Full Length Research Paper

African Growth and Opportunity Act (AGOA) and Economic Community of West African States (ECOWAS) regional trade: Challenges and prospects

Edun Adetunji Oluwafemi[1], Khikmatullo Kudratov[2], Bah Abdoulaye Oury[3], Oji-Okoro Izuchukwu[1]* and Abba Abubakar Shehu[3]

[1]School of Economics, Wuhan University of Technology, Wuhan P.R, 430070, China.
[2]Collage of International Cultural Exchange, Huazhong Normal University, Wuhan P.R. 430079, China.
[3]School of Management, Wuhan University of Technology, Wuhan, P. R, 430070 China.

The African Growth and Opportunity Act (AGOA) is a US trade act that has significantly enhanced US trade with about 39 Sub-Saharan (SSA) countries. However, despite the opportunities in the trade program ECOWAS countries have not benefitted much from the available opportunities in the program. The mission of this paper is to look at why ECOWAS countries have not been able to capture the opportunities of AGOA significantly, from the perspective of process product methods (PPM) standards and what need to be done by ECOWAS to take advantage of the opportunities presented by the program. Therefore, this paper advocated some recommendations to ECOWAS leaders and other policy makers ECOWAS countries should strengthen their current position on trade and investments by expanding the list of their products on AGOA to include some more processed agricultural products that are deemed import-sensitive. Similarly the pre-conditions for eligibility into AGOA should be relaxed; especially protection of workers' rights, intellectual property rights etc, due to the low level of trade from the region as most firms in the region are at infant stage and may be costly for them to carry out reforms in their operation areas, as they need time to do this. Furthermore, the use of trade preferences as a tool to promote foreign policy objective by USA will not produce significant benefits in terms of enhancing the regions trade and overall economic performance, the exclusion of Cote d'Ivoire is a reference point. Further studies can be carried out especially on the need for trade expansion among countries in the region and on knowledge management in ECOWAS states.

Key words: African Growth and Opportunity Act (AGOA), Economic Community of West African States (ECOWAS), trade, exports.

INTRODUCTION

The African Growth and Opportunity Act (AGOA) came into effect in 2000. It is a United States trade act that significantly enhances U.S market access for about 39 Sub-Saharan African (SSA) countries. The act was originally expected to cover 8 years from 2000 to 2008, but with an amendment signed into law by President George-Bush in 2004; it was further extended to 2015, with a special dispensation relating to apparel extended to 2007 and on December 20, 2006. A key challenge of

AGOA was signed into law, extending the government provisions to 2012. In 2007, a revised textile certificate of origin published to give effect to "abundant supply" provisions contained in the most recent legislative changes and these were later re-pealed in 2009, with a new bill recently published.

AGOA builds on existing U.S trade programs by expanding the (duty-free) benefits previously available only under the general system of preferences program (GSP).The duty-free access to the U.S market under the combined AGOA/GSP, program stands at approximately 7000 product tariff lines including roughly 1800 product tariff lines that were added to the GSP by the AGOA

*Corresponding author. E-mail: izulenny@yahoo.com.

legislation. Notably these include items such as apparel and footwear, wine, certain motor vehicle components, variety of products, chemicals, steels and others. This paper is arranged as follows; the introduction, review of some literatures, results and discussion, conclusion and recommendation.

REVIEW OF LITERATURE

The African continent has been plagued by several factors, which have hampered her economic growth, and investment or capital formation is considered as one of the essential components of GDP growth. The following scholars Collier and Guning (1999), Khan and Reinhart (1990), Ghura (1997) says that the effect of investment on the economic growth is large, statistically significant and robust. Many African countries have now embarked on structural adjustment programs, which aim at promoting investment especially the private sector. This has been the corner stone of many government economic policies in order to derive full benefits from AGOA.

The financial sector in many developing countries is highly underdeveloped and it is just getting out of repression, its inability to mobilize domestic financial resources to close the gaps and develop the economy is quite inadequate. However with the debt forgiveness and debt cancelation of some countries in the West African sub-region, there has been an increase in economic performance and growth especially with the understanding of the factors that determines foreign investment in flows. These factors are either pull demand side or push supply side approach or a combination of the two Singh and Jun (1996), in their study focused only on the pull factors which illustrate the relationship between host country specific conditions and the inflows of FDI. For example, factors that attracts investment, when a multinational company decides to invest in the home country. A number of socio-economic and political factors exist in the host country that determine available business opportunities and potential political risks and thus influence the multinational corporations (MNCS) decision to locate in a specific country. The following scholars, (Pigato, 2001; Akinkugbe, 2003; Asiedu, 2002) have cited other factors to include, infrastructure, market size, labor cost, openness of the economy to foreign trade, exchange rate, fiscal and other non-tax incentives, political stability, legal system and monetary policies also important have been the existence of natural resource endowments, such as crude oil, diamond and forest reserves. However, the implication of these factors is that while push factors, influence the overall size of FDI, the pull factors determines which country receives what share of FDI Carlson and Hernandez (2002). The importance of the pull factors in attracting FDI depends on FDI type and the literature generally identifies two

types of FDI. The first is market-seeking FDI, which is intended to serve the market, called the horizontal FDI, (as it involves replication of production facilities in the host country. While the other type of FDI is resource seeking FDI, which seeks to reduce t he cost of supplying the market (tariff and transport cost) or to become more competitive by responding promptly to local situations and preferences. Lim (2001), Campos and Kinoshita (2003).

The literatures on FDI determinants is large but it is characterized by a divergent views concerning some FDI determinants to developing countries. Charkrabarti (2001) says literature is not only extensive but controversial as well as market size (as measured by GDP per capita) is the most widely accepted determinant of FDI flows, market size of host country has also been identified as one of the explanatory variables (Billington, 1999; Tsai, 1994; Campos and Kinoshita, 2003; Akinkugbe, 2003). Nevertheless, Edwards (1990) and Jaspersen et al. (2000) finds a negative relationship between FDI flows and market size. Openness of the economy is also a robust factor in MNC"s decision. This evidence however is mixed, as some writers believe that FDI is intended for tariff jumping purposes, and others believe that there is a positive effect of FDI on FDI. Another scholars like Wheeler and Mody (1992), finds a negative effect on FDI in the electronic sector On exchange rate the result is equally mixed while Singh and Jun (1996) finds a significant negative relationship between real exchange rate and FDI for a group of developing countries. Edwards (1990) finds a significant positive relationship, Goldberg and Kolstad (1995) finds exchange rate uncertainty to affect the production level negatively, but relationship with FDI is unclear. Another indicator of a stable macro-economic environment used in FDI studies is for record of price-stability, as a low inflation and prudent fiscal activity signals to investors how committed and credible a government is. Schneider and Frey (1985) find both high balance of payment deficit and inflation to negatively affect FDI, while the influence of fiscal incentives (in the form of tax holidays; subsidies, etc) is expected to be positive, with mixed empirical results. However, Wheeler and Mody (1992) find them not to be important. Billington (1999) observes that host country corporate tax has a negative effect on FDI. However to fully appreciate the flow of FDI, a model specification is created and required time to adjust to the specific constraints faced by MNC"s and this is postulated as follows;

$$FDI_t - FDI_{t-1} = A(^{FDIdt} - FD_{It-1}) \text{ ------------------------ (1)}$$

Where, $FDIdt$= level of desired FDI at time t

The equation shows that change in actual FDI will respond only partially to the difference between desired FDI and past values of FDI.

In any given period, a desired level of FDI may not be completely realized (as actual FDI in the next period) because of physical and procedural constraints faced by MNC"s. The parameter „A" captures speed of adjustment to a desired FDI level further transformation of Equation 1, gives:

$$FDI^t = A\, FDI^{dt} + (1-A)\, FDI_{t-1} \text{----------------------------- (2)}$$

The desired level of FDI is based on a number of factors in the host country denoted by H and a random error term $\propto t$. The H factors are those that influence the decision of foreign investors and this desire is thus:

$$FDI\, dt = \propto 0 + \propto 1 Ht + \epsilon t \text{---------------- (3)}$$

When substituted FDIdt from Equations3 into 2, we have

$$FDI\, t = \beta 0 + \beta 1 Ht + \beta 2 FDIt\text{-}1 + \delta \text{----------------------- (4)}$$

Where $\beta_0 = A^{\propto}0, \beta_1 = A^{\propto}1, \beta 2 = (1-A)$, and $\delta t = A^{\epsilon}t$

The host country (H) factors to be included in FDI determinants are market size, growth of the economy, openness of the economy, level of education, political risk, government size, infrastructure, exchange rate, wage rate, external debt, inflation, export processing zone etc. The basic FDI model is constituted by 3 variables that regularly influence FDI in previous studies are, market size, openness of the economy, and infrastructural development. The model is thus as follows:

FDIt=a0+a1gdpt+a2opent+a3ERt+a4GRt+a5EDUt+a6Waget+a7inflt+a8PRt+a9EDt+a10INFRt+a11EPZt+a12FDIt-1+δt

Where,

GDP =per capita
OPEN=Openness of the economy
ER=exchange rate
GR=growth rate
EDU=educational level
INFL=inflation level
INFR=infrastructural level
PR=political risk
ED=external debt
EPZ=export processing zone and dummy, which takes 0 before the zone and 1 after.

With these structures in place, most MNCs will invest in such countries and this policy by ECOWAS sub-regional government has continued to encourage increased levels of private capital flows Williamson and D"Alessandro (1999), it is hoped that such positive development will lead to the private –sector playing a significant role in increasing broad-based growth and sustainable

development to the region. With the economic growth recorded by many countries in SSA many have pursued economic growth integration with the rest of the world by promoting exports (Rubin and Welsber, 2003; Niroomand and Nissan, 1997). International trade is an important avenue for Africa"s participation in the global economy. Most African countries are producers of primary product due to the level of their education, technology and other infrastructural deficiencies, making them to pursue import-substitution programs, in order to develop domestic capacities and reduce dependence on imports (Amjadi et al., 1996). However such industrialization could only be sustained by imports of capital equipment and intermediate inputs which had to be financed by commodity exports (Tambi, 1998). Dependence by African countries on export of primary products has left many vulnerable to price shocks resulting from change in consumer demand, entry of other suppliers and the use of synthetic substitutes and its lost of market share to a lot of other developing countries especially Asia.

It is plausible to state here that expanding both the range of products and trading partners can improve Africa"s role in global market.

It is against this background that AGOA has provided an opportunity for ECOWAS countries to have access to global market through increased preferential access to African exports into the U.S.A, through the amendment of the U.S GSP (generalized system of preferences) program by providing duty-free and quota-free treatment for non-import sensitive products from ECOWAS countries.

Unlike reciprocal trade agreements, whereby countries involved are required to make certain trade concessions, AGOA is a unilateral trade preference program intended to reinforce ECOWAS leaders" reform efforts by providing improved access to U.S market, credit and technical expertise. However benefits of AGOA are conditioned upon meeting certain eligibility requirements all or part of the country"s AGOA"s privileges could be lost if these requirements are not met these include protection of US intellectual property right, respect labor rights, combat corruption, provide access to U.S trade and investment, establish free market, political pluralism and the rule of law. (Federal register, 2000). Extension of these unilateral benefits depends on bargaining between the white house and congress, as the white house could ask congress to enact or renew the program and interest groups, Legislators often use this to promote their objectives by introducing a series of preconditions for eligibility. Full AGOA benefits are limited to those countries that have been certified as eligible for duty free and quota free treatment for certain apparel exports, in so far as they adopt an effective visa system to prevent trans-shipment and the use of counterfeit documentation as well as rules for enforcement and verification procedures (Federal register, 2000).

AGOA has extends duty free treatment to eligible countries for more than 1800 items in addition to the

standard GSP list of 4600 items available to beneficiary developing countries. The benefits of AGOA is extended to countries that are GSP eligible under the existing frame work but beneficiary countries are also exempted from competitive need limitations that is, preferential treatment is not suspended if a country is competitive in the production of an item.

An article is deemed to originate in a beneficiary country, for duty free treatment if the sum - the cost or value of the materials produced in the country, and direct cost of processing in that country were at least 35% of the appraised value of the article at the time of entry into the USA. The 35% value-added content can also be met by counting production or inputs from other AGOA beneficiary countries as well as the USA, but U.S parts and materials will count only up to 15% of the 35% value as appraised at the U.S port of entry (Federal Register, 2000), Unlike the GSP, AGOA provides beneficiary countries duty free access to the U.S market for apparel made from fabric, yarn or thread or apparel made from fabric and yarns produced domestically or in AGOA beneficiary countries. It is however subjected to a 3% gap of overall U.S apparel imports (in square meter equivalents) growing in equal yearly increments to 3.5% of overall imports by 2008 to 2015.

AGOA (11) came into being in August 2002, as it expands trade opportunities for beneficiary countries by qualifying certain articles for duty free treatment. It also designates some non least developed countries (non-LDC) as LDCs to qualify for AGOA benefits. Further amendments AGOA (111) came into being in 2004. It extends preferential treatment for beneficiary countries until 2015 and extends third country fabric provision till 2007.

Theoretical frame work

Trade theorists from Ricardo to Leontief have used comparative advantage theory to explain the basis of International trade, while Heckscher-Ohlin theory postulated the principle of factor endowments which means countries endowed with abundant resources such as land, labor and capital will have cost advantages (the more abundant a factor, the lower its cost) meaning countries will export those goods that make intensive use of factors that are locally scarce, which explains pattern of international trade as it is in today"s world economy and Leontief has even gone further to postulate that since the U.S was relatively capital abundant compared to other nations the U.S will be an exporter of capital intensive goods and an importer of labor intensive goods. These trade theorists have come to provide a significant study on the importance of specialization and trade in enhancing productivity and peoples welfare However, governments often engage in promoting exports or restricting imports that will adversely affect domestic

production and attempt to increase comparative advantages through industrial policy that emphasize tax incentives reduction of trade barriers, stable macro-economic policies (Hong, 2000; Porter, 1990).

Most literatures on trade have revealed 3 distinct approach to the study of the contribution of trade preferences on AGOA countries exports and these are largely based on GSP with most scholars underscoring the trade expansion effect of the GSP on beneficiary countries, they showed that developing countries exports would have declined without the GSP (Pelzman,1983; Macphee and Rosenbaum, 1989; Brown, 1987) using a general equilibrium model presents production, employment, trade and price effects of the GSP and the model revealed that U.S GSP led to improvements in welfare of the beneficiaries with the emerging economy countries having the most gains, All the models assumed perfect competition and ignore the possibility that benefits of the GSP may be as a result of economic rent and not real trade effects with no real data used, but attempts to only forecast effect of GSP on trade using customs union theory and elasticity"s estimate. The second approach uses regression analysis to estimate the impact of GSP on bilateral-trade or shares. Pelzman (1983), Sapir and Lundeberg (1984) found the GSP to be significant in influencing trade flows and import market shares respectively. While the third approach is an active political economy literature on GSP and its effect on beneficiary countries exports. Lanchovichina (2001) states that un-restricted market access to the European union, Japan and U.S would produce substantial gain for less developed countries (LDC"s) and recent studies by UNCTAD (1999, 2003), as emphasized the importance of trade preferences such as GSP for small and poor countries.

This study therefore will attempt to examine the influence of preferential trade and its challenges for ECOWAS countries from the perspective of social standard of process and production methods (PPMS), because despite the opportunity of AGOA trade benefits, many ECOWAS countries have not significantly benefit from it since inception and this will be examined from ECOWAS countries export competitiveness in terms of social standard and processes and production methods.

Though many countries in ECOWAS have been be-deviled by a number of factors, which has inhibited, their emergence into the world trade and these includes, Government policies, Investment programs, economic conditions, political instability, inadequate infrastructure etc, though the U.S through (T.C.B), trade capacity building has provided funds to help governments and firms identify and develop market opportunities available under AGOA with about $200 million for a year period on African global competitiveness initiative (AGCI) under USAID initiative to help African countries expand trade and investments with the U.S with four regional trade hubs for global competitiveness located in Botswana, Nairobi,

Ghana, and Senegal, with each hub staffed by teams of trade experts to respond to regional specific need.

ECOWAS: An overview

In May 1975, the Economic community of West African states was established with the signing of the treaty in Lagos and its mission was to promote the economic integration of the West African sub-region. In 1976 Cape-Verde joined the union as a member while Mauritania, withdrew in 2000. The body was founded to achieve collective self-sufficiency for the member states by means of economic and monetary union creating a large trading bloc, the aim of the economic community has witnessed very slow progress and this led to the treaty being revised in Cotonou in 1993, towards a looser collaboration with a secretariat and the fund for cooperation, compensation and development as its two main institution to implement policies. The ECOWAS secretariat operates officially in 3 main languages (English, French and Portuguese), with 15 member countries and a total population of 256 million people with a total area of 5,112,903 km^2 and a GDP (ppp) of US$ 342,519 billion and with per capita income of US$ 7,890.

The member states have signed many treaties including treaty of non-aggression in 1978 and 1981, treaty of community court of justice in 1991, treaty of sports and cultural exchange with the establishment of a monetary union in 1994. And a customs union, the objective of which are as follows:

1) Greater economic competitiveness through open and competitive markets, with rationalization and harmonization of the legal environment.
2) The convergence of macro-economic policies and indicators.
3) The creation of a common market.
4) The coordination by sect oral policies and harmonization of fiscal policies.

ECOWAS has also plan to introduce the "eco" in 2015 in order to establish a strong stable currency to rival the CFA franc whose exchange rate is tied to that of the French treasury. The eventual goal of "eco" is for it to merge with the CFA franc, giving the West African region a single stable currency and this is being prepared by the monetary institute.

ECOWAS trade performance under AGOA

Average tariff rates on U.S imports have declined over the years due to successive rounds of world trade organization/ general agreement on tariffs and trade

(WTO/GATT) negotiations, with average U.S tariff on all imports estimated at 1.5% Advalorem according to Brenton and Ikezuki (2004). In spite of the low level of protective barriers there has been marked increase in AGOA exports, since the inception of the AGOA agreements, with U.S preferential imports from AGOA countries rising dramatically (Table 1).

However, looking at the overall exports by countries in ECOWAS region most eligible countries have benefitted from exports to the U.S though the bulk (by value) is concentrated among a relatively small number of countries, but overall exports by Nigeria to the U.S far exceeded other countries in ECOWAS, but in Africa it is followed by Angola, Gabon and South Africa, while only a handful of ECOWAS countries have recorded real significant exports to the U.S markets. Nigeria through its oil export under AGOA, accounts for over half of all exports shipped under this program, but many ECOWAS eligible countries still recorded less than $1 million worth of U.S bound exports (U.S T.C)

RESULTS AND DISCUSSION

Due to several arguments against the establishment of international social standards (that is production standards based on labor and environmental concerns), it has been harmful to less developed countries (LDC"s) to contribute to global world trade especially as they are typically endowed with infant firms attempting to gain a foothold in established world markets, without the benefit of international reputation, infant firms must have lower costs in order to encourage consumers to have a feel of their product, and it is for this reason that WTO/GATT has been reticent to allow countries to impose trade barriers on the basis of lax social standards, which it often refers to as "low standards" or non-conforming processes and production methods (PPMS). Though WTO, allows countries to regulate observable product quality (ISO 9000 standards), standards based on PPMS have generally been viewed with suspicion and this is based on the fact that

Processes and production methods (PPMS) standards are directly related to product quality, as a result social standards like those related to labor and environment are assumed to harm foreign competition, though empirical research does not support this argument Copeland and Taylor (2004) in their study on trade and environment conclude that bulk of existing studies support the claim that tighter environmental standards hurt competitiveness, but the study on labor standard effect and trade does not reach the same conclusion.

Van Beers (1988) finds no evidence that adherence to higher labor standards leads to a decrease in exports of labor intensive products. Recent studies have shown that countries with higher labor standards actually appear to have an export advantage. Kucera and Sarna (2006) find

Table 1. Bilateral trade profile between united states and ECOWAS* countries.

Detail	Value (1000 dollars)			Year-to-date January to March	
	2007	**2008**	**2009**	**2009 YTD**	**2010 YTD**
Agricultural products:					
US Exports to ECOWAS countries	914 103	1 219 657	987 670	225 713	256 344
US Imports from ECOWAS countries	91 837	93 811	161 310	44 433	85 292
Total AGOA including GSP provisions of AGOA	8 415	9 252	17 189	2 485	4 152
US imports under GSP from ECOWAS countries	8 023	9 063	16 891	2 451	3 776
US imports of duty-free items added under AGOA	392	189	297	34	416
Forest products:					
US Exports to ECOWAS countries	51 416	98 890	53 111	8 383	19 052
US Imports from ECOWAS countries	48 023	43 633	15 993	3 814	4 019
Total AGOA including GSP provisions of AGOA	5 471	3 007	1 059	307	109
US imports under GSP from ECOWAS countries	5 465	3 007	1 059	306	109
US imports of duty-free items added under AGOA	7	0	0	0	0
Chemicals and related products:					
US Exports to ECOWAS countries	351 677	358 794	372 472	72 472	89 984
US Imports from ECOWAS countries	170 655	274 796	320 163	33 941	131 055
Total AGOA including GSP provisions of AGOA	84	5	35	0	0
US imports under GSP from ECOWAS countries	84	5	35	0	0
US imports of duty-free items added under AGOA	0	0	0	0	0
Energy-related products:					
US Exports to ECOWAS countries	123 864	903 776	641 284	14 835	271 372
US Imports from ECOWAS countries	32 537 014	38 228 652	19 239 431	2 847 371	6 274 723
Total AGOA including GSP provisions of AGOA	30 185 452	35 406 967	17 229 534	2 582 343	5 906 458
US imports under GSP from ECOWAS countries	49	0	0	0	0
US imports of duty-free items added under AGOA	30 185 403	35 406 967	17 229 534	2 582 343	5 906 458
Textiles and apparel:					
US Exports to ECOWAS countries	51 273	61 853	60 409	14 849	18 694
US Imports from ECOWAS countries	8 628	2 202	1 401	461	425
Total AGOA including GSP provisions of AGOA	7 555	810	314	49	290
US imports under GSP from ECOWAS countries	42	43	37	10	14
US imports of duty-free items added under AGOA	7 513	767	277	38	281

Table 1. Contd.

Footwear:					
US Exports to ECOWAS countries	8 946	10 659	12 355	2 678	2 674
US Imports from ECOWAS countries	79	105	6	0	2
Total AGOA including GSP provisions of AGOA	13	2	1	0	0
US imports under GSP from ECOWAS countries	0	0	0	0	0
US imports of duty-free items added under AGOA	13	2	1	0	0
Minerals and metals:					
US Exports to ECOWAS countries	147 517	174 296	153 363	29 621	36 376
US Imports from ECOWAS countries	117 897	152 354	107 800	16 306	39 147
Total AGOA including GSP provisions of AGOA	273	227	2 286	8	36
US imports under GSP from ECOWAS countries	269	227	224	8	33
US imports of duty-free items added under AGOA	4	0	2 062	0	3
Machinery:					
US Exports to ECOWAS countries	333 398	515 566	494 811	140 371	140 245
US Imports from ECOWAS countries	2 411	4 944	1 843	597	566
Total AGOA including GSP provisions of AGOA	47	77	3	3	80
US imports under GSP from ECOWAS countries	47	77	3	3	80
US imports of duty-free items added under AGOA	0	0	0	0	0
Transportation equipment:					
US Exports to ECOWAS countries	1 498 910	2 185 694	1 958 950	489 591	473 582
US Imports from ECOWAS countries	1 321	4 426	1 114	120	236
Total AGOA including GSP provisions of AGOA	10	24	5	0	22
US imports under GSP from ECOWAS countries	10	24	5	0	22
US imports of duty-free items added under AGOA	0	0	0	0	0
Electronic products:					
US Exports to ECOWAS countries	285 287	308 028	287 438	103 521	96 409
US Imports from ECOWAS countries	9 084	4 043	3 793	639	425
Total AGOA including GSP provisions of AGOA	24	44	31	23	12
US imports under GSP from ECOWAS countries	24	44	31	23	12
US imports of duty-free items added under AGOA	0	0	0	0	0
Miscellaneous manufactures:					
US Exports to ECOWAS countries	30 371	47 836	41 436	8 108	16 323

Table 1. Contd.

US Imports from ECOWAS Countries	18 648	5 633	10 236	2 680	2 940
Total AGOA including GSP provisions of AGOA	532	601	727	55	95
US imports under GSP from ECOWAS countries	503	595	711	52	107
US imports of duty-free items added under AGOA	26	7	14	3	1
Special provisions:	0	0	0	0	0
US Exports to ECOWAS countries	82 169	115 854	99 311	25 392	24 964
US Imports from ECOWAS countries	23 702	41 126	36 707	9 192	30 536
Total AGOA including GSP provisions of AGOA	0	0	0	0	0
US imports under GSP from ECOWAS countries	0	0	0	0	0
US imports of duty-free items added under AGOA	0	0	0	0	0
All sectors:					
US Exports to ECOWAS countries	3 878 930	6 000 906	5 162 608	1 135 531	1 446 026
US Imports from ECOWAS countries	33 029 304	38 855 728	19 899 799	2 959 562	6 569 368
Total AGOA including GSP provisions of AGOA	30 207 876	35 421 018	17 251 180	2 585 272	5 911 254
US imports under GSP from ECOWAS countries	14 515	13 087	18 995	2 853	4 154
US imports of duty-free items added under AGOA	30 193 361	35 407 933	17 232 186	2 582 420	5 907 158

Source: US Department of Commerce; Excludes Cote d"Ivoire (not AGOA beneficiaries) <<<Data provided by www.AGOAifor –the online AGOA information portal>>>.

a robust relationship between stronger labor rights associated with freedom of association and collective bargaining (FACB) and total manufacturing exports. Though literatures are bound on the general issue of social standard and export competitiveness, however most models assume perfect competition and complete information predict that higher standards will hurt competitiveness, but if the market is imperfectly competitive, then higher standards in one country can actually aid the competitiveness of domestic firms. Rage (2000) considers a case in which consumers have a strong preference for goods produced in environmentally friendly processes. Under this assumption higher social standards help exports by providing firms with a more reliable signal, but the model does not explain

satisfactorily the differences on the effects of labor and environmental standards if consumers really have such strong preferences for social-responsible products in general, then both environmental and labor standards should enhance a country"s export competitiveness.

As earlier stated this paper will be an attempt to examine the inability of ECOWAS countries to fully benefit from AGOA from the perspective of minimum PPM standards on non-conforming exports from LDCs using recent bilateral trade negotiation among the U.S.A, Peru, and Panama, as a reference points on using the imposition of minimum labor standard for all exported products to the U.S A just like earlier pacts with countries like Cambodia and Jordan, for many believed such requirements only diminish export

competitiveness of exports from such LDCs. This study will be greatly influenced by Grossman and Horns (1988) model of incomplete information and infant industries

Assume a world consisting of 2 countries, the USA and Ghana, where each produces a radically differentiated product "experienced product", an experienced product is one in which consumers only learned about its quality, when consumed for the first time. The USA (developed country) is endowed with a set of perfectly competitive incumbent firms, Ghana (less developed country) is endowed with a set of new entrants, given the recent AGOA program for LDC exports to the USA market, this is a realistic assumption, each country manufactures a vertically differentiated product, whose exact quality can be ascertained

only after consumption, while the quality of products produced in USA is known by USA consumers based on past consumption experiences, the quality of the new entrant firms from Ghana is unknown in the current period with the assumption that all the consumers of the experienced product are located in the USA, this assumption is to analyze the problem from the point of view of the export oriented developing country attempting to compete in an established perfectly competitive world market.

There are two periods in this model, Ghanaian firms are new entrants into competitive world market with many USA firms as active players with brand reputations, as a result USA consumers have full information about the product quality from the USA, but incomplete information about product quality from Ghana at infancy, it is only in the second period (maturity) will consumers know the quality of products from Ghana.

Prior to the infancy stage USA chooses to import a PPM standard (x),on all products from Ghana, Ghanaian firms then decided whether to produce and at what level of quality, these choices are made given their firms specific exogenous efficiency parameter level (α) and the cost of complying to international process standard (j).

However, the production of the product in Ghana generates a negative externality on a quasi-public "social good" in the country, this could be the pollution generated from production that damages the environment or child labor used in production that reduces the country's literacy levels. If Ghana values this social good (education or the environment), damage due to the negative externality would require domestic regulation to maximize net social welfare, optimally this should be done such that the marginal cost of abatement is equal to the marginal social benefit of abatement, But for the purpose of this paper, Ghana perhaps due to lack of economic development is assumed to place value on externality produced by the social good, as a result the Ghanaian government is assumed to be maximizing net social welfare by not regulating or taxing domestic products. Though this assumption may not be accurate representation of policy in LDCs, but a simplifying assumption, which is consistent with the central issue in this paper, It implies therefore that the imposition of PPM standard by the USA on production in Ghana is not socially optimal and doesn't address the inefficiencies Ghanaian firms have not corrected, it only harm Ghanaian producers, just like the imposition of the proposed minimum labor standard by the USA on Peru and Panama, which does not correct a market failure in those countries.

It should be understood that Ghanaian firms produces one unit of a product each period, this products are differentiated by quality (q), where firms producing higher quality products naturally incur higher marginal costs than low-quality producing firms for a given level of (θ), firms are indexed by (θ) where θ represents the exogenous

inefficiency parameter for each firm, which is determined by the firms specific characteristics such as R and D that takes place prior to the first period.

The cumulative density function of θs among the set of potential entrants is denoted by f(θ) and the marginal density function f(θ) is constrained by f(θ) over the range θ(mm,θmax) with each firms production costs of θc(q) per period , where q represent the quality of the product and $c^1, c^{11} > 0$. Since θ is assumed to lower the cost of production, variations in θ across firms determines a firm's propensity to produce given a level of quality, since the marginal cost of quality is increasing; only the more productive firms with low exogenous θ will find it profit-maximizing.

To produce higher quality products in the first period, each firm makes a once and for all decision to produce at quality level (q) to maximize profit over both periods.

A firm of type θ chooses quality, q (θ), also note that there exists an international minimum product quality standard, qo, below which any quality is directly observable before purchase, since any quality less than the mandated minimum is directly observable by consumers prior to experience/purchase, USA consumers will never buy a product whose quality is less than (q^o), moreover given that firms choosing to produce low quality products will not survive into the second period, they have no incentive to produce any quality above the minimum quality (q^o), these onetime producers(firms) are called "fly-by –nights", alternatively if a firm finds it in their best interest to invest in quality (to earn profits in the second period), they choose the quality q=q (θ)$>qo$, that maximizes their two period profits, unlike the fly by night, who by nature, will not take on such investments since they will not survive the infancy period to re-coup such costs, it means therefore that firms producing quality products is denoted byq^r while the fly by night firms products q^o, apart from cost of production (θc(q), Ghanaian firms in exogenously imposed compliance cost (r) associated with a PPM standard imposed by the USA, but unlike taxes, compliance costs are not constant across all Ghanaian firms, the assumption here is that the marginal cost of compliance is related to a firm's choice of output quality, in fact the assumption of such a relationship is not unique.

Building on Alkerlof's (1970) paper on moral hazards in models with asymmetric information, Shapiro (1986) analyzed the effects of input standards on the production quality of products using the occupational licensing as its input standard, he believed that even if standard has no direct relationship to product quality, it can affect production decisions indirectly, since marginal cost of meeting standard differs across firms, Shapiro (1989) specifically argued that the marginal cost of meeting process standard is higher for producers of low quality than for high quality.

The reason for this is that low-quality producers will only survive one period regardless of whether they meet the standard unlike high quality producers their cost of compliance cannot be spread over two periods, high quality producers on the other hand incur the costs associated with investment in their human capital regardless of whether it is regulated by the government, as such the cost of compliance falls relatively heavily on producers of low quality.

A typical example is the 1999 bilateral trade agreement between USA and Cambodia. Prasso (2004) shows that firms avoided Cambodia were those with low levels of efficiency and high compliance cost but not all firms will avoid high standard. High quality manufacturers are likely to find it in their long-term interest to maintain favorable working conditions and better prepared for compliance, unlike their fly by night counterparts, these firms (high quality) were not hurt by new standards. In fact since 1999, Cambodia's garment exports have more than tripled and their international reputation improved significantly (Prasso, 2004). Following Shapiro (1986), it is assumed that PPM standards imposes a relatively smaller marginal cost for reputable firms than fly by night firms with compliance cost, for a given level of quality given by $\delta(q)r$, which is the quality level of a firm, as this quality level increases the cost of compliance with the PPM standard ($(\bar{q})r$, decreases at a decreasing rate ($\delta 1^{<} 0, \delta^{11} {>} 0$).

Furthermore assume there is a range of standards types j, where $0 {\leq} \delta j(q) {\leq} 1$, following Shapiro (1986) (q), it is assumed that degree of complementarily between the process standards rj and product quality (q), e.g if a high quality producer meets the standard regardless of whether it is legally required, then $\delta(qR)=0$.

But if the standard in question is not met even partially by any firm prior to regulation, then $\delta(qR)=\delta(q0)=1$, in this extreme case all firms regardless of quality will face the maximum compliance cost of r, however we can imagine some standards exists in which high quality firms at least partially meet even before the external mandates. Thus it appears reasonable to imagine a set of standards which high quality chose to meet prior to regulation, in essence the production of high quality products and the acceptance of high social standards are complements, thus when external minimum standards are imposed, the cost of compliance for high quality firms is less than that for low quality firms, which implies that for each standards $\delta(^{qR}) {<} \delta(^{q0})=1$.

It is against this imposition of standards that could have prevented ECOWAS countries from fully benefitting from the AGOA trade with the USA, as many of the local firms could not meet some of these PPM standards due to the constraints they have in their system of operation, and those that have benefitted have only done so as a result of their abundance of crude oil and other energy related products, but even at that, PPM standard should be seen

as an opportunity for infant firms in ECOWAS, to benefit more from AGOA by diversifying their product for AGOA, as they are primary raw materials producers therefore they need to further process their produce for it is more beneficial to export processed cocoa/coffee than the raw product United Nations Conference on Trade and Development (UNCTAD,1999).

It is therefore also important for ECOWAS to encourage investment or foreign direct investment (FDI) by knowledge seeking and efficiency seeking firms into the sub-region, as they would facilitate export competitiveness of products from the countries in the region.

Moreover there is a greater concern that the future effectiveness of AGOA pertains to the erosion of preferences, and margins due to the growth of free trade and the extension of similar preferences to a number of countries who are more efficient in their production techniques, especially textile producing countries.

The issue of marketing is also important as many ECOWAS countries infant firms have limited knowledge of the complexities involved in international marketing, therefore it is important to have links with USA and other foreign firms in the production and marketing opportunities provided by AGOA. AGOA is of high benefits to both USA and ECOWAS, as it provides USA consumers with low cost imports and it also helped ECOWAS firms to achieve economies of scale by operating large and more competitive, with access to a larger market. AGOA also provides ECOWAS firms the opportunity of generating more export revenues as well as stimulating investment and export led growth in beneficiary countries. AGOA has also contributed and increased the inflow of FDI to ECOWAS as over $15.6 billion (2007) was recorded (E.T.I.C, 2009), but yet the lowest in any region in Africa, still there is room for improvement.

AGOA's, PPM standard has also provided a window of opportunity for ECOWAS countries to see environmental and labor standards as opportunity to invest in clean energy and production efficiency, as it would not hurt exports but make export more competitive, and provides opportunity for more information about product quality of ECOWAS firms to consumers in developed countries.

Though it would appear at the initial stage of introduction of PPM standards as not good for infant firms in less developed countries, but from the aforementioned model it has been a source of export competitiveness however for countries in ECOWAS it is just that they have not taken advantage of it, and that is why ECOWAS countries have not greatly utilized these advantages to their favor for export and production efficiency. Therefore it is pertinent for WTO/GATT to always allow for PPM standards that distinguish between standards that complement product quality than those that are against, especially in this era of production and environmental sustainability.

Conclusion

It could be concluded that due to the challenges faced by many ECOWAS countries in the area of investment programs, government policies, low range of trade products and economic conditions, all these factors have greatly affected the growth and development of industries in the sub region which has reduced export competitiveness of the region in world trade despite the establishment of some institutions like TCB, and AGCI to foster trade and competitiveness ECOWAS has failed to take advantage of these bodies, though the paper took the path of PPM standards as a possible constraint to the competitiveness of ECOWAS exports, it was revealed by some scholars that PPM could hurt exports competitiveness but using Grossman and Horn model of incomplete information and infant industries, the model revealed a lot of opportunities if taken seriously by ECOWAS firms, they will be more efficient and competitive in world trade as the preferential trade is being expanded to include some countries who are more efficient in their production techniques., Therefore it is expedient on ECOWAS to be more innovative in resolving their inability to take advantage of opportunities in AGOA, moreover with this some recommendations were made above and if considered it will go a long way in stimulating the export competitiveness and diversification of the export base of firms in the sub-region.

RECOMMENDATIONS

This paper has taken a look at why ECOWAS has not benefitted from AGOA, within the perspective of PPM standards, but despite the fear that it hurts export competitiveness of less developed countries it was discovered to be contrary as it only made export more competitive, and it is ECOWAS countries that have failed to identify the opportunities in it for export competitiveness of their product, it is therefore important for ECOWAS to focus its attention on how to utilize these to its advantage and the following steps are recommended:

1. ECOWAS countries should strengthen their current position on trade and investments by expanding the list of their products on AGOA to include some more processed agricultural products that are deemed import-sensitive.
2. The pre-conditions for eligibility into AGOA should be relaxed a bit especially protection of workers" rights, intellectual property rights etc, due to the low level of trade from the region as most firms in the region are at infant stage and may be costly for them to carry out reforms in their operation areas, as they need time to do this.
3. The use of trade preferences as a tool to promote

foreign policy objective by USA will not produce significant benefits in terms of enhancing the regions trade and overall economic performance, the exclusion of Cote-devoir is a reference point.
4. The use of unilateral, temporary and discretionary nature of the scheme by USA, has made it difficult for ECOWAS countries to adopt an import strategy, since the product/country coverage can be modified by executive order of the USA government, as this affects countries ability to formulate long term strategy for investment and export expansion, there is a need to provide a permanent mechanism for formulating appropriate economic programs on AGOA.
5. All ECOWAS countries needs to remove all trade barriers and make their countries business-friendly, and promote trade related assistance, which is critical in building the institutional and capacity needed to benefit from increased market opportunities (Ling –Yee and Ogunmokun, 2001) as this will enable countries to comply with all international standards (PPMS), that are critical to access developed countries markets, as this assistance could help in attracting export-oriented FDI, in areas of their competitive advantage and achieve the desired level of diversification into higher value-added production, in order to produce for global market and integration into the world economy.
6. ECOWAS should also encourage more investments into the regions infrastructural development especially transport, power, information technology, communication and education, in order to produce skilled manpower for industrialization of the sub-region.
7. Good governance, rule of law, property rights protection, stable macro-economic
Policies and political stability should be encouraged among member states.
8. Further studies can be carried out on this subject especially on the need for trade expansion among countries in the region and a study on knowledge management amongst ECOWAS.
All these recommendations would enable the ECOWAS region not only to benefit from AGOA, but also attract FDI, into other areas of trade and economic development of the region.

REFERENCES

Alkerlof"s GA (1970). „The market for lemons", Quality under uncertainty and the market mechanism Q. J. Econ., 84(3): 488-500.

Akinkugbe O (2003). „Flow of Foreign Direct Investment to Hitherto Neglected Developing Countries Wider discussion paper (02)", World Institute for Development Economics Research. Helsinki.

Amjadi A, Reincke U, Yeats A (1996). „Did external barriers caused the marginalization of Sub-Saharan Africa in world trade?", Policy Research working paper No(15) 86,World Bank, Washington D.C.

Asiedu E (2002). „On the determinants of foreign direct investment to developing countries Is Africa different?", World Development, 30(1): 107-109.

Brown D (1987). „General equilibrium effects of the US generalized system of preferences Southern", Econ. J., 54: 27-47.

Campos NF, Kinoshita Y (2003). „Why does FDI go where it goes?", New evidence from the transition Economics IMF working paper No, (3)2 International monetary fund, Washington D.C.

Carlson M, Hernandez L (2002). „Determinants and Repercussions of the composition of capital flows", IMF working paper No (02) 86. IMF, Washington, D.C.

Charkrabarti A (2001). „The determinants of foreign direct investment Sensitivity analysis of cross country regressions",*KYLOS,* 5(4): 89-114.

Collier P, Gunning J (1999). „Explaining African economic performance", J. Econ. Lit., 37(3): 64-111.

Copeland B, Tailor S (2004). „Trade Growth and the Environment", J. Econ. Lit., 42(1): 7-71.

Edwards S (1990). „Capital flows foreign direct investment and debt equity swaps in developing countries. NIBER working paper 34:97, National Bureau of Economic Research, Cambridge, Massachusetts.

Federal Register (2000). 65: 246, Proclamation 738, 18, December, 2000, Revised as of 6 August, 2002, (AGOA 2) and 12 July, 2004 (AGOA, 3).

Ghura D (1997). „Private investment and endogenous growth Evidence from Cameroon", IMF staff working paper 165, IMF, Washington, D.C.

Goldberg LS, Charles DK (1995). „Foreign Direct Investment exchange rate variability and demand uncertainty", International economic review, (36): 855-873.

Grossman G, Horn H (1988). „Infant Industry protection reconsidered", The case of informational barriers to entry, Q. J. Econ., 103(4): 767-787.

Hong W (|2000). „Engine of export-oriented catching up small firms versus big conglomerates", Int. Econ. J. 14: 161-179.

Khan MS, Reinhart CM (1990). Private investment and economic growth in developing countries World development", 18(1): 19-27.

Kucera D, Sarna R (2006). „Trade union rights, democracy and exports A gravity model approach", Review of Int. Econ., 14(5): 859-882.

Lanchovichina E (2001). Unrestricted market access for Sub-Saharan Africa: how much is it worth and who pays?, Working paper, World Bank, Washington, D.C.

Lim E (2001). „Determinants of and the relationship between foreign direct investment and growth", A summary of recent literatures IMF Working paper 1: 175, IMF, Washington D.C.

Lin-Yee L, Ogunmokun G (2001). Effects of export financing resources and supply chain skills on export competitive advantages: Implications for superior export performance J. World Business, 36(3): 260-279.

Macphee C, Rosenbaum D (1989). „The asymmetric effects of reversible tariff changes under the United States GSP", Southern Econ. J., 56(1): 105-125.

Niroomand F, Nissan E (1997). „An enquiry into openness in international trade", J. Econ. studies, 24(3): 167-178.

Pelzman J (1983). „The US Generalized system of preferences: An evaluation and an Examination of Alternative graduation programs", Bureau of international labor Affairs, US department of labor, Washington, D.C.

Pigato M (2001). „The foreign direct investment environment in Africa", African regional working paper series no.15. The world Bank, Washington D.C.

Porter M (1990). „The competitive advantage of nations", Free Press, New York, NY, pp 11-38.

Prasso S (2004). „Phnom Penh dispatch: Trading up", The new Republic August 16/23: pp. 11`-12.

Rage M (2000). „Strategic policy and environmental quality", Environ. Res. Econ., 15(3): 279-296.

Rubin R, Weisberg J (2003). In an uncertain world Random House", New York, NY.

Sapir A, Lundberg L (1984). „The US generalized system of preferences", in Baldwin, R & Krueger, A (eds), The structure and evolution of recent US trade policy, National Bureau of Economic Research, Chicago, IL.

Schneider F, Frey B (1985). „Economic and political determinants of foreign direct investment", World development, 13: 161-175.

Shapiro C (1986). „Investment moral hazard and Occupational Licensing", Rev. Econ. Stud., 53(5): 843-862.

Singh H, Jun K (1996). „The determinants of foreign direct investment in developing countries", Transnational corporations 5(2): 67-105.

Tambi E (1998). „Trade liberalization effects on commodity imports in Cameroon", J. Econ. Studies, 25(3): 193-205.

Tsai P (1994). „Determinants of foreign direct investments and its impact on economic growth", J. Econ. Dev., 19: 137-163.

UNCTAD (1999). „Quantifying the benefits obtained by Developing countries from the generalized system of preferences", United Nations, New York, NY.

UNCTAD (2003). „Trade preferences for LDC"S", An Early Assessment of Benefits and Possible improvements, United Nations, New York, NY.

USITC US (2004). „Trade and Investment with Sub-Saharan Africa": fifth Annual Report, USITC 3741, US International Trade Commission, Washington, D.C, December.

USTR (2004). „Comprehensive report on the US trade and investment policy towards Sub-Saharan Africa and implementation of the African Growth and Opportunity act, Office of the US Trade Representative, Washington, D.C.

Van Beers C (1988). „Labor standards and trade flows of OECD countries The world economy, 21(1): 57-73.

Wheeler D, Mody A (1992). „International investment location decisions; The case of US firms", J. Int. Econ., 33: 57-76.

Williamson ID, Alessandro S (1999). „New prospects for private sector led trade", Investment and Economic Development in sub-Saharan Africa" Law Policy in International Business, 30(4): 637-652.