (4) promote greater agribusiness linkages. AGOA also includes assistance for developing private sector business associations and networks among U.S. and SSA enterprises.²⁶ Technical assistance must be targeted to increasing the number of reverse trade missions; increasing trade in services; addressing critical agricultural policy issues; and building capabilities of African states to participate in the WTO, generally, and, particularly, in services.

In FY2012, the most recent year for which data are available, the United States reported obligating approximately \$94.6 million in TCB assistance to AGOA countries, down considerably from the previous five years during which TCB funding averaged over \$600 million per year.

Karingi and al was presented a report in collaboration between the AUC, UNECA and regional Economic Communities for the AGOA Mid-Term Review in 2011. This report documents the main findings of a survey undertaken by UNECA, AUC and RECs on a continental level, to assess how AGOA eligible countries are benefiting from preferences conferred to them under AGOA. Among the main findings, an important share of respondents to the survey reported having experienced employment, trade, investment creation thanks to

AGOA. There was evidence that AGOA has been beneficial, but its full potential has not been realized. Therefore, in order to tap into these reported benefits the great majority of respondents are of the view that AGOA needs to be revised. Among others, requirements and restrictions need to be relaxed and the scheme needs to be extended beyond 2015, for beneficiaries to maximize employment, trade investment and regional integration related gains.

III- Impact des accords AGOA sur l'évolution de l'économie camerounaise

1- Impact des accords AGOA sur la croissance du PIB

Figure 2 : AGOA weight in Cameroon export

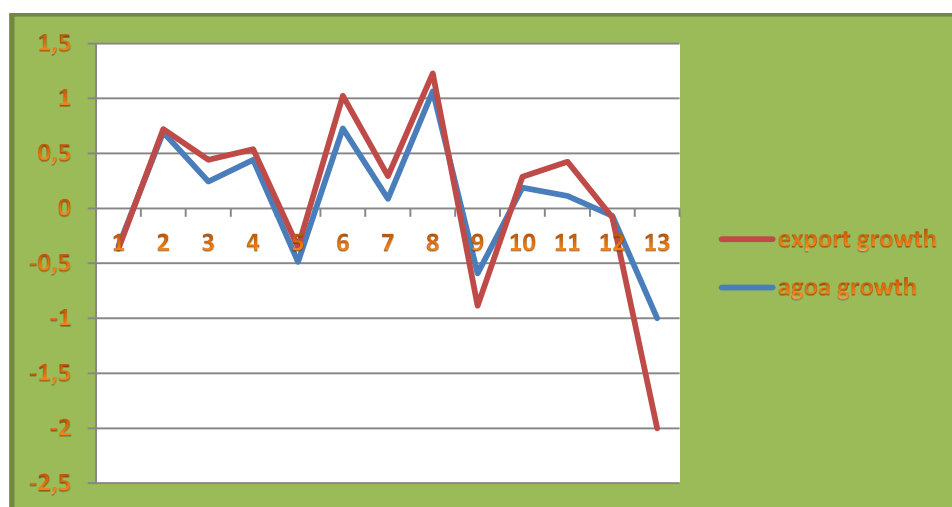


Source : des auteurs a partir des données du WDI et du site AGOA info

We see that the Cameroonian exports to the United States under the AGOA agreements evolve between 3 and 9% never reached 10%. And since 2009 they decrease continually, despite the recovery of world trade. For clarity, we note that it was in 2005 and 2008 that these exchanges contributed the most in total trade and it is in 2002 and in 2006 they contributed the least.

At first sight, one could say that the bilateral trade relations between the United States and Cameroon can not significantly influence the economic situation of Cameroon.

Figure 3: évolutions des taux de croissance des exportations



Source : des auteurs à partir des données du WDI et du site AGOA info

Despite the low weight of Cameroon's exports to the US under AGOA agreements reveals that the growth rate of total exports Cameroonian moving in the same direction as the growth of exports under the AGOA agreements.

In Figure 3 appears to have a positive correlation between the two indicators, as both indicators moved in the same direction.

Covariance Analysis: Ordinary

Date: 04/13/15 Time: 11:37

Sample: 2000 2012

Included observations: 13

Covariance

Correlation

t-Statistic	EXPORT_GR AGOA_GROW	
	OWTH	TH
EXPORT_GROWTH	0.108743	
	1.000000	

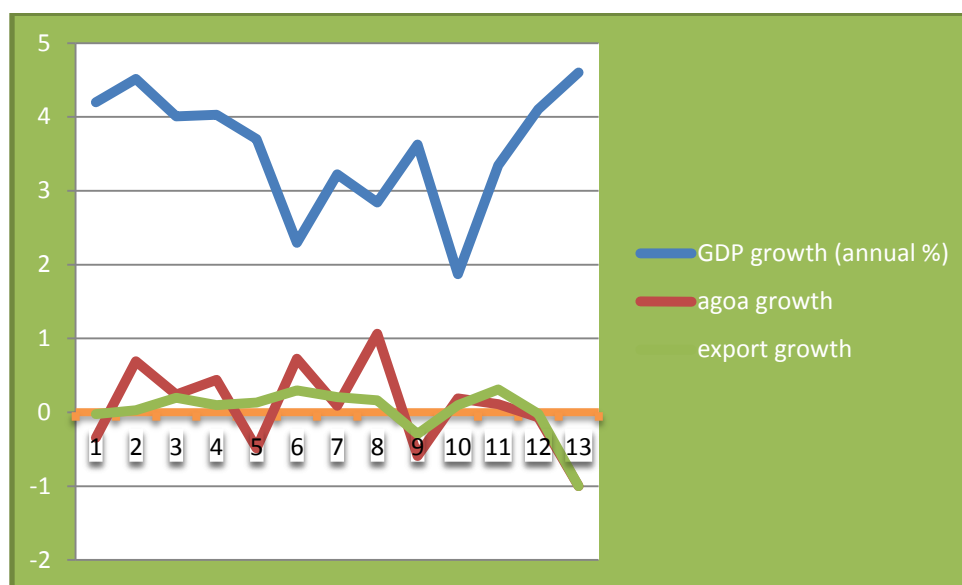
AGOA_GROWTH	0.128687	0.313674
	0.696780	1.000000
	3.221810	----

This positive correlation is demonstrated through an analysis of covariance allows us to have a degree of rather strong correlation ranging has almost 0.7. This value is statistically significant because the student done using the statistical software Eviews gives us a value of 3.22. The latter value confirms the very positive relationship between the two growth rates.

So it must be understood here that the exports to the USA under the framework of AGOA agreements suffer as the impact of international trade that total exports. This can be explained by observing the type of eligible products, including agricultural products and products of the energy sector. These are the main export product of Cameroon.

That said, it is interesting to assess the possible relationship between gross domestic product growth rate and the growth rate of trade between Cameroon and the United States under the AGOA agreements.

Figure 4



Source :

The interpretation of Figure 4 is very embarrassing because of the gap between the three indicators. Cameroon's exports is noticed that the growth rate is between -1 and 1. While the GDP growth rate is well above 2% and even close to 5%.

can allow us to discover the meaning of correlation of different indicators.

Covariance Analysis: Ordinary

Date: 04/13/15 Time: 12:54

Sample: 2000 2012

Included observations: 13

Covariance		
Correlation		
	GDP_GROWTH	
	AGOA_GROWTH__ANNUAL__	
t-Statistic	TH	___
AGOA_GROWTH	0.313674	
	1.000000	

GDP_GROWTH__A		
NNUAL__	-0.191870	0.636930
	-0.429260	1.000000
	-1.576313	-----

Analysis of the table of correlations observed that the growth rate of GDP and export growth rates in the agreements are negatively correlated. That is to say, these two indicators move in opposite directions.

But these factors do not provide information on the direction of causality between the two indicators. For this, we conducted a causality test Granger to whether trade between Cameroon and the US affect the evolution of the gross domestic product of Cameroon.

Pairwise Granger Causality Tests

Date: 04/13/15 Time: 12:55

Sample: 2000 2012

Lags: 2

Null Hypothesis:	Obs	F-Statistic	Prob.
GDP_GROWTH__ANNUAL__ does not Granger Cause AGOA_GROWTH	11	0.30826	0.7457
AGOA_GROWTH does not Granger Cause GDP_GROWTH__ANNUAL__		3.34829	0.1055

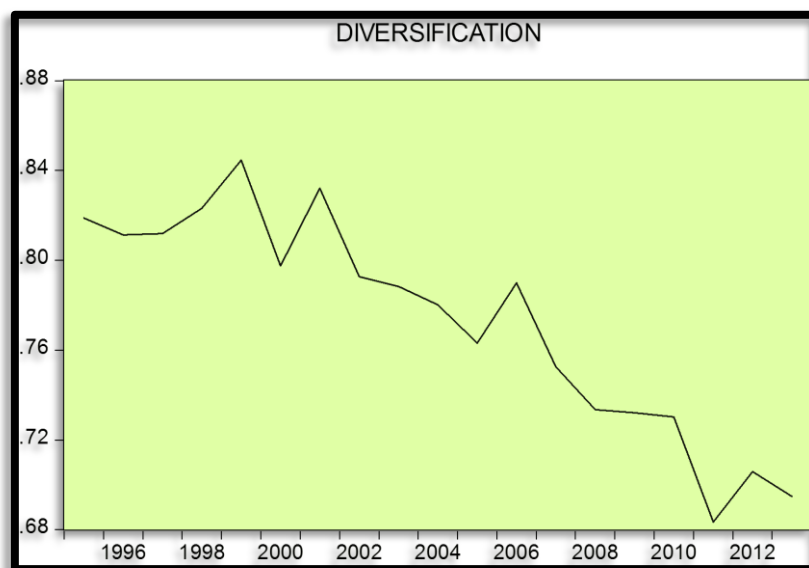
Our test clearly shows that Cameroon's exports to the United States under the AGOA agreements affect positively the evolution of the gross domestic product of Cameroon.

So the Cameroon win intensify trade to improve its economic growth objectives.

2- Impact des accords AGOA sur la diversification de l'économie Camerounaise

In the previous section, we found that despite the low contribution of Cameroon's exports to the United States under AGOA agreements in total exports from Cameroon, these exports greatly influence the evolution of the gross domestic product growth rate .

From this point of view, so we find interesting to make a deep analysis on the contribution of AGOA agreements Cameroonian economy. Thus, the following analysis is oriented towards the analysis of the diversification of the Cameroonian economy.



The observation of the curve diversification indices between 1995 AND 2013 period brings up an improved degree of diversification of Cameroon in time. This improvement corresponds exactly to the period of application of AGOA agreements.

Indeed, diversification of Cameroon indices is noticed that before 2000 were well above 76%. But after 2000 it feels a clear improvement of the situation of the diversification of Cameroonian exports. This period also corresponds to the period of the bet under AGOA agreements between Cameroon and the United States

IV- Methodology

To achieve the objectives mentioned, we are leveraging a Computable General Equilibrium Model (CGE) inspired by microeconomic theory of general equilibrium developed by MEL Walras [Walras (1874 and 1898); Guillermo (2013)]. The CGE model is a simulation tool impact of structural shocks with a view to help the public decision making. The interest of the CGE in relation to other macroeconomic models is its ability to explicitly represent potential transmission channels of shocks and reflect the Economy structure by integrating into a single framework the various interdependencies economic agents. Indeed, by definition, a CGE model is a general equilibrium model; it takes into account all of Economy and determines relative prices in all markets the products of factors to ensure the balance of the latter. Also by definition, a CGE model is a computable; it allows a quantitative analysis of economic problems that are sometimes difficult or impossible to study solely on the basis of a theoretical modeling. The CGE model we propose for this study integrates the production structure of the various sectors of the country (it takes into account almost all the country's sectors), takes into account the bilateral agreements between Cameroon and the United States under AGOA. To this end, the model constructed is a dynamic model; the introduction of the dynamics in this model involves the accumulation of capital, the growth of the labor force and total factor productivity. Thus, the capital stock (K) in industry j at time $t + 1$ is equal to the capital stock of the period T / previous period minus depreciation, plus the volume of new investment made during this period.

This model is based on the model built by Decaluwé et al. (2010). It allows to assess the impact of bilateral agreements between Cameroon and the US under AGOA. Thus, it includes four agents namely households, businesses, government, and the United States of America symbolizing the world; two factors of production: capital (K) and labor (L). Regarding the foreign trade of Cameroon including products exported to the USA, ten products were selected for this analysis. This is essentially the products affected by the AGOA agreement. Including agricultural products, forest products, energy products, textiles, food products, minerals, manufactured goods, etc.

In the framework of our model in terms of international trade, the Armington assumption (1969) is imposed on import demand and consumers can substitute local goods with

imported goods imperfectly. The production technology is retained constant and positive elasticity substitution (CES).

Overall, the data used in this study come from various sources. We use the data produced by the Government of Cameroon (National Statistics Institute), those produced by the US Government (website AGOA) on one hand and on the other, the basis of data Global Trade Analysis Project (GTAP). The latter contains comprehensive information on bilateral trade and relations in terms of transport and protection between 113 regions and 57 sectors.

As data from the INS, we have the supply-use table (TAR) and the table of Accounts (TCEI) that allowed the construction of the social accounting matrix (SAM) of 2005; information on the status of the MDGs related to poverty and inequality in the country.

Simulation Scenario Description the first scenario we simulate essentially based on the assumption of an extension of the eligibility of AGOA products, integrating new products to the list of goods that can be exported to the US under AGOA. We will integrate, for example, food products, manufactured goods, minerals and energy products. This scenario examines what would happen if AGOA was extended to these products.

The second assesses the orientation of foreign direct investment due to these agreements to the construction of infrastructure (energy, communication, etc.). This scenario is based on the assumption of perfect mobility of factors of production (capital K and labor). To this end, we simulate a 20% increase in the supply of financial capital (FDI). Assumed the additional investment comes from the United States under AGOA agreements. This upward variation will allow the STATE of Cameroon to increase spending on particular energy infrastructure, transport and communication. Which will mainly increase and improve the quantity and quality of infrastructure.

Scenario 1:

- Free access tariffs and quotas given to 90% of the above-mentioned products (Agri-Food, Manufactures, Minerals, Energy);
- Free access tariffs and quotas given to 91% of revenues raised from Cameroon;
- Free access tariffs and quotas given to 92% of revenues raised from Cameroon;

- Free access tariffs and quotas given to 93% of revenues raised from Cameroon;
- Free access tariffs and quotas given to 94% of revenues raised from Cameroon;
- Free access tariffs and quotas given to 95% of revenues raised from Cameroon;
- Free access tariffs and quotas given to 96% of revenues raised from Cameroon;
- Free access tariffs and quotas given to 97% of revenues raised from Cameroon;
- Free access tariffs and quotas given to 98% of revenues raised from Cameroon;
- Free access tariffs and quotas given to 99% of revenues raised from Cameroon;
- Free access tariffs and quotas given to 100% of products raised from Cameroon.

Scenario 2:

- A constant increase in ten years, 20% of US aid regarding the funding of infrastructure under AGOA. This assistance will increase substantially by 20% every year for ten years public spending on investments in infrastructure.

V- RESULTS ANALYSIS

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