

Improving Ethiopia's Resilience to Trade Shocks: Lessons from AGOA Suspension¹

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Abstract

This paper aims to investigate the sources and impacts of trade shocks in Ethiopia, with a particular emphasis on the impact of AGOA suspension. Specifically, we assess the impact of the AGOA suspension on the apparel and garment industries in the country. The study uses survey data from 169 firms in Ethiopia and finds that 28% of firms experienced a reduction in exports to the U.S. market after the AGOA suspension. Moreover, the share of exports going to the U.S. market declined by 14 percentage points in 2022. The study also finds that 24% of firms have diverted their exports to domestic markets, while 14% to other foreign markets. The suspension has also led to job losses, with 16% of firms laying off their workers. Among those laid off, a relatively higher percentage are female workers. When we analyze the data by AGOA utilization status, it becomes apparent that AGOA-utilizing firms were more severely affected, with 63% of them reporting a decrease in exports and 39% of the firms laying off workers. In contrast, AGOA-non utilizers were less impacted, with only 13% reporting reduced exports. This variation suggests that AGOA-dependent firms faced greater challenges in adapting to the suspension. We find similar patterns for investment reduction and supply chain disruptions. To mitigate the negative impact of the AGOA suspension on these enterprises, the study suggests supporting firms with tax exemptions, provision of business loans, and rental or utility subsidies would be the most appropriate policy responses to support the affected firms in the short run. In the long run, the study recommends that Ethiopia enhance its regional integration through the African Continental Free Trade Area (AfCFTA) and diversify its export composition and trading partners to reduce its dependence on such kind of unilateral trade agreements. Moreover, Ethiopia needs to put in place gender-sensitive policies, strong social safety net programs, a crisis management framework, and a strong trade information system to minimize the potential impacts of trade shocks. Finally, the study recommends that the government should try to restore Ethiopia's eligibility for AGOA through diplomatic means.

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1. Introduction

Countries across the world face different types of trade shocks. The typical trade shocks include commodity price shocks, currency fluctuations, and political instability. In addition, countries may face health shocks (e.g., pandemics) and climate-related shocks (e.g., floods and droughts), economic sanctions or embargo on overall trade or on certain commodities, and suspension from unilateral trade agreements that have direct or indirect effects on trade. For example, the 2008–2009 global financial crisis, negatively impacted international trade flows through its effect on credit availability, financial stability, and economic slowdown. Similarly, the recent outbreak of the COVID-19 pandemic has triggered the largest global economic crisis in more than a century and severely affected international trade flows (e.g., Ozili and Arun, 2022). In 2020, global trade declined by about \$2.5 trillion or about 9 percent compared to its level in 2019 (UNCTAD, 2022). Recently, the Russia-Ukraine war has caused severe supply disruptions, resulting in sharp price increases for commodities in which Russia and Ukraine are large global suppliers and close substitutes. As a result, prices of essential commodities like grain, petroleum, and fertilizer have significantly increased (Jagtap et al., 2022).

Like many other countries, Ethiopia has experienced various trade shocks (both national and international). For example, the COVID-19 pandemic and the civil conflict in the country have caused a sizable distribution of both demand and supply. According to the report by AfDB, in African Economic Outlook 2022, Ethiopia's economic growth has declined from 6.1 percent in 2020 to 5.6 percent in 2021 partly due to the COVID-19 shock and the civil conflict in the country. Ethiopia's export and import values in 2020/21 were predicted to decline by around 6-11 percent of the base run due to COVID-19-related trade disruptions (see Geda, 2021). In addition, like the rest of the world, Ethiopia's international trade has been negatively affected by the Russia-Ukraine war, as Ethiopia's economy is heavily dependent on imports from Russia and Ukraine. Ethiopia imports significant amounts of wheat, fertilizers, and newsprint from Russia and Ukraine. For example, Ethiopia's total wheat imports from Russia and Ukraine in 2020 were USD 52.6 million. As a result, the Russia-Ukraine conflict would induce shortages of imported commodities, thereby increasing prices (i.e., inflation) in the Ethiopian economy. For example,

the average price of crude Brent petroleum in June 2022 increased by 54.7% from June 2021, while the price of wheat increased by 52.6% in the same period. Hence, the decline in imported items could affect Ethiopia's trade balance by widening the pre-existing trade deficits (WEO (2022)).

Recently, Ethiopia has been suspended from the AGOA which provides qualifying Sub-Saharan African (SSA) countries with a quota and tariff-free access to the US market. Ethiopia was among the top beneficiaries of the AGOA, particularly the garment manufacturing sector was the largest AGOA beneficiary in the country. Between 2018 and 2020, Ethiopia exported \$559.2 million worth of garments to the US.² Ethiopia benefited from very favorable rules of origin under AGOA, which allows the utilization of third-country fabrics as input materials. However, following the ongoing conflict in the Northern part of the country, the US suspended Ethiopia from the AGOA, which may decrease exports, loss of jobs, and exit of firms. For example, up to July 2022, over a thousand employees working inside Hawassa Industrial Park lost their jobs, as two garment factories announced their layoff plans to be implemented before the end of 2022, which will increase the loss of employment to over 4,000. This condition implies that Ethiopia's suspension from AGOA could significantly decrease exports, notably exports of apparel and footwear, which heavily rely on the preferential agreement. Furthermore, almost half of Ethiopia's 524 million dollars in exports to the US in 2020 utilized AGOA preferences. Thus, the suspension of this unilateral trade agreement could jeopardize Ethiopia's exports and affect the welfare of individuals, especially low-income female workers who represent a larger share of the workforce in the textile industry.

Thus, when countries face any of the above sorts of trade shocks, their exports and hence national output, investment, firm performance, level of employment, and hence welfare of workers will be negatively impacted. Since these shocks are by their very nature outside of the realm of control of exporting countries, it is important to design ways of minimizing their potential negative impacts.

² More information on trade between the US and Ethiopia is available at <https://agoa.info/profiles/ethiopia.html>

Against these backdrops, the study aims to identify the sources of both global and domestic trade shocks with a particular emphasis on AGOA suspension. It will also assess the impact of AGOA suspension on exports, trade diversion, level of employment, investment and supply chains. We also assess the kind of policy support firms need to withstand the trade shock they are facing because of the suspension.

2. Overview of Ethiopia's trade resilience

In its ten-year development plan, the Government of Ethiopia plans to promote export-led economic growth that aims at improving the country's competitiveness, increasing its product and export market diversification, and changing the structure of its exports to manufactured and value-added services (PDC, 2020).³ However, the AGOA suspension, the COVID pandemic, Russia-Ukraine war and other internal and external shocks have highlighted the vulnerability of Ethiopia's exports to sudden changes in market conditions. In this context, in this section, we aim to assess the resilience of Ethiopia's export sector. One way to assess this resilience is by examining the level of export diversification and concentration, as well as the number of products exported and the number of export markets reached. This study aims to explore the degree of Ethiopia's trade resilience by analyzing these indicators and identifying areas where improvements can be made to ensure the country's long-term economic stability.

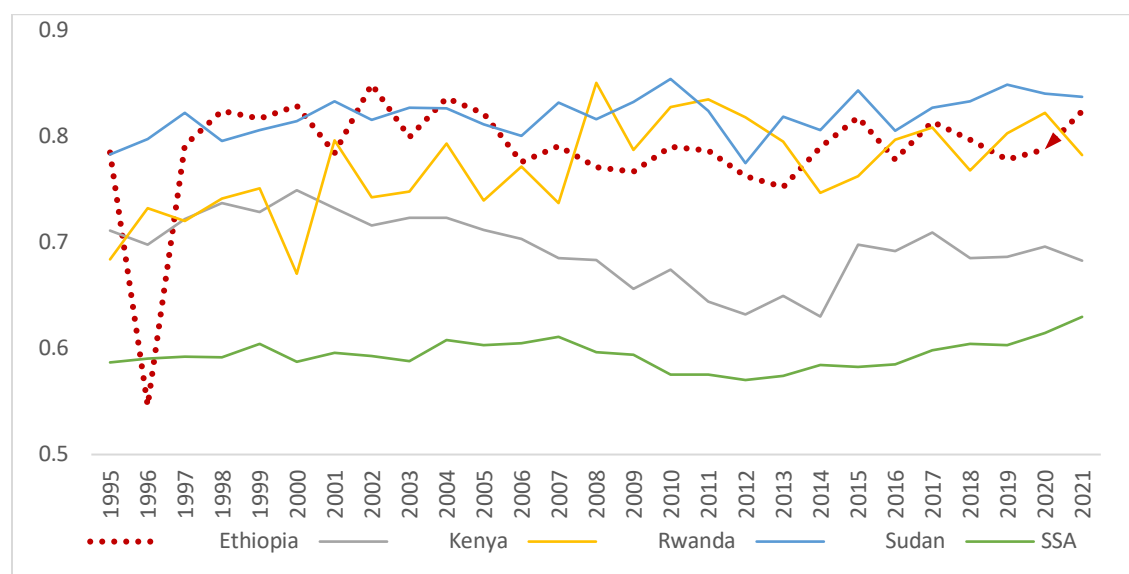
2.1 Export diversification

Ethiopia's exports are among the least diversified in the region. Ethiopia's export diversification is below the SSA regional average. The export diversification index is computed by measuring the absolute deviation of the export structure of a country from the world structure. It ranges from 0 to 1 and indicates the extent of the differences between the structure of trade of the country or country group and the world average. The index value closer to 1 indicates a bigger difference from the world average. It is constructed as the inverse of a Herfindahl index, using disaggregated

³ Planning and Development Commission (2020). Ten Years Development Plan: A Pathway to Prosperity 2021-2030. Addis Ababa, Ethiopia: FDRE Planning and Development Commission.

exports at 4 digits. In 2021, Ethiopia's export diversification index was 0.82. According to this measure, a value closer to 1 indicates greater divergence from the world pattern and lesser export diversification. Figure 2.1 shows the trend of export diversification indices for Ethiopia and some selected SSA countries. That is, Ethiopia's export diversification remained stagnant and even worsened in recent years, which is an indication of the country's failure to diversify the range of products it produces and exports. Ethiopia's export diversification appears to be worse than that of Kenya and Rwanda and a little bit better than that of Sudan (see Figure 2.1).

Figure 2.1: Trends in export diversification index (1995-2021)



Source: Calculations based on UNCTADSTAT

2.2 Export diversification by product

Ethiopia is heavily dependent on a few commodities and the export mix is one of the least diversified in the SSA. The Herfindahl-Hirschman product concentration index (product HHI) is a measure of the degree of product concentration of exports of each country. It shows how exports of individual countries are concentrated on a few products or otherwise distributed more homogeneously among several products. In short, it shows export diversification by product.

In 2021, Ethiopia's export product concentration index was 0.445 and has deteriorated a bit compared to where it was in the last six to seven years (see Figure 2.2). When we look at the period 1995-2021, on the other hand, Ethiopia's performance on the Herfindahl-Hirschman Index

(HHI) of export product concentration showed a 21% improvement. Though Ethiopia is still heavily dependent on a few exportable, the declining trend shows that reliance on a few commodities is gradually declining. Other countries also exhibited a similar pattern of product concentration recently. Figure 2.2 demonstrates that Rwanda experienced the largest decline between 1995 and 2021, at -43.4%, followed by Ethiopia (-21%) and Kenya (-15%) (Figure 2.2). In contrast, for Sudanese exports, the level of product concentration went up by 9% during the same period. Between 1995 and 2021, Sudan had the highest product concentration index among the selected nations with a period average of 0.506, followed by Rwanda (0.47) and Ethiopia (0.40). Kenya's exports are found to be, relative to Ethiopia and other SSA countries, distributed more evenly across many products.

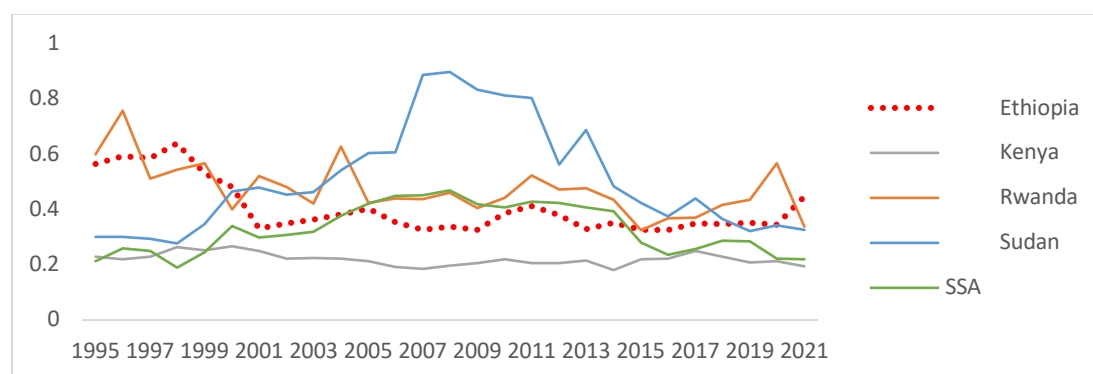
According to Statistics Canada⁴ (2017), based on the HHI values, the degree of concentration of exported products or markets can be classified into three categories as follows; (a) diversified (unconcentrated) products or markets if $HHI < 0.15$, (b) moderately concentrated products or markets if $0.15 \leq HHI < 0.25$, and (c) highly concentrated products or markets if $HHI \geq 0.25$. According to this classification, Ethiopia's exports can be considered highly concentrated. The product concentration index for Ethiopia was double the average of SSA. This shows that a large share of the country's exports is accounted for by a small number of (primary) commodities. In 2021, the number of products exported by Ethiopia was 282 while the comparative figure for Kenya was 739. That is, the number of products exported by Ethiopia was about 62% less compared to the figure for Kenya. However, the number of products exported by Ethiopia was significantly greater than those of Rwanda and Sudan (Figure 2.3).

Exports have remained less diverse because the country is highly dependent on relatively few export commodities, mostly agricultural. Heavy dependence on a few commodities has problems associated with it including increased vulnerability to international commodity price volatility, terms of trade shocks, and export earnings instability. The literature shows that the mix of goods that a country produces and exports may have important implications for economic growth (Hausmann, Hwang, and Rodrik, 2006). According to Bongalia and Fukasaku (2003), because of

⁴ <https://www150.statcan.gc.ca/n1/pub/13-605-x/2017001/article/54890-eng.htm>

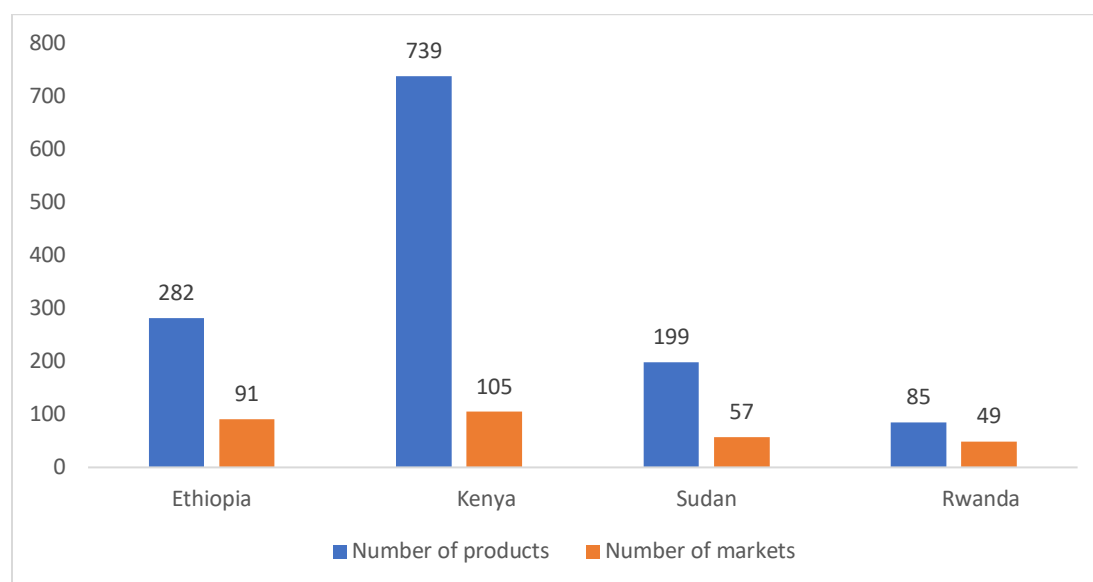
adverse features of the global demand for their exports, commodity-dependent economies are thought to have lower growth prospects. On the other hand, countries with a diversified export sector are often characterized by rapid economic and income growth. To stabilize export earnings and foster income growth, low-income countries need to increase the variety of their export baskets (Bongalia and Fukasaku, 2003). To break away from such negative effects of commodity dependence, Ethiopia needs to pursue diversification strategies that address the underlying constraints of export diversification.

Figure 2.2: Trend of export product concentration index (1995-2020)



Source: Calculations based on UNCTADSTAT

Figure 2.3: Number of products and markets, 2021



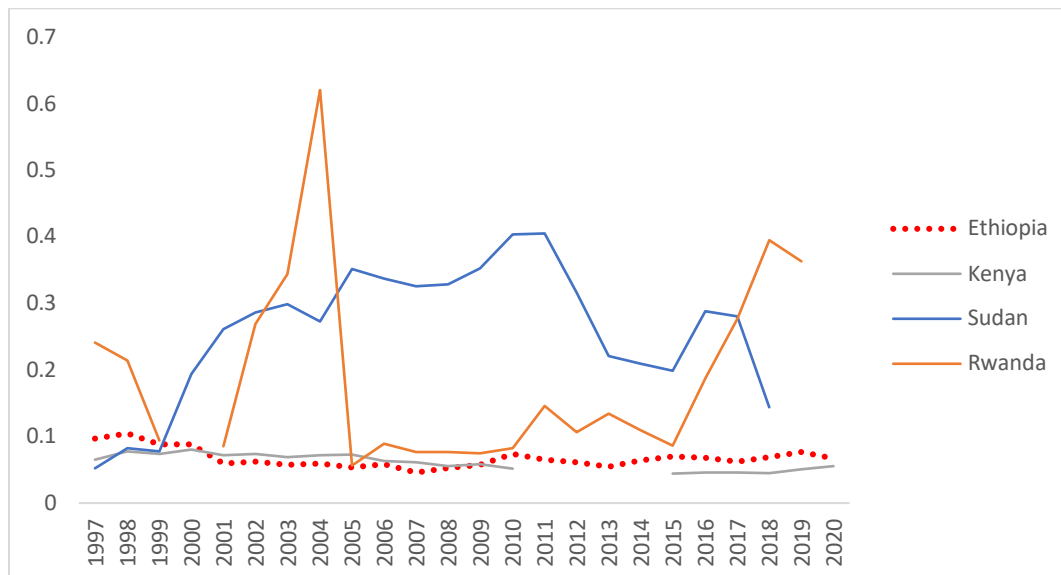
Source: Calculation based on WITS database

2.3 Export market diversification

In relative terms, Ethiopia has a diversified export market destination. Ethiopia has one of the lowest market concentration indices. This index measures, for each product, the degree of export market concentration by country of origin. It shows if a large share of commodity exports is accounted for by a small number of countries or, on the contrary, if exports are well distributed among many countries. This is a measure of the geographic diversification of exports. In general, index values closer to 1 indicate highly concentrated export markets. On the contrary, a value closer to 0 reflects a more homogeneous distribution of market shares among many countries.

Figure 2.4 displays the market concentration index for selected SSA countries over time. At 0.06, which is below 0.15, according to the classification of the degree of market concentration, Ethiopia has a diversified/unconcentrated export market. Moreover, Ethiopia significantly diversified its export markets in 2020 compared to 1995. This suggests that the export market shares are homogeneously distributed among many countries. Ethiopia's export products go to 91 countries in 2021. During the same year, Kenya exported to 105 countries while Rwanda and Sudan's exports were destined to 57 and 49 countries, respectively (Figure 2.3).

Figure 2.4: Trends in HH Market Concentration Index (1997-2020)



Source: Calculation based on the WITS database

Contrary to product diversification, the trend of export market concentration demonstrates that exports for the selected countries are evenly distributed across many destinations. However, in

relative terms, Sudan and Rwanda have higher market concentration indices, indicating that exports are concentrated in a small number of markets. The markets for exports from Sudan and Rwanda also tend to be concentrated in a relatively smaller number of destinations in 2020 relative to 1997.

2.4 Export market concentration index of apparel and clothing

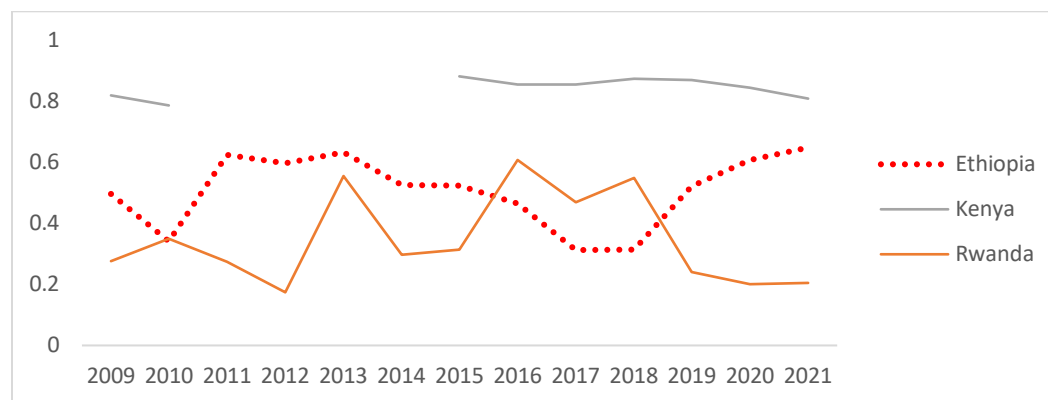
Ethiopia's export market for apparel and clothing is highly concentrated and rising over time.

Figure 2.5 depicts that Ethiopia's average market concentration index for the apparel and clothing sector exhibits significant volatility. Moreover, the level of market concentration for these goods tends to rise with time. Between 2009 and 2021, the average level of market concentration increased by 30.7%

Figure 2.5). The higher level of market concentration indicates the low level of diversification of markets for these products. The low level of diversification is an indicator of Ethiopia's dependency on a few trading partners. Such dependency increases the nation's and sector's vulnerability to trade shocks.

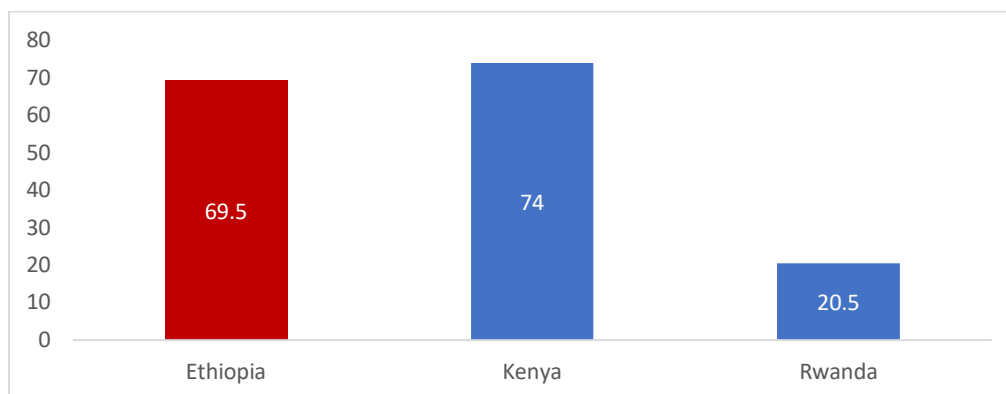
Figure 2.5 shows that in 2021, Ethiopia exports apparel and clothing to seventy markets while Kenya's exports of these products are destined for over seventy-four markets.

Figure 2.5: Trend in HH Market concentration index for HS 61 and 62 (2009-2021)



Source: Calculation based on the WITS database

Figure 2.6: The number of markets for apparel and clothing, 2021



Source: Calculation based on the WITS database

In 2021, Ethiopia's textile and apparel industry contributed significantly to the country's total export revenue, representing approximately 9% of all exports. However, the industry's high dependence on the US market, which accounted for 62% of the sector's export value, puts it at risk of external shocks such as changes in trade policies or a decline in demand from the US. Moreover, the industry's export basket is less diversified, with a limited number of export destinations and a high level of export market concentration (Figure 2.7 and Table 2.1).

Figure 2.7: Ethiopia's Textile Export by Destination

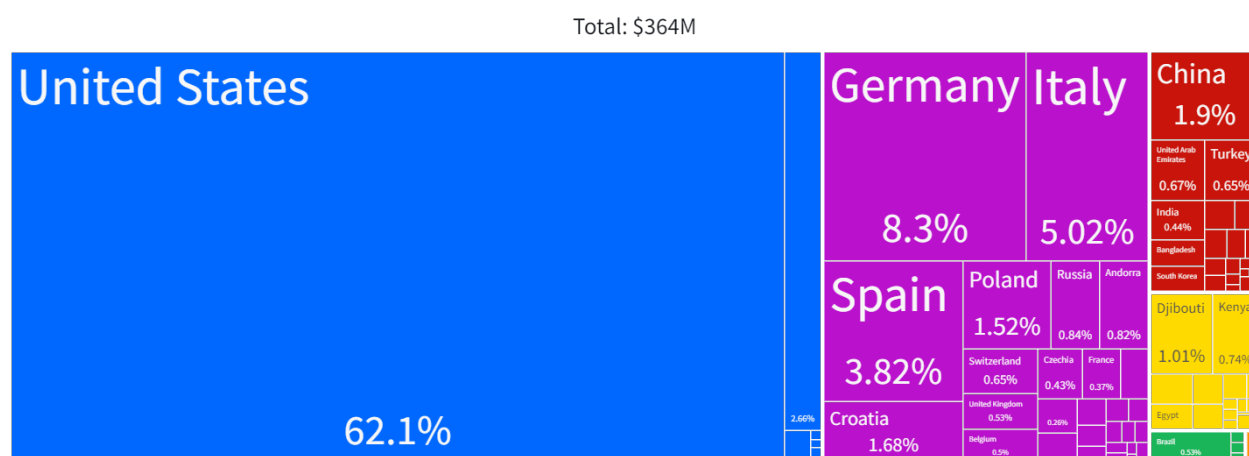


Table 2.1: Ethiopia's Textile export in 2021 by destination

<i>Country</i>	<i>Import value</i>	<i>Share (%)</i>
<i>United States</i>	225,932,441	62%
<i>Germany</i>	30,199,169	8%
<i>Italy</i>	18,247,902	5%
<i>Spain</i>	13,886,261	4%
<i>Canada</i>	9,682,786	3%
<i>China</i>	6,900,679	2%
<i>Croatia</i>	6,103,374	2%
<i>Poland</i>	5,546,687	2%
<i>Djibouti</i>	3,674,595	1%
<i>Russia</i>	3,047,796	1%

3. AGOA suspension and other trade shocks

Trade shocks are associated with changes in a country's international trade flows that are outside of that country's influence. The impact of trade shocks on a country's international trade flows (imports and exports) can be either positive or negative and this could be reflected as changes in prices or quantities/ volumes of goods and services traded internationally. Therefore, the analysis of trade shocks could be decomposed into price and volume effects and the associated impacts on the rest of the economy – through impacts on output/economic growth, levels of investment, employment, and pressures on the exchange rate and price level, etc.

It is evident that trade shocks potentially impact trade balances and respective countries' economic growth. In addition, countries may experience transitory or permanent trade shocks. As a result, some countries seem to suffer for a prolonged period from a trade shock, while others have recovered quickly or even managed to increase their economic growth. Empirical evidence, for example, Becker and Mauro (2006), documents that trade shock is one of the costliest types of shock that substantially reduces income growth, particularly for developing countries.

Similarly, Easterly et al. (2001) find that trade shock is more strongly correlated with volatility in output growth than changes, for example, in money growth, fiscal balance, and capital flows.

In the case of Africa, for example, Kose and Riezman (2013) evaluate the contribution of international trade shocks to domestic macroeconomic fluctuations. The authors find that trade shocks play an important role in driving economic activity in Africa. More specifically, they find that world price shocks lead to about 45 percent of fluctuations in aggregate output in African countries. Moreover, trade shocks account for about 87 percent of aggregate investment variation. These findings align with those of Deaton and Miller (1996), who analyze the importance of international commodity prices in driving economic fluctuations in African countries.

Studies also show that the impact of trade shock on income growth depends on exchange rate policy and the institutional environment. For example, Broda (2004) shows that the effect of a terms of trade shock on per capita income depends on the exchange rate regime. More specifically, the authors show that the impact of trade shock is smaller in countries with a flexible exchange rate, where relative prices tend to adjust more rapidly through the nominal exchange rate. In countries with a fixed exchange rate, the adjustment of relative prices may be slower, depending on the stickiness of domestic prices. Countries subject to negative terms of trade shocks recover more rapidly if their exchange rate is flexible. Likewise, Rodrik (1999) demonstrates that trade shock can significantly reduce economic growth when divided (e.g., unequal or ethnically fragmented) societies interact with weak institutions.

On the other hand, other studies document that trade shock could appear to play a role in explaining growth accelerations or turning points to higher levels of growth. For example, Caballero and Hammour (1994) argue that trade shocks can positively affect income growth if they change comparative advantages and lead to new growth opportunities. They could also help improve income growth in the medium term if they allow the economy to eliminate inefficient firms. In addition, Hausmann et al. (2005) show that trade shocks tend to produce growth

accelerations. The following section briefly discusses major global shocks that the Ethiopian economy faced in the past and caused major changes in trade (or exports) and thereby dwindling economic growth.

3.1 AGOA suspension

The African Growth and Opportunity Act (AGOA) enacted towards the end of 2000, provides duty and quota-free access to the US market for a selected group of products from eligible Sub-Saharan African Countries. AGOA has two key provisions. The first provision provides eligible countries duty-free and quota-free access to selected 1800 HS 8-digit product groups. This expands the list of close to 5000 products with preferential access under the GSP, prior to AGOA, to about 6800 HS 8-digit products.

The second provision is the apparel provision, which provides duty-free and quota-free access to eligible apparel and textile articles made in qualifying sub-Saharan African countries. These include products that are not eligible either under the GSP or the first provision of AGOA, and it is available for a subset of AGOA-eligible SSA countries subject to a cap. The articles included in this provision include apparel made of SSA yarns and fabrics, textiles and textile articles produced entirely in SSA, certain cashmere and merino sweaters, and eligible hand-loomed, handmade, and printed fabrics. Compared to GSP, this represents a significant change in terms of the inclusion of manufacturing products - textiles and apparel. With few exceptions such as leather products, headgear, glass and glassware, it provided access to a wide range of textile and apparel products. This provision eliminates the average MFN tariff of about 11.5% levied on apparel and textile imports to the US. Under the 'Special Rule for Apparel' (SRA) provision. Lesser-developed beneficiary countries, 22 SSA countries including Ethiopia, enjoy this additional duty-free/quota-free preferential access for apparel made from fabric originating anywhere in the world.

Ethiopia was among the top ten beneficiaries of the two provisions and the apparel/textile manufacturing sector is the largest AGOA beneficiary sub-sector in the country. Between 2000 and 2020, Ethiopia exported \$722 million worth of garments to the US duty-free under AGOA, with three-quarters of that in the past three years alone. Ethiopia benefits from very favorable rules of origin, the 'Special Rule for Apparel' (SRA) provision, under AGOA that allows the utilization of third-country fabrics as qualifying input materials.

However, following the conflict in the northern part of the country, the US suspended Ethiopia from the AGOA, which may decrease exports, loss of jobs, and exit of firms. For example, up to July 2022, over a thousand employees working inside Hawassa Industrial Park may lose their jobs, as two garment factories announced their layoff plans to be implemented before the end of 2022, which may increase the loss of employment for many low-income workers. This condition implies that Ethiopia's suspension from AGOA might lead to a decrease in exports, notably apparel and footwear, which heavily rely on the preferential agreement. Furthermore, almost half of Ethiopia's 525 million dollars in exports to the US in 2020 utilized AGOA preferences⁵. Thus, Ethiopia's suspension from the preferential agreement may lead to a significant reduction in the amount of foreign currency that Ethiopia expects from the sector.

It is worth noting that, like Ethiopia, many African countries have experienced AGOA suspension in the past. Table 3.1 below provides the list of African countries that were suspended from AGOA in the past, including one (Seychelles) that graduated from the program. Since AGOAs' inception in 2000, 16 countries have lost their eligibility for a certain period of time. Of the remaining, eight countries have regained their AGOA eligibility status, and three countries have been suspended multiple times and are currently ineligible. Currently, a total of 9 countries, including Ethiopia, are on suspension.

Table 3.1: List of African countries that were suspended from AGOA in the past

<i>Country</i>	<i>Date declared AGOA eligible</i>	<i>Suspensions</i>
<i>Burkina Faso</i>	Dec-04	Jan 2023 – Present
<i>Burundi</i>	Jan-06	Jan 2016 – Present
<i>Cameroon</i>	Oct-00	Jan-2020 – Present
<i>Central African Republic</i>	Oct-00	Dec 2003 – Dec 2016
<i>Congo (DRC)</i>	Dec-02	Jan 2011 – Jan 2021
<i>Côte d'Ivoire</i>	Oct-11	Jan 2005 – Oct 2011

⁵More information on trade between the US and Ethiopia is available in <https://agoa.info/profiles/ethiopia.html>

<i>Ethiopia</i>	Oct-00	Jan-22-Present
<i>Eswatini</i>	Oct-00	Jan 2015 – Jan 2018
<i>Gambia (the)</i>	Dec-02	Jan 2015 – Dec 2017
<i>Guinea</i>	Oct-00	Dec 2009 – Jun 2014, 2022 – Present
<i>Guinea-Bissau</i>	Oct-00	Jan 2013 – Dec 2014
<i>Madagascar</i>	Oct-00	Jan 2010 – Jun 2014
<i>Mali</i>	Oct-00	Jan 2013 – Dec 2013, Jan 2022 – Present
<i>Mauritania</i>	Oct-00	Jan 2006 – July 2007, Jan 2009 – Jan 2010, Jan 2019 – Present
<i>Niger</i>	Aug-06	Dec 2009 – Oct 2011
<i>Seychelles</i>	Oct-00	Jan 2017 – Present
<i>(graduated)</i>		
<i>South Sudan</i>	Dec-12	Jan 2015 – Present

Source: *USITC data*.

Table 3.2 shows exports before and after the suspension for countries that were suspended from AGOA between 2001 and 2020. From this, we see that countries that heavily rely on AGOA for their access to the US market, with at least 30 percent of their exports claiming AGOA preferences, experienced a large (over 65%) decline in their exports by the second year of suspension. As Ethiopia is one of the top beneficiaries of AGOA, the suspension of AGOA could reduce the country's exports to the U.S. market significantly.

Table 3.2: Pre- and post-suspension exports to the US

Country (year of suspension)	Exports in the pre-suspension year (Million \$US)		Share of AGOA Exports (Percent)	Exports in the second year of suspension (Million \$US)	Change in total exports (Percent)
	Total	AGOA			
	(1)	(2)	(3)=(2)/(1)	(4)	(5)=(4)/(1)-1
Burundi (2016)	8.4	0	0	9	7
Cameroon (2020)	330	0.4	0	208	-37

Central African Rep. (2004)	2	0.2	10	5.7	185
Côte d'Ivoire (2005)	706	88	12	701	-2
Congo (DRC) (2011)	435	147	34	133	-69
Gambia (the) (2015)	0.3	0.06	20	0.7	133
Guinea (2010)	67.3	0.21	0.3	80.7	20
Guinea-Bissau (2013)	0.1	0	0	0.1	0
Madagascar (2010)	253	210	83	87	-66
Mali (2013)	3.7	0.2	5	3.7	0
Mauritania (2019)	13	0.02	0.2	6	-54
Niger (2010)	106.3	0.11	0.1	26.5	-75
South Sudan (2014)	0.1	0	0	0.2	100
Swaziland (2015)	82	59	72	17	-79

Source: USITC data.

3.2 Other trade shocks

In addition to AGOA suspension, Ethiopia's domestic and international trade has been disrupted by several global shocks such as the global financial crisis-GFC, the COVID-19 pandemic, fluctuations in commodity prices, and international conflict and domestic shocks such as political conflict and drought. The following section discusses the implications of these global and domestic shocks for Ethiopia's trade activities.

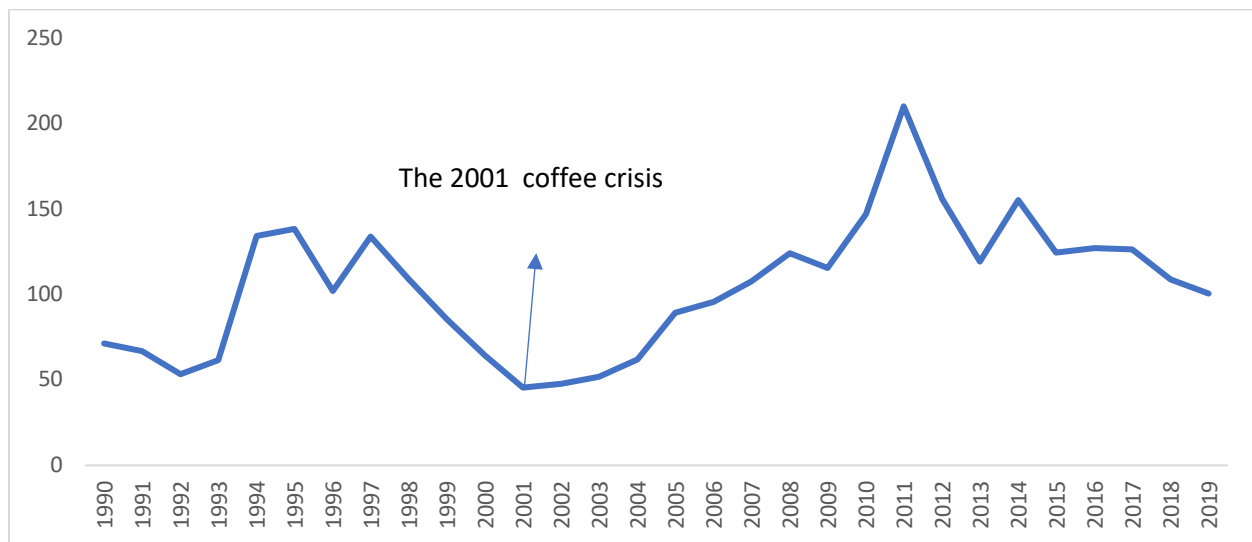
A. Commodity price volatility

For low-income countries such as Ethiopia, commodity price shocks have a significant impact on trade balance and the livelihood of producers. For example, in 2001, coffee prices reached their lowest point in a century going below USD 50 cents per pound (

). The fall in prices since 1997 has been dramatic, with prices in some cases insufficient to cover production costs (Osorio 2002). The crisis was caused by a combination of factors, including oversupply of coffee, weak demand from key importing countries, and a strong US dollar. At the heart of the crisis was a massive oversupply of coffee, driven largely by an increase in production in Brazil, which is the world's largest coffee producer. In addition, weak demand from key

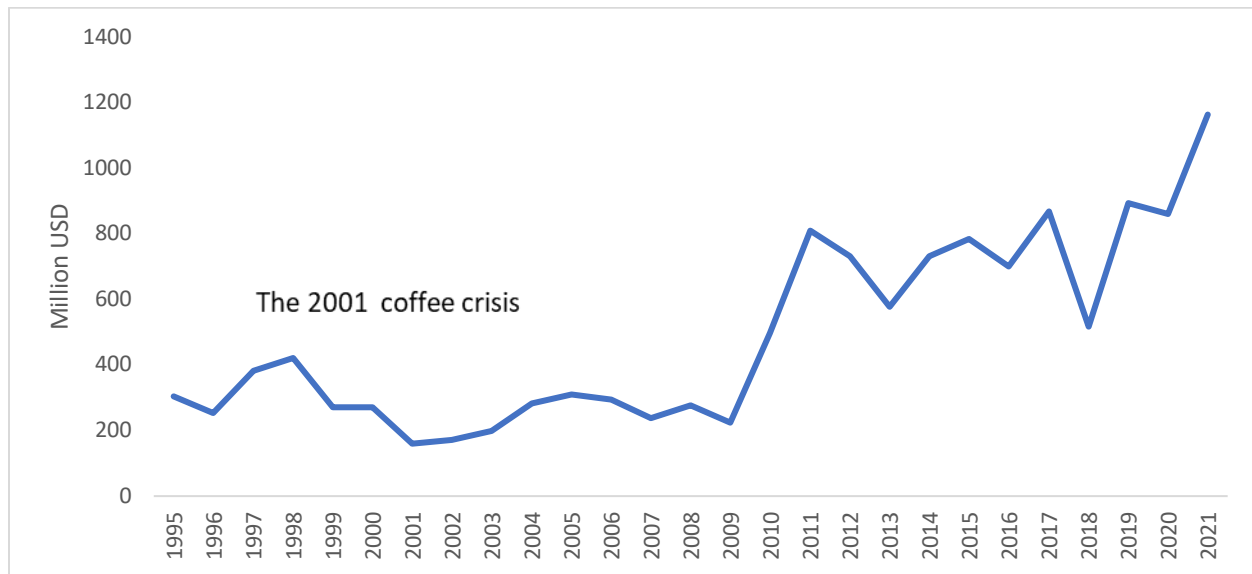
importing countries such as Japan and Russia, as well as the economic downturn in the US, further exacerbated the oversupply problem. The oversupply of coffee, coupled with weak demand, caused the price of coffee to plummet, leading to widespread economic hardship for coffee farmers and other stakeholders in the coffee industry. Like many other coffee exporters, the crisis had implications for Ethiopia economy, as the country rely heavily on coffee as a source of foreign exchange and as a key driver of economic growth. The crisis had a significant impact on Ethiopia such as child malnutrition (Hundanol, 2021). The author finds that children born in coffee-producing households during low coffee price periods have lower weight-to-age and weight-to-height z-scores than their peers born in non-coffee households.

Figure 3.1: Trends in the International coffee price index



Source: International Coffee Organization

Figure 3.2: Export revenue of Ethiopia 1995-2019



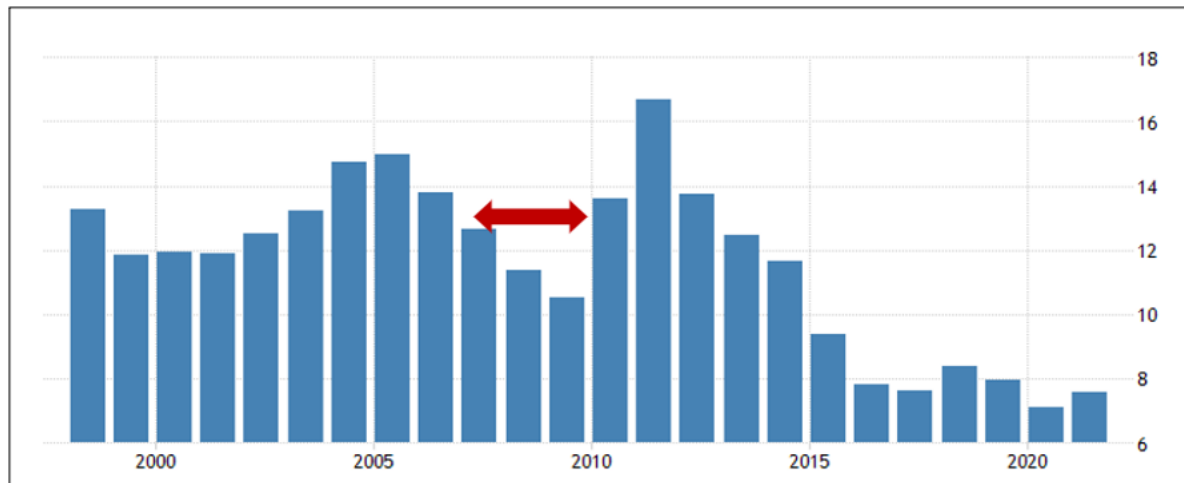
B. The Global Financial Crisis

The global financial crisis (GFC) was a severe global economic crisis between 2008 and 2009. During this crisis, the US housing market was down. This crisis caused a financial crisis that spread from the US to the rest of the world through linkages in the global financial system. In addition, this crisis negatively affected international trade by lowering imports and export capabilities, particularly in developed countries.

Though Ethiopia's financial system was underdeveloped and had relatively limited links to the global economy, the country could not escape from the impact of the GFC. Thus, the GFC has affected the performance of Ethiopia's external sector and commodity prices. Ethiopia's economy heavily depends on the export of primary commodities, including coffee, oilseeds, leather, pulses, meat, and flower. Thus, the predominant dependence on these primary commodities has caused Ethiopia's vulnerability to the GFC. For example, Ethiopia's total exports have decreased from \$351.7 million in quarter 1 of 2008/9 to \$267.7 million in quarter 2 of 2008/9 (for instance, Paul, 2010). In addition, Figure 3.3 shows that Ethiopia's exports of goods and services (% of GDP) dropped from 13.5 percent in 2006 to 10.5 percent in 2009 (i.e., by about

22 percent). The main mechanisms that the GFC affected Ethiopia's trade include low prices and reduced demand for Ethiopia's primary commodities in the major importers of these commodities.

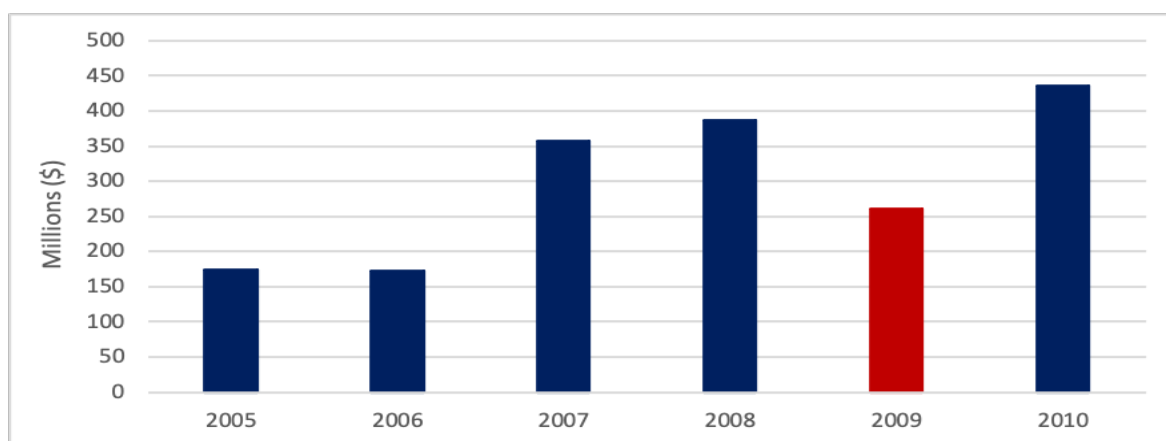
Figure 3.3: Ethiopia's Exports of Goods and Services (% of GDP): 1998-2021



Source: World Bank|TRADINGECONOMICS.COM

The other potential mechanism through which the GFC could affect Ethiopia's trade is its negative impact on remittance flows. Ethiopia receives a substantial amount of foreign currency through remittances. However, Figure 3.4 shows that remittances to Ethiopia dropped from about \$387 million in 2008 to \$262 million in 2009 (i.e., dropped by about 32.3 percent). This remittance reduction contributed to foreign exchange shortages and a decrease in imports.

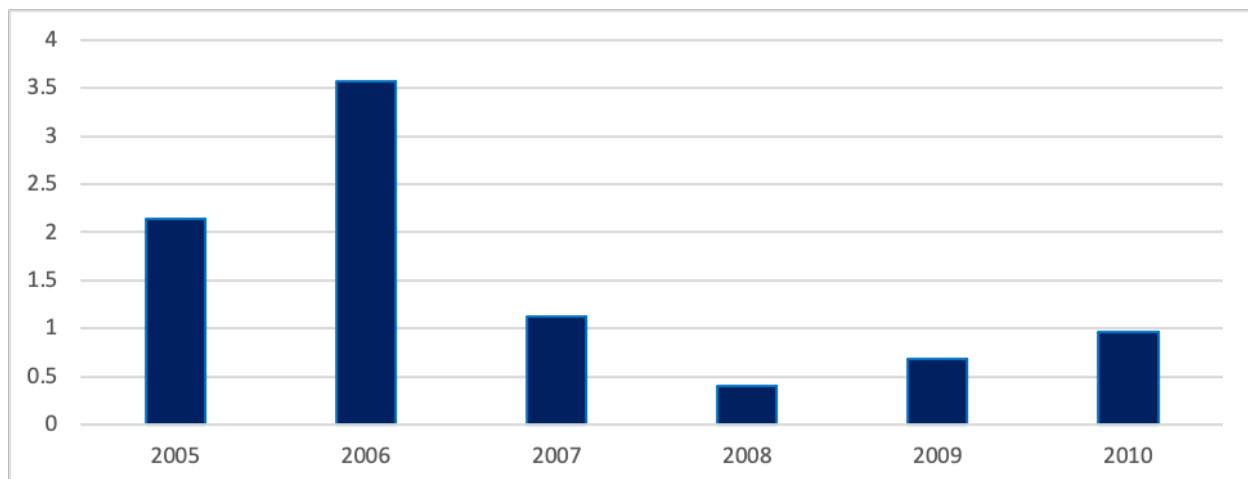
Figure 3.4: Personal remittances, received (current US\$): 2005-2010



Source: World Bank

The GFC has also declined the private capital flows (i.e., foreign direct investment-FDI) to Ethiopia. The target of FDIs is, like in the case of Ethiopia, to sell their products in foreign markets (i.e., exporting their products) than serving in the local markets. This condition implies that foreign investors will reduce their production and exports when the importing countries have economic downturns (such as financial crises). Such economic downturns may also cause the withdrawal of foreign investors, which also reduces new foreign investment in the future. Figure 3.5 demonstrates consistent evidence of this condition in the case of Ethiopia. It shows that the level of FDI substantially decreased after 2006.

Figure 3.5: Foreign Direct Investment, Net Inflows (% of GDP)



Source: Author calculation from the World Bank 2020

C. COVID-19 pandemic

The recently out broke global health shock, the COVID-19 pandemic, could be considered as a global trade shock which affect the volumes of imports and exports. The COVID-19 pandemic combines aspects of supply, demand shock and trade shocks.⁶ On the supply side, workplaces were closed, input markets and supply chain were disrupted, protectionist measures were introduced. These measures partly halt production. On the demand and export side, increase in

⁶ In the fight against the spread of Covid-19, Ethiopia 's economy went into lockdown/state of emergency (SOE), closing land borders, ban on international flight, inter-regional public transports and public gatherings, and announcing social distancing measures. Likewise, trading partners have taken similar containment measures that could affect Ethiopia's exports and imports.

unemployment and decline in income, lack of access to shops, reduction in intermediate inputs could reduce consumer demand in the domestic and international markets.

Like the rest of the world, Ethiopia has also faced disruptions in supply chain and weakened global demand. Its agriculture exports— particularly coffee, flowers and oil seeds—have faced a slowdown in demand in many European and North American trading partners. For example, flower industry, lost \$25 million in the first four months of the pandemic. The outbreak of COVID-19 has also affected Ethiopia's manufacturing firms especially those dependent on foreign inputs. Owing to the fact that they are facing delay in obtaining critical inputs, machinery and raw materials, firms are slowing down production and laying off workers. For example, on April 1, Hawassa Industrial Park layoff 14, 000 employees.

Cross-border trade was also vulnerable during the pandemic. On March 23, the Ethiopian government close all land borders (to people, but not essential goods) as an effort to control the spread of coronavirus in the country. This measure, however, has resulted into a slowdown in cross-border trade in some commodities between Ethiopia and the rest of neighboring countries. For example, Khat trade between south Ethiopia and Marsabit county in northern Kenya has been halted following the border closure. In addition, Mandera county, the main trading market in the Moyale corridor has restricted livestock trading.

The pandemic has also affected Ethiopia's service trade. International and domestic flights have been canceled or temporarily suspended in Ethiopia to cope with falling demand following the spread of coronavirus. These measures have disrupted the transportation exports. International Air Transport Association (IATA) reported that Ethiopian Airlines has experienced revenue losses of up to \$550 million between January and April 2020. The plan for flower exports was to generate USD 450 million but only USD 225 million realized in the first 6 months 2019/20. Textile exporters obtained USD 100 million over the same period but faced cancellation of orders from the US, Europe and China.

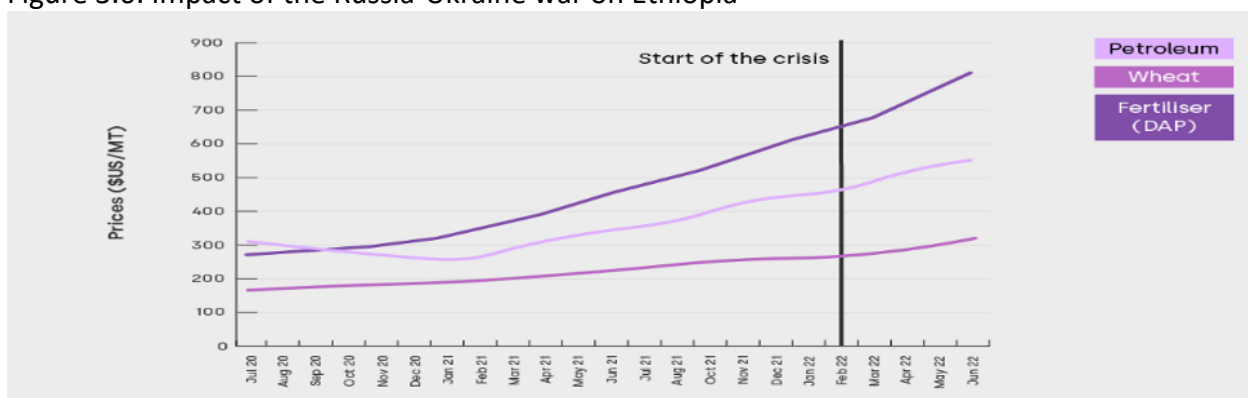
D. International conflict

A conflict that takes place in the exporting country damages the supply side of imports by destroying the tangible and intangible assets that support firms' productive activities. As conflict

increases the political instability, economic uncertainty, and physical risks associated with productive activities, firms' ability to draw upon their resources, know-how, and locational advantages are disrupted, and so is their ability to engage in trading activities. Conflict and high levels of uncertainty can distort the allocation of resources and thereby distort national comparative advantages. The impact of conflict is not limited to the boundary of a nation but often negatively impacts the trade of its neighbors. In addition, it has spillover effects into the neighboring countries through direct diffusion of conflict, damages to regional transportation and communication systems, and forced population movements (e.g., [Marano et al., 2013](#)).

An increasing number of studies document the impact of the recent Ukraine-Russia war on international trade. The studies show that the war directly impact the global trade through various channels, for example, commodity markets (especially food and energy), logistic networks, supply chains, and foreign direct investment ([Ruta, 2022](#)). Like the rest of the world, Ethiopia has experienced an increase in price of commodities following the Russia-Ukraine (see Figure 3.6). A study by International Growth Center (2022) shows that petroleum, wheat, edible oil in June 2022 increased by 64%, 48% and 49% in the same, respectively. The price of fertilizer has also increased given Russia is the biggest exporter of nitrogen-based fertilizer, the second and third most important global supplier of potassium and phosphate. This conflict significantly affect price of food and oil in Ethiopia as the country is a net importer of these commodities. In 2021, for example, Ethiopia imports US\$ 3 billion worth of petroleum products, and US\$ 2 billion worth of fertilizers.

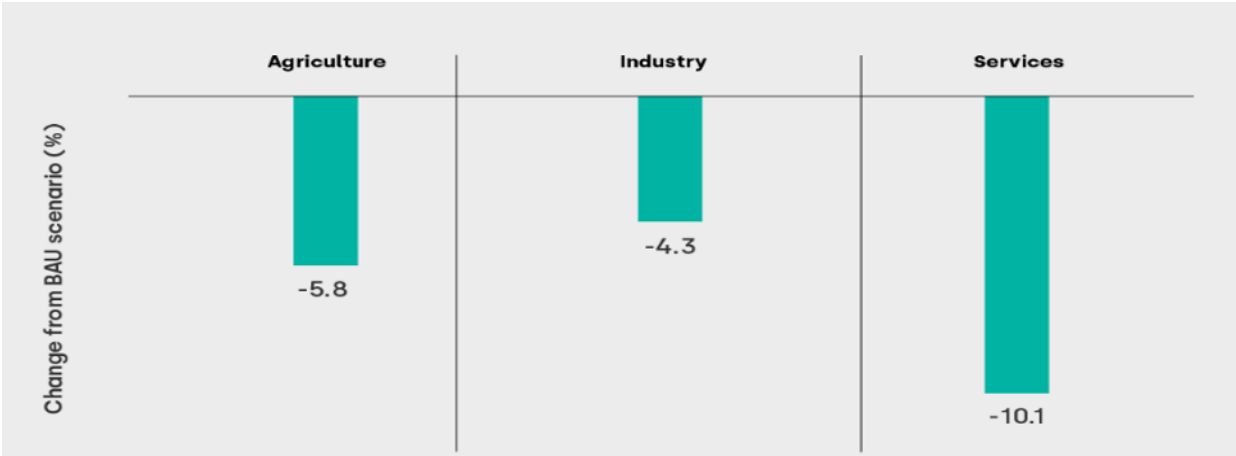
Figure 3.6: Impact of the Russia-Ukraine war on Ethiopia



Source: International Growth Center, 2022

Moreover, the study by International Growth Center (2022) documents that the services sector is the most affected sector by the Russia-Ukraine war (see Figure 3.7). This evidence could be because the services sector is the primary fuel user through transport services, and the real-estate sub-sector could be impacted by the higher prices of metal and metal products. The effect on agriculture could be through the increase in fertilizer prices.

Figure 3.7: Impact of the Russia-Ukraine war on Ethiopia’s economic sectors



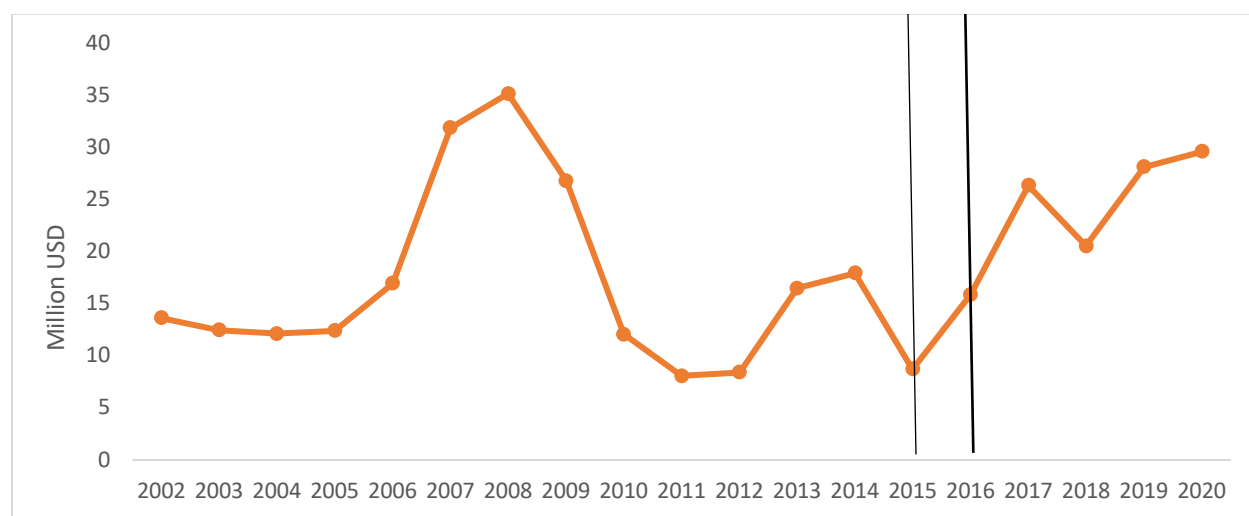
Source: International Growth Center, 2022

E. Climate Change and drought

Global climate change can negatively impact trade by disrupting distribution and supply chains and raising trade costs. Climate change may change the nature and location of agriculture production and processing, resource extraction, manufacturing, and other sectors. These conditions have important implications for trade, the flow of goods, corporate logistics, and supply chains. These situations can be especially important for countries, like Ethiopia, which produce primary and perishable commodities like agricultural products. Hence, the impact of climate change would be higher, particularly for agricultural products, as their production is affected by climate change through temperature increases, droughts, water scarcity, coastal degradation, and flooding, thus reducing their volumes of imports and exports. Furthermore, climate change, for example, rising temperatures, is expected to strengthen coastal winds and storms, which will affect ship navigation and port operations and potentially hamper international trade (see for example, [Dellink et al., 2017](#)).

In Ethiopia, for example, El Niño—an extreme atmospheric condition that periodically warms the water across the central and east-central Equatorial Pacific—caused drought flooding, in the eastern, southern and central parts of Ethiopia. The El Niño drought resulted in 50-90 percent drop in crop production in southern and central Ethiopia and made about 10.2 million people food insecure (FAO, 2017). Drought could affect agricultural crops that in turn affect the country’s export of food items (Figure 3.8).

Figure 3.8: Export in Food items



F. Political Conflict

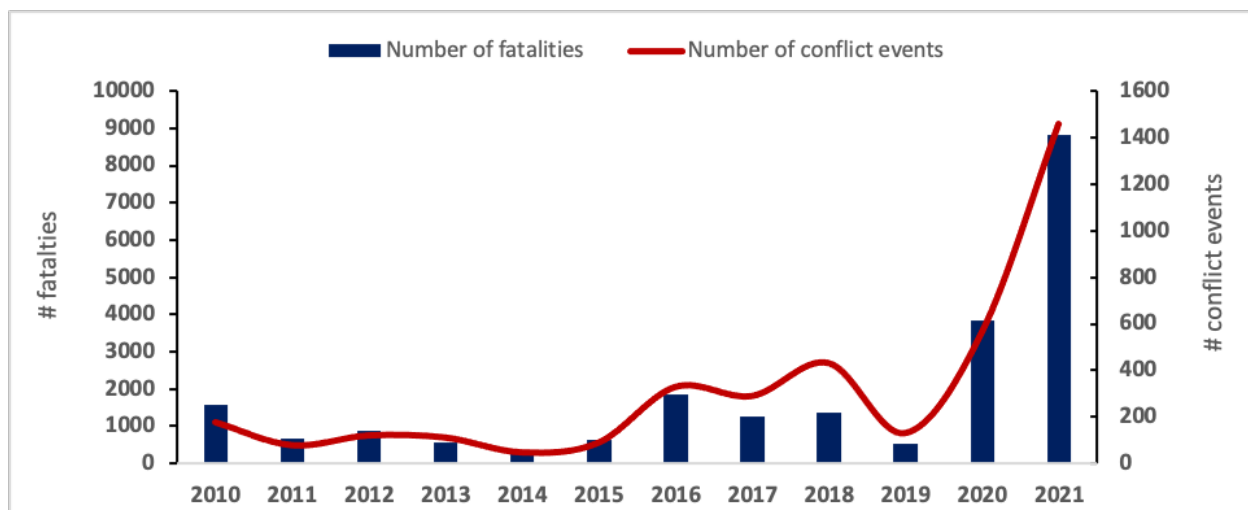
Civil conflicts and violence within Ethiopia could impede trade in various ways. Armed conflict increases the transaction costs of trade through destructing human and physical capital, devastating effect on education and health, destruction of property, infrastructure and transportation networks, disruption of logistics, restricting the movement of people and their ability to undertake trade related activities, restricting border control measures and taxation of trade by armed militias. Conflict also limits the ability of producers to access critical inputs and constrain them to access to markets to sell their products. Furthermore, it could create greater uncertainty and impede investment which in turn reduce trade⁷.

⁷ IMF (2021)

Between 2010 and 2021, Ethiopia has experienced many political turmoil and conflict episodes. For example, Figure 3.9 shows that the number of conflict events has increased eight-fold, from 176 in 2010 to 1461 in 2021. With the rise of conflict, the number of fatalities has also increased dramatically. From 2010 to 2020, there has been a five-fold increase in fatalities from conflicts. The conflict has been an alarming, particularly during 2016-18 and 2020-21. From approximately 2016 onwards a rise in protests can primarily be attributed to the conflict that led to the change of leadership. The level of conflict in the country has declined only for brief period since the change of leadership. In 2020 and 2021, there was a spike in conflict and deaths, largely driven by the war in the northern Ethiopia (see Figure 3.9). It will be crucial to overcome this obstacle to improve Ethiopia's trade performance.

While conflict could create barriers to trade, at the same time trade and trade policies can be a powerful instrument for reducing conflict and improving stability. Trade is crucial in promoting development and increasing the opportunity cost of conflict.⁸ It provides new opportunities and creates jobs for the youth and for those otherwise drawn towards violence and armed groups.

Figure 3.9: Number of conflict incidents and fatalities in Ethiopia, 2010-2021



Source: Authors calculation from ACLED.

⁸ Cali, M (2015)

There are several potential mechanisms through which the civil conflict in Ethiopia could affect domestic trade in the country. For example, following the announcement of the government's plan to expand Addis Ababa into Oromia special zones in 2014, the country has experienced an unprecedented wave of protest. The protesters constantly blocked roads and trade routes throughout the Oromia region, including the main roads into and out of the capital, Addis Ababa. Most importantly, the country's import-export roads, including the Ethiopia-Djibouti railway, the main international trade route-was also affected by the blockage, affecting international trading relationships. Among other things, the disruptions constrained firms' access to imported intermediate inputs. The closure of roads spread to Amhara region, the second largest region in the country, by the beginning of 2016. Furthermore, the protesters in Amhara blocked main highways reaching several towns in the region as well to the main road linking Addis Ababa to Tigray region.

The blockage of domestic and international trade routes affected firms' access to imported inputs and other business operations. For instance, using a survey of 75 firms in the manufacturing sector in Ethiopia, Ayele and Edjigu (2021) show that 74 percent of firms reported road closure as the major channel through which the conflict affected their business operations and firm-to-firm supply chain relations.

Another channel through which civil conflict could affect domestic trade is supply chain disruption. The destruction of input supplier firms, the closure of roads and the disruption of international trade routes disrupt upstream and downstream firms in the supply value chain. Ayele and Edjigu (2021) find that 50 percent of manufacturing firms reported that their input supplier firm experienced damage due to civil conflict. Among firms who reported their input supplier is affected by the conflict, 64 percent of firms reported that their firm-to-firm linkage was interrupted due to conflict. Over 90 percent of firms report that accessing inputs due to civil conflicts was a severe constraint.

Destruction and thefts are also important channels that civil conflict affects trade activities. Following the protests and riots in the Oromia and Amhara regional states during 2014-2018, physical, human and natural resources were destructed. For example, in Oromia region, large number of firms, mostly foreign-owned firms were damaged. In September 2016, a total of 22 foreign companies were looted and burned by protestors in the two regions. In Oromia region, among others, FV SeleQt BV and Africa JUICE BV Dutch-owned firms were robbed. Turkish-owned Saygin Dima, a textile factory, was burned down. Another Turkish owned company-BMET Energy Telecom Industry and Trade LLC was damaged. In Amhara, Esmeralda Farms BV of the Netherlands, Italian owned-Alfano Fiori, Indian firm Fontana Flowers PLC, and others operated and owned by investors from Israel, Belgium and the Middle East were destroyed or partially damaged in the Amhara region. Domestic-owned firms were also destructed and looted. The pilot survey by Ayele and Edjigu (2021) reveals that 70 percent of manufacturing firms experienced losses or damage to assets as a result of civil conflict. Approximately 30 percent of firms have experienced a loss in sales revenue.

4. Survey description and summary statistics

4.1 Survey Description

Using Central Statistical Authority's (CSA's) large and medium enterprise survey of Ethiopia as a sample frame, we survey 169 exporting and non-small-scale manufacturing firms engaged in the apparel and textile sector. The survey was conducted in person in 2023, and most respondents were firm owners or managers.

The survey has four parts. The first part covers questions targeted at getting basic information about firm characteristics. The second part is about the impact of Ethiopia's AGOA suspension on exports, whether firms diverted their exports from the US market to other foreign markets following the suspension; employment losses following the suspension; changes in investment and the impact on supply chains. The third part asks establishments about their opinion about the appropriate government response or what they expect from the government. The core of the survey in this part relates to business opinion on what policy support they think is needed to withstand the trade shock they are facing because of the suspension.

4.2 Summary statistics

Table 4.1 summarizes the key attributes of the firms surveyed. On average, these firms employ 537.5 workers. Among the surveyed firms, 76% participate in the export market, with 58.4% of their total production being exported. In terms of ownership, 47.2% of the firms are domestically owned, 33.8% are foreign-owned, and 5.6% are international joint ventures. The surveyed firms have a demographically diverse workforce, with 71.7% of employees being female. The table also displays the distribution of sampled firms by employee size, with large firms accounting for 74.5% of the sample, medium-sized firms accounting for 23%, and small-sized firms accounting for 2.3%. The dataset reveals that 67% of our sample firms utilize the AGOA program. Additionally, 23% of the total firms are situated in industrial parks.

Table 4.1: Establishment's basic characteristics

VARIABLES	OBSERVATION	MEAN
Number of employees	169	537.50
Percentage of female workers	169	71.69
Age of the firm	169	7
Small size firms (% share)	4	2.4
Medium size firms (% share)	39	23.1
Large size firms (% share)	126	74.6
Domestic firms (% share)	92	47.2
International joint venture (% share)	11	11
Wholly foreign-owned (% share)	66	33.8
Share of exports (% of total sales)	132	58
Share of AGOA participants (% share)	113	67
Share of firms in IPs (% share)	39	23

Source: Authors' own computation based on the survey data.

Table 4.2 provides information on the geographic distribution of businesses. Addis Ababa is home to 50.3% of the sampled establishments, followed by Oromia regional state at 29.6%, and Sidama

(Hawassa IP) at 11.8%. The remaining businesses are located in Amhara regional state and Dire Dawa city administration. These businesses employ a total of 90,838 people. Sidama regional state has the highest number of employment opportunities with large businesses, followed by Addis Ababa (28,776) and Oromia (21,878). On average, businesses in Sidama, Amhara, Oromia, and Addis Ababa generate employment opportunities for 1,639, 627, 438, and 339 workers, respectively.

Table 4.2: Location of firms: number of firms, average employment, and sale by region

REGION	# OF FIRMS	TOTAL EMPLOYEES	AVERAGE EMPLOYEE
AMHARA	10	6,269	627
OROMIA	50	21,878	438
SIDAMA	20	32,779	1639
ADDIS ABABA	85	28,776	339
DIREDAWA	4	1,136	284
TOTAL	169	90,838	538

Source: Authors' own computation based on the survey data.

4.3 Level of AGOA participation and AGOA awareness

Table 4.3 shows the opinion of firms on the importance of AGOA eligibility. According to the survey, 37.3% and 23.1% of firms reported that preferential market access under the AGOA arrangement is “very important” and “important”, respectively. This suggests that the majority of the firms perceive that the AGOA non-reciprocal trade preference is beneficial to export to the US market. Close to 40% of the firms covered in our survey indicated that AGOA has not been important for their firm, the majority of this are likely to be AGOA non-beneficiaries.

Table 4.3: Firm's opinion on the importance of AGOA eligibility (% of total firms)

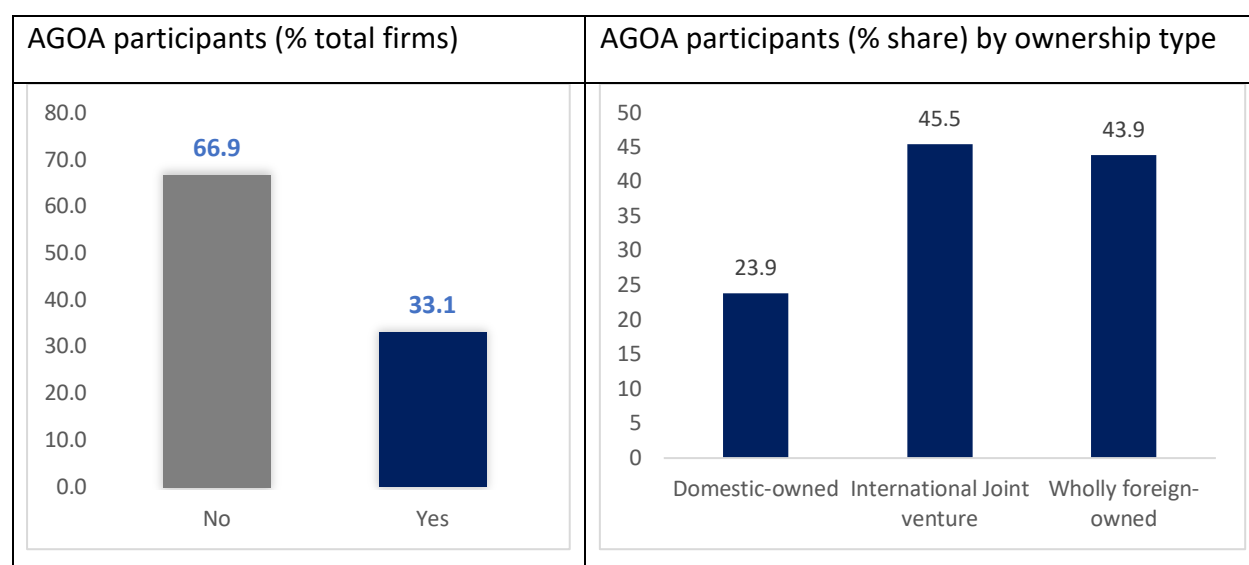
Importance of AGOA eligibility	Observation	Percentage
Very important	63	37.3
Important	39	23.1
Not important	67	39.6

Total	169	100.0
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Source: Authors' own computation based on the survey data.

We ask firms whether they have been using the AGOA benefits during the pre-suspension period. In Figure 4.1, we can see that approximately 33% of firms indicated that they benefited from the AGOA initiative prior to Ethiopia's suspension of the program. Our results also reveal that a larger proportion of joint ventures and wholly foreign-owned firms, compared to domestic firms, are AGOA beneficiaries. This suggests that foreign firms are more likely to take advantage of the AGOA initiative compared to domestic firms.

Figure 4.1: Establishment benefited from AGOA Initiatives prior to suspension by Ownership



Source: Authors' own computation based on the survey data.

For firms that have not been AGOA beneficiaries, we ask the main obstacles not to export to the US market under AGOA. Non-participating firms reported that several domestic factors constrained their capacity to exploit the market opportunity created by AGOA. The main reasons stated by the firms were: lack of working capital to finance exports, high-quality requirements in the export market, and limited production capacity are stated as the major impediments to exploiting the preferential market opportunity by 13.41%, 13%, and 12.6% of firms, respectively (see Table 4.4). Moreover, the inability to compete with other suppliers in the US market, low prices at the foreign market than the domestic market, and bureaucratic customs and logistics services are also other important factors limiting firms' AGOA utilization.

Table 4.4: Reasons for not utilizing an AGOA

<i>Reasons for not utilizing AGOA</i>	<i>Observation</i>	<i>%</i>
<i>Lack of working capital to finance exports</i>	33	13.41
<i>High Quality requirements in the export market</i>	32	13.01
<i>Limited production capacity</i>	31	12.60
<i>Lack of exporting knowledge such as finding market (buyers) in the US, where to go for help and support</i>	28	11.38
<i>Unable to compete with other suppliers to the US market</i>	23	9.35
<i>Low price at foreign market than domestic market</i>	18	7.32
<i>Bureaucratic customs and logistics services</i>	18	7.32
<i>Bad exchange rate policy such as low retention rate</i>	17	6.91
<i>Other</i>	16	6.5
<i>USA's stringent rules for exporting under AGOA</i>	14	5.69
<i>High costs associated with transport and clearing customs</i>	10	4.07
<i>Financial risks involved in exporting</i>	6	2.44

Source: Authors' own computation based on the survey data.

5. Survey Results

The African Growth and Opportunity Act (AGOA) has been considered essential for expanding trade and promoting economic transformation in sub-Saharan Africa. However, as a unilateral agreement, the US reserves the right to suspend eligibility of any country that fails to meet its conditions. Suspension from AGOA could discourage trade and investment in industries engaged in exports of AGOA-eligible products and this section tries to make an assessment of this using Ethiopia's AGOA suspension.

In 2022, Ethiopia, which has been a key AGOA beneficiary since its inception got suspended from AGOA on the grounds of human rights violations and political unrest in the country. This suspension meant that Ethiopia would no longer have duty-free access to the U.S. market, raising concerns over the future of Ethiopia's garment industry, which heavily relies on textiles and

apparel exports under AGOA. The sector accounts for 90% of duty-free exports to the U.S. in 2020.

In the following sections, the main results of the survey are presented. The first section discusses the impact of the AGOA suspension on exports and whether firms diverted their exports from the US to other foreign markets or to the local market. The second section focuses on employment losses following the suspension. The third section presents the findings on changes in investment. The fourth section reports on the impact on supply chains. Finally, the coping strategies and policy responses implemented by the government are discussed.

5.1 Impacts of the Suspension of Exports and Trade Diversion

5.1.1 Impacts of the AGOA Suspension on Exports

The African Growth and Opportunity Act (AGOA) has greatly benefited Ethiopia, making it one of the leading Sub-Saharan African exporters of apparel to the US. AGOA has played a crucial role in increasing Ethiopia's exports to the U.S. Since 2000, exports to the US have significantly increased over the years, with almost half of Ethiopia's US-bound exports being cleared into the US duty-free under AGOA. However, Ethiopia's suspension from AGOA may lead to adverse effects on its exports to the U.S. With the suspension, Ethiopia is likely to lose its competitive advantage in the U.S. market due to reinstated tariffs on previously duty-free products.

Against this backdrop, we asked firms whether their exports to the US in 2022 (after AGOA suspension) were reduced relative to the previous year. As indicated in Figure 5.1A, 30% of firms reported that they experienced a decline in exports to the US market compared to their export in the same period the previous year. About 64% of firms indicated that they did not experience a change in their exports. Contrary to expectations, 7% of firms indicated that they experienced an increment in exports to the US market. Note that these responses are obtained from the sampled firms in general, not focusing on AGOA beneficiaries. Figure 5.1 provides further insights into the impact of AGOA suspension on exports, categorized by different characteristics of the surveyed firms.

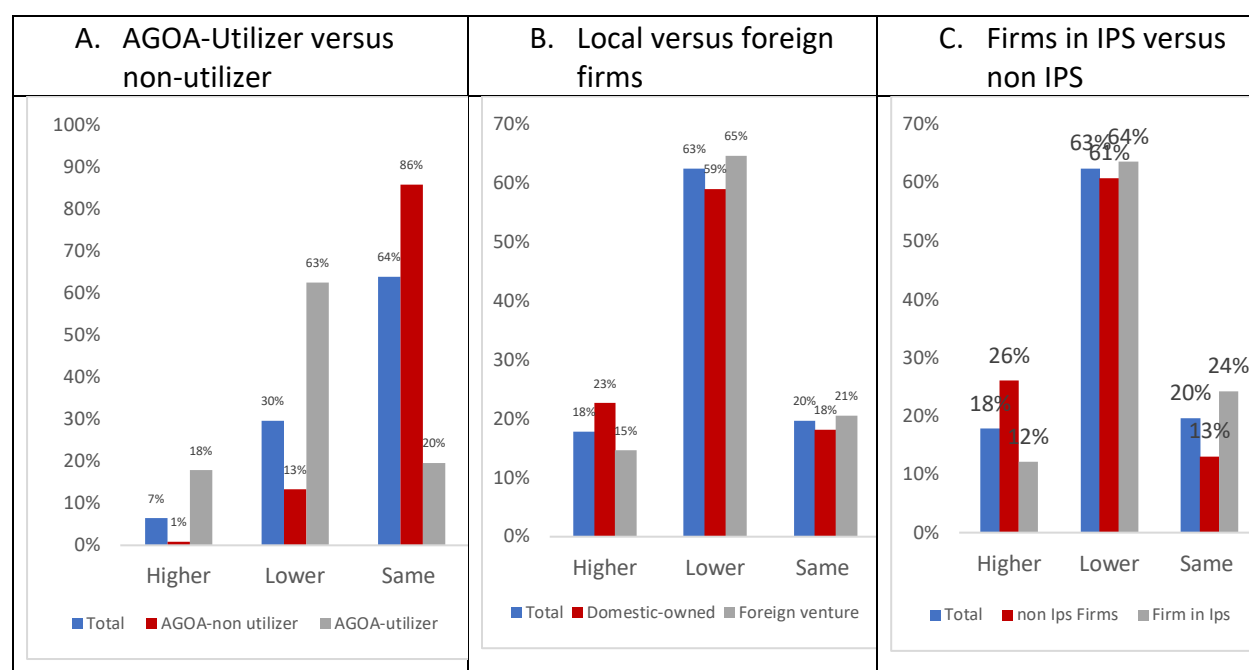
When we analyze the data by AGOA utilization, it becomes apparent that AGOA-utilizing firms were more severely affected, with 63% of them reporting a decrease in exports to the US market

in 2022. In contrast, AGOA-non utilizers were less impacted, with only 13% reporting reduced exports. This difference is expected as AGOA-dependent firms would be directly affected and face greater challenges in adapting to the suspension.

Next, we consider exclusively AGOA utilizers and assess the impact by ownership. As shown in Figure 5.1B, a higher (23%) proportion of domestically-owned firms reported a decline in their exports compared to foreign firms and joint-ventures (15%). This indicates that domestically owned businesses faced a relatively more significant challenges to retain their exports in the post-AGOA suspension period.

Lastly, in Figure 5.1C examines the impact of AGOA suspension, differentiating between firms located in industrial parks (IPs) and those situated outside of industrial parks (non-IPs). The results provide insights into how the location of a firm influences its export dynamics in the post-AGOA suspension period. Among firms located in industrial parks (IPS), 18% reported increased exports, while 63% experienced reduced exports to the US market. In contrast, firms situated outside industrial parks (non-IPS) had a slightly different experience, with 20% reporting increased exports and 61% facing reduced export levels.

Figure 5.1: Firms' perception of change in their exports relative to the previous year (before AGOA termination) (%)



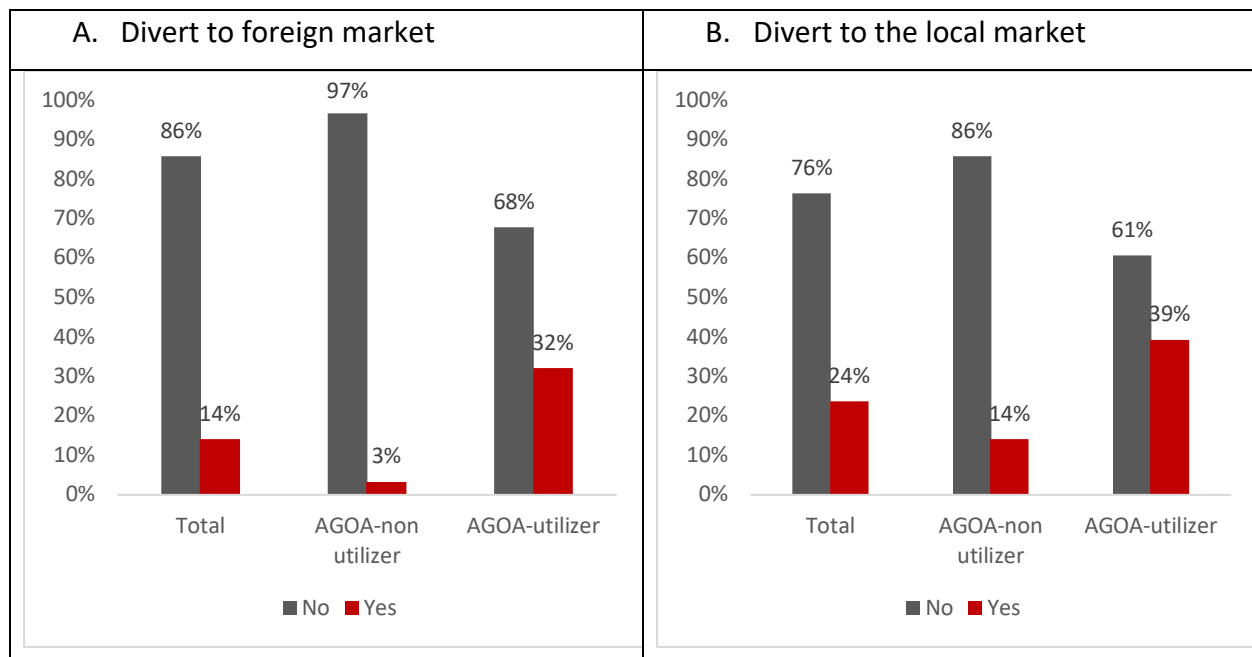
Source: Authors' own computation based on the survey data.

5.1.2 Trade Diversion

One of the obvious potential responses of firms to the AGOA suspension would be looking for other export markets than the U.S. or resorting to supplying the domestic market. We asked firms whether the suspension from AGOA forced them to look for an export market other than the U.S. We have also asked firms whether the suspension led them to divert their sales to the domestic market. When we looked at companies that used AGOA and those that didn't, companies that didn't use AGOA (AGOA-non utilizer) were less likely to engage in exporting to new countries (97% of them didn't) and this is expected as they were not directly impacted by the suspension. On the other hand, 32% companies that used AGOA (AGOA-utilizers) reported that they started exporting to other destinations (see Figure 5.2).

Figure 5.2B, shows if the AGOA suspension made companies sell their products in the domestic market. The results show that 24% of the companies sell in their own country. When we look at companies that used AGOA and those that didn't, we see a difference again with 39% of companies that used AGOA (AGOA-utilizers) divert their market to local buyers while the corresponding share for non-AGOA utilizer is only 14%.

Figure 5.2: AGOA Suspension and Trade Diversion

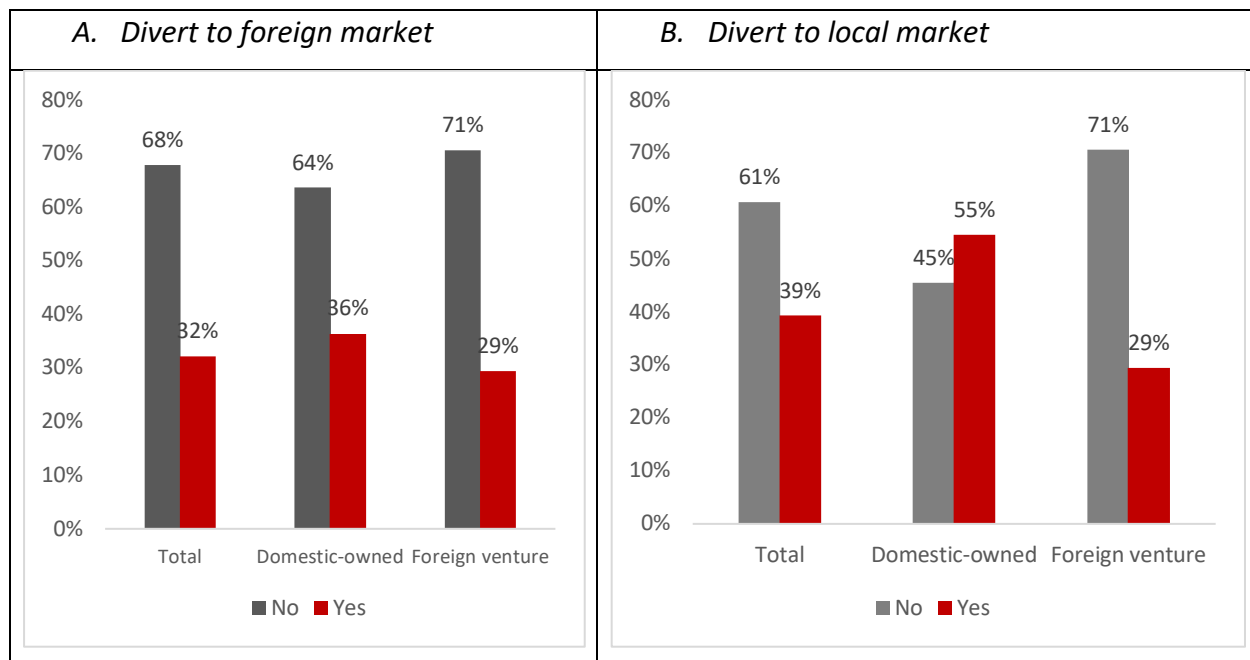


Source: Authors' own computation based on the survey data.

When considering a sample consisting exclusively of AGOA utilizers, the findings remain consistent with our previous analysis. Among these AGOA-utilizing firms, 32% have actively sought alternative export markets beyond the U.S., while the majority (68%) have not pursued new export destinations (Figure 5.3A). Upon examining the data based on ownership structure within this subset, it is still apparent that domestic-owned AGOA-utilizing firms (36%) are slightly more inclined to explore alternative export markets compared to their foreign and joint-venture counterparts (29%).

Regarding the impact on resorting to the domestic market (see Figure 5.3B), the survey results show that 39% of AGOA-utilizing firms have been compelled to increase their product sales to the domestic market, while 61% have not been affected in this way. Upon further examination within this AGOA-utilizing subset, domestic-owned AGOA utilizers (55%) are notably more likely to increase their product sales in the domestic market compared to foreign ventures (29%).

Figure 5.3: Trade diversion: Foreign Firms versus local firms

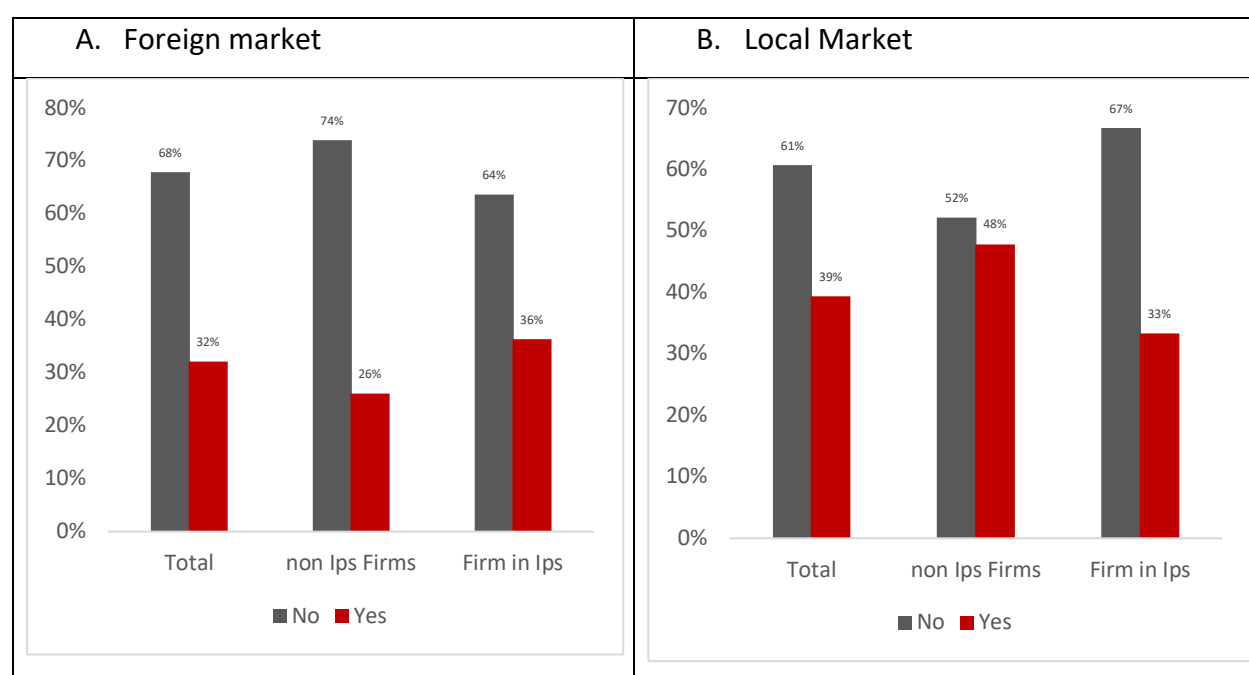


Source: Authors' own computation based on the survey data

When examining the impact of AGOA suspension on firms based on their location, firms situated outside industrial parks (IPs) have exhibited a more pronounced response, with 26.1% actively

seeking alternative export markets. In contrast, firms located within IPs have shown a slightly lower inclination, with 36.4% considering new export avenues. Shifting the focus to the domestic market, 39% of all surveyed firms have increased their product sales within the domestic market, while 61% have not experienced such a need. However, firms situated outside IPs have demonstrated a significant adjustment, with 48% indicating diversion to the domestic markets. In contrast, firms within IPs have shown a somewhat lower inclination, with only 33% of them choosing to increase their domestic sales (see Figure 5.4).

Figure 5.4: AGOA Suspension and Trade Diversion: IDPS versus Non-IDPS



Source: Authors' own computation based on the survey data

5.1.3 Lay off

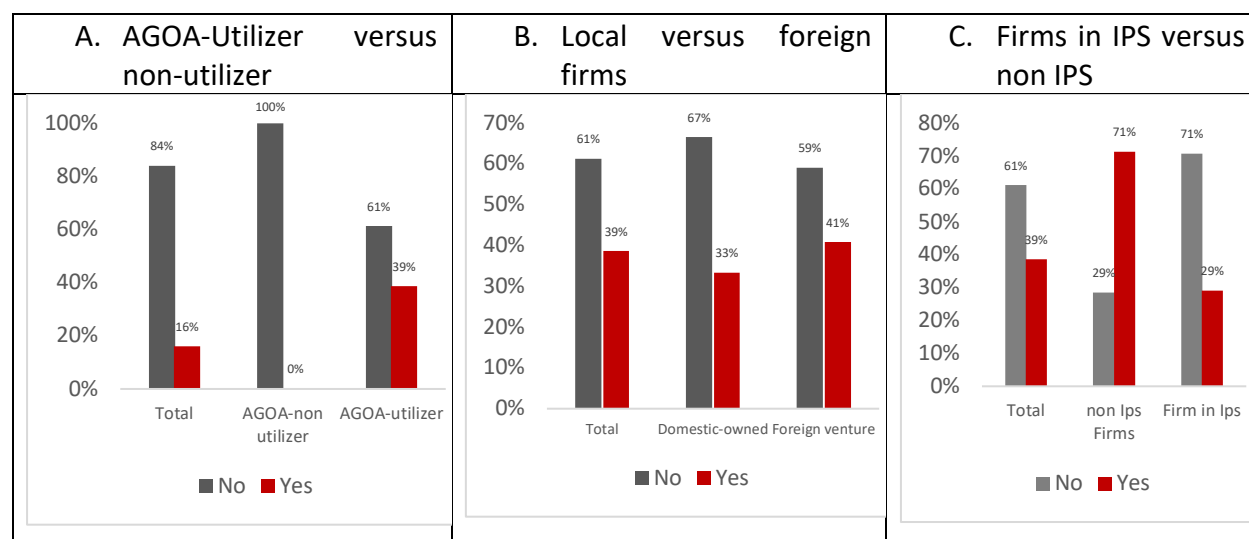
Ethiopia's suspension from AGOA may have resulted in reduced employment opportunities, particularly within sectors that have been directly benefiting from AGOA. Gebreeyesus (2013) argues that sectors such as textiles, apparel, and leather goods employ a high percentage of the workforce, especially women, who are often given low-skilled positions. Accordingly, to examine the effects of the AGOA suspension on the employment status of workers hired by firms, we asked if they have laid off workers following Ethiopia's suspension from AGOA. Figure 5.5 presents the share of firms that laid off workers following AGOA suspension. Contrary to

expectation, the data demonstrates that only 16% of firms in our sample had laid off workers. Comparing the pre-and post-AGOA size of workers, a higher percentage of female workers were laid off compared to male workers. Specifically, firms, on average, laid off 9% of their employees, and the layoff rate for female workers was (11%) higher than the rate for male workers by 3 percentage points.

In examining the impact based on AGOA utilization, all AGOA non-utilizer firms reported no reduction in their workforce, indicating that this subgroup remained unaffected by the AGOA suspension in terms of employment. On the other hand, 39% of AGOA utilizers laid off some of their workers, while 61% managed to maintain their employee numbers.

Moreover, when categorizing firms by ownership structure, 67% of the domestically-owned firms preserved their workforce, while 33% had to lay off employees. In contrast, foreign and joint venture firms faced a somewhat tougher situation, with 41% reporting layoffs and 59% managing to maintain their workforce. The survey results also highlight a significant distinction based on location, while firms situated outside industrial parks (non-IPs) were substantially affected, with 71% reporting laying off their workforce, only 29% of companies inside industrial parks (IPs) had to lay off their workers (see Figure 5.5).

Figure 5.5: Share of firms that laid-off workers following AGOA suspension



Source: Authors' own computation based on the survey data

For firms that laid-off workers, we further asked them the characteristics of workers who were laid off. Figure 5.5 shows that although only 16% of firms have laid off workers, these businesses laid off a substantial proportion of their employees. Specifically, following the AGOA suspension, the sampled firms, on average, laid off 65.5% of their workers. The share of permanent and temporary workers that were laid off accounted for 55% and 3.3%. Gender-wise, the share of female employees that were laid off following AGOA suspension accounts for 86.25% of total workers that were laid off. In addition, skill-wise, the share of skilled workers that were laid off accounted for 31.25% of the laid-off employees in the sampled firms.

Table 5.1: Average Percentage of employees laid off following AGOA Suspension

<i>Description</i>	<i>percent</i>
<i>Average Share of laid-off employees</i>	<i>65.50</i>
<i>Average Share of female employees laid off (% of total employees laid off) following AGOA suspension</i>	<i>86.25</i>
<i>Average Share of Skilled Employees laid off (% of total employees laid off) following AGOA suspension</i>	<i>31.25</i>
<i>Average Share of Temporary employees laid off (% of total employees laid off) following AGOA suspension</i>	<i>3.33</i>
<i>Average Share of Permanent employees laid off (% of total employees laid off) following AGOA suspension</i>	<i>55.00</i>

Table 5.2 provides a detailed breakdown of the impact of the AGOA suspension on the workforce within firms that utilize AGOA trade benefits. It is evident that the AGOA suspension has a distinct effect on female employees in different types of firms. Among domestic-owned firms utilizing AGOA, a significant percentage (84%) of the employees who found themselves laid off were women. This implies a substantial disruption for female workers in these firms, potentially affecting their livelihoods and financial stability. Likewise, foreign and joint-venture firms have felt a substantial impact, with 59% of their workforce reductions attributed to female employees. Non-IPs firms and firms located within industrial parks (IPs) faced challenges as well, with 74% and 60% of their laid-off employees being women, respectively. This highlights the pervasive nature of the impact on women employees in AGOA-utilizing firms, and underscores the need for gender-sensitive responses to mitigate these effects and promote equitable recovery.

Table 5.2: Percentage of employees laid off following AGOA Suspension: by category

Description	Domestically-owned	Foreign/ Joint venture	Non-IP Firms	Firm in IPs
<i>Share of female employees laid off (% of total employees laid off)</i>	84	59	74	60
<i>Share of skilled employees laid off (% of total employees laid off)</i>	55	23	41	24
<i>Share of temporary employees laid off (% of total employees laid off)</i>	5	3	8	0
<i>Share of permanent employees laid off (% of total employees laid off)</i>	45	58	47	61

Source: Authors' own computation based on the survey data.

5.1.4 Investment

Ethiopia's suspension from the AGOA free trade deal may lead to adverse effects on the country's investment in the short-medium term. This may take the form of reduced investments by existing or new domestic-owned firms or a drop in FDI or re-investments. There might be a decline in FDI from the U.S. and other countries that might have been attracted to Ethiopia partly because of Ethiopia's privilege under AGOA.

Although we cannot capture the new/potential investments that were canceled due to the suspension, we have tried to capture cuts in investments by existing firms. In this regard, we asked firms about any changes in their investment decisions following the AGOA suspension. Figure 5.6 demonstrates that 28% of the enterprises in the survey saw a reduction in investment after the country was suspended from AGOA, while 72% of the firms did not experience one. Further analysis of the data highlights a divergence between AGOA-utilizing and AGOA-non-utilizing enterprises. Among the former, a substantial percentage (59%) reported that they cut back on investments. In contrast, among AGOA-non-utilizers, a significant share (88%) reported that they did not reduce their investments. These figures suggest that the impact of the AGOA suspension on investment decisions is, as expected, relatively more pronounced among AGOA utilizers, likely due to their higher reliance on AGOA benefits and associated business ties, making them more susceptible to the consequences of the suspension.

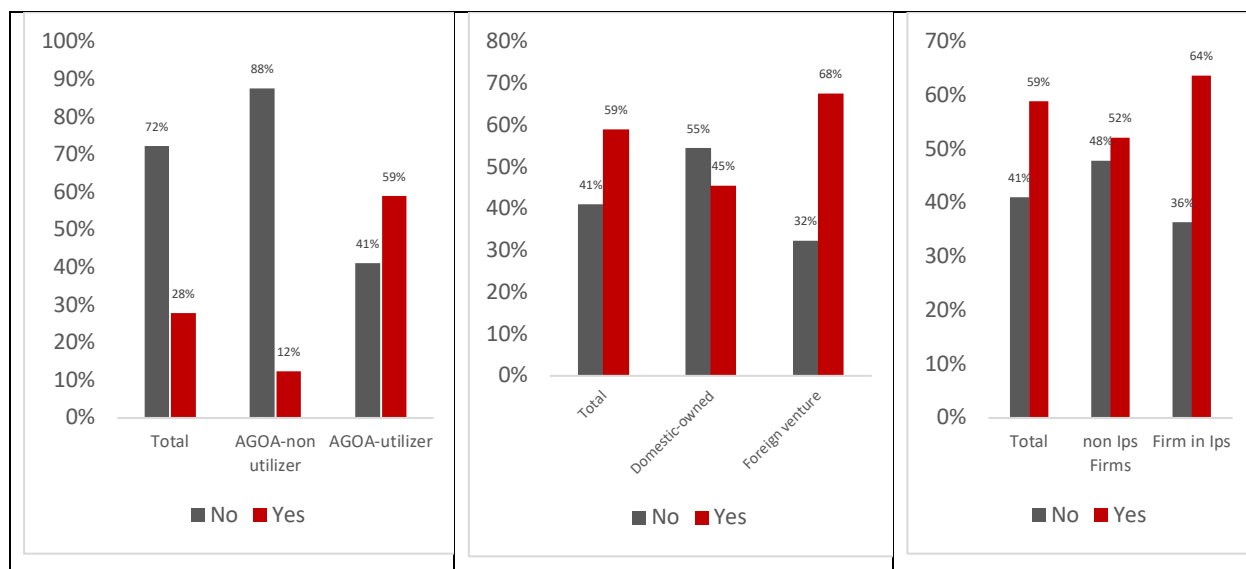
When focusing specifically on AGOA-utilizing enterprises and their investment decisions following the suspension of AGOA (Figure 5.6A), a notable pattern emerges. Among these enterprises, a significant majority, accounting for 59%, reported a reduction in their investment activities following Ethiopia’s suspension from AGOA. On the other hand, only 12% of the non-AGOA firms reported a reduction in their investment decisions.

Delving deeper into the data by ownership type, we observe some interesting differences: Firstly, among domestically owned firms within the AGOA utilizer category, 55% did not decrease their investments due to the suspension, indicating a relatively lower impact. Secondly, foreign and joint venture firms among AGOA utilizers experienced a more pronounced effect, with 68% of them reporting a decrease in investments as a result of the AGOA suspension (Figure 5.6B). This analysis underscores that the AGOA suspension had a more significant impact on foreign-owned ventures among AGOA utilizers, with a majority of them witnessing reduced investments.

When examining the impact of the AGOA suspension with a focus on location, 52% of the AGOA-utilizing firms situated outside of Industrial Parks (non-IP firms) report a decrease in their investment activities in direct response to the AGOA suspension. Whereas a significant majority (64%) of firms located in IPs revealed a decrease in their investment levels following the AGOA suspension (see Figure 5.6C). These findings underline firms within Industrial Parks (IPs) bore a more pronounced impact, probably because of their heavy reliance on AGOA.

Figure 5.6: Investment reduction following AGOA suspension

A. AGOA-Utilizer versus non-utilizer	B. Local versus foreign firms	C. Firms in IPS versus non IPS
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Source: Authors' own computation based on the survey data.

5.1.5 Firm-to-Firm (Supplier) Relation

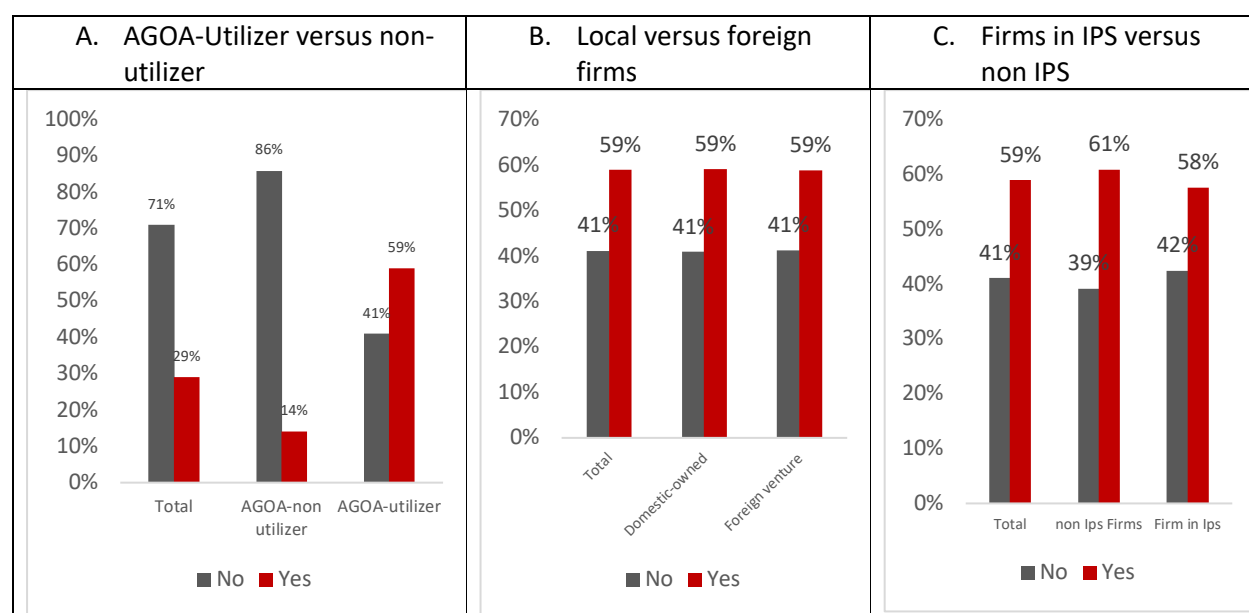
Ethiopia's AGOA suspension may have a negative impact on firms that are not directly engaged in exports to the U.S. market. That is, when an exporter exits the market or reduces its operations, its input suppliers and service providers will also be negatively affected. In this regard, we have asked firms if the suspension from AGOA affected their firm-to-firm supplier relations. Figure 5.9A shows that 29% of the surveyed companies experienced a disruption in those relations. The remaining 71% of the firms reported that AGOA suspension did not affect their firm-to-firm trade relations.

Furthermore, the impact varied significantly between AGOA utilizers and non-utilizers. AGOA utilizing firms faced a more substantial impact, with 59% reporting that the AGOA suspension interrupted their firm-to-firm trade relations. In contrast, only 14% of AGOA non-utilizers did experience disruptions in their supplier relations (see Figure 5.9A).

When examining AGOA utilizers' firm-to-firm trade relations in the context of the AGOA suspension, the data indicates that there is no significant difference between domestic-owned and foreign and Joint venture AGOA utilizers. Both categories experienced disruptions in similar proportions, with 59% of firms in each group reporting interrupted trade relations.

The analysis of AGOA utilizers' firm-to-firm trade relations based on location, firms outside of Industrial Parks (non-IPs firms) reported a slightly higher proportion of disruptions, with 61% experiencing such interruptions, compared to firms within IPs (58%). Nonetheless, the overall pattern indicates that the majority of AGOA utilizers, both within and outside of IPs, did experience disruptions in their firm-to-firm trade relations as a result of the AGOA suspension, with 59% reporting such interruptions. These findings highlight the substantial impact of trade policy decisions on firm-level trade relations, regardless of their location within or outside of Industrial Parks.

Figure 5.7: AGOA suspension interrupts your firm-to-firm trade relation



Source: Authors' own computation based on the survey data.

Figure 5.8 shows that after Ethiopia's suspension from its AGOA eligibility, 35% of main input suppliers either ceased or slowed down their operations, indicating a substantial reduction in their business activities. Moreover, 17% of these suppliers had to lay off workers, signifying a negative effect on employment in the sector. Another 13% reported changing their business operations, possibly as a response to the challenges associated with exporting without AGOA benefits, which could include reduced demand and increased costs. Only 51% of the suppliers managed to continue their operations as usual, highlighting the widespread impact of the AGOA suspension on this crucial segment of the industry.

Figure 5.8 shows that both AGOA non-utilizers and AGOA utilizers experienced disruptions among their main input suppliers, with AGOA utilizers facing a slightly more significant impact. AGOA utilizers faced a slightly more pronounced impact, with 39% reporting ceased or slowed operations and 18% laying off workers. In comparison, from AGOA non-utilizers, 33% experienced ceased or slowed operations, while 16% laid off workers.

Figure 5.8: AGOA Suspension and Impacts on Input Suppliers: AGOA utilizers and non-utilizers

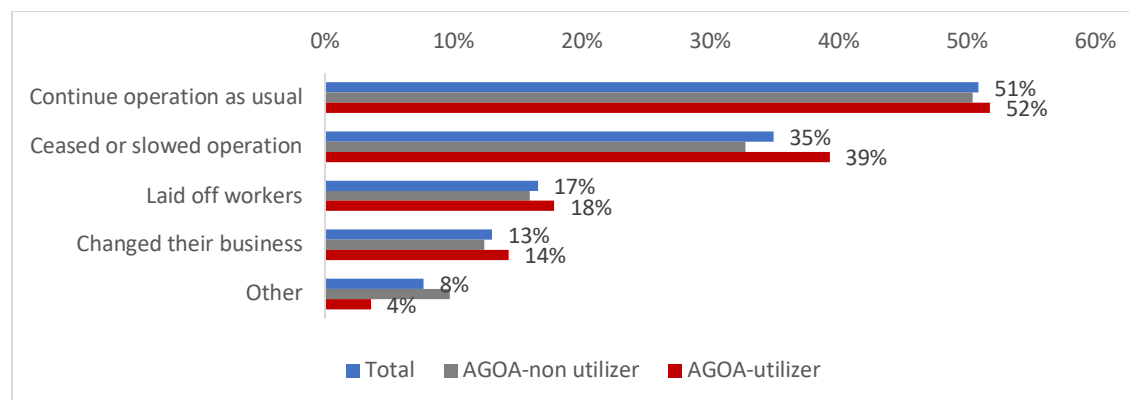


Figure 5.9: AGOA Suspension and Impacts on Input Suppliers: Local versus foreign

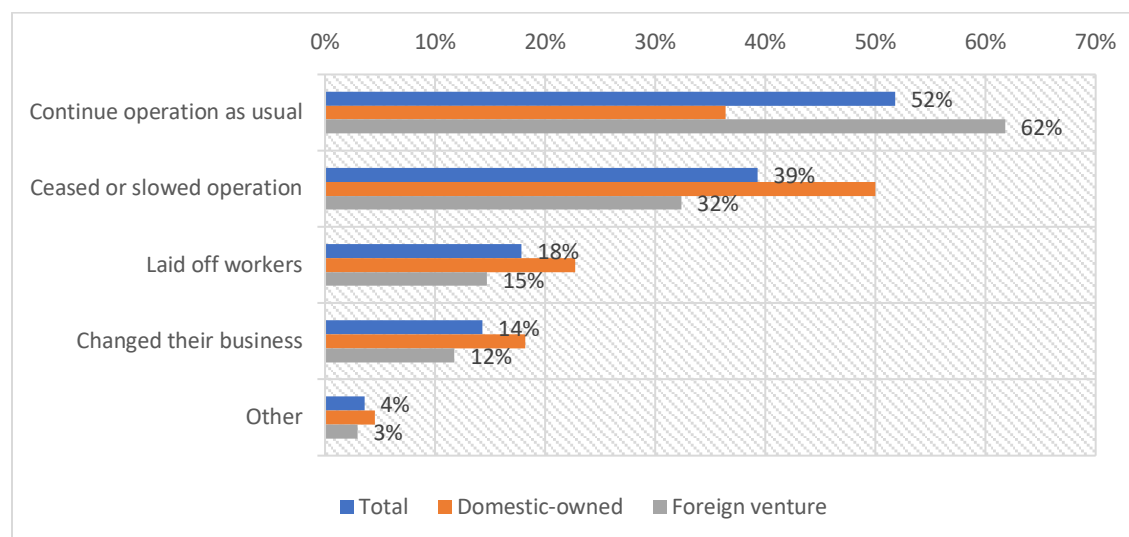
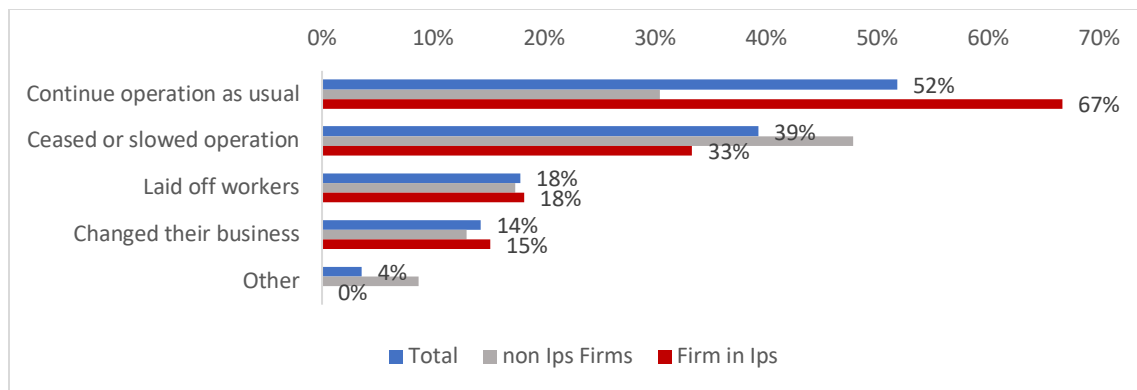


Figure 5.10: AGOA Suspension and Impacts on Input Suppliers: IPS versus non-IPs



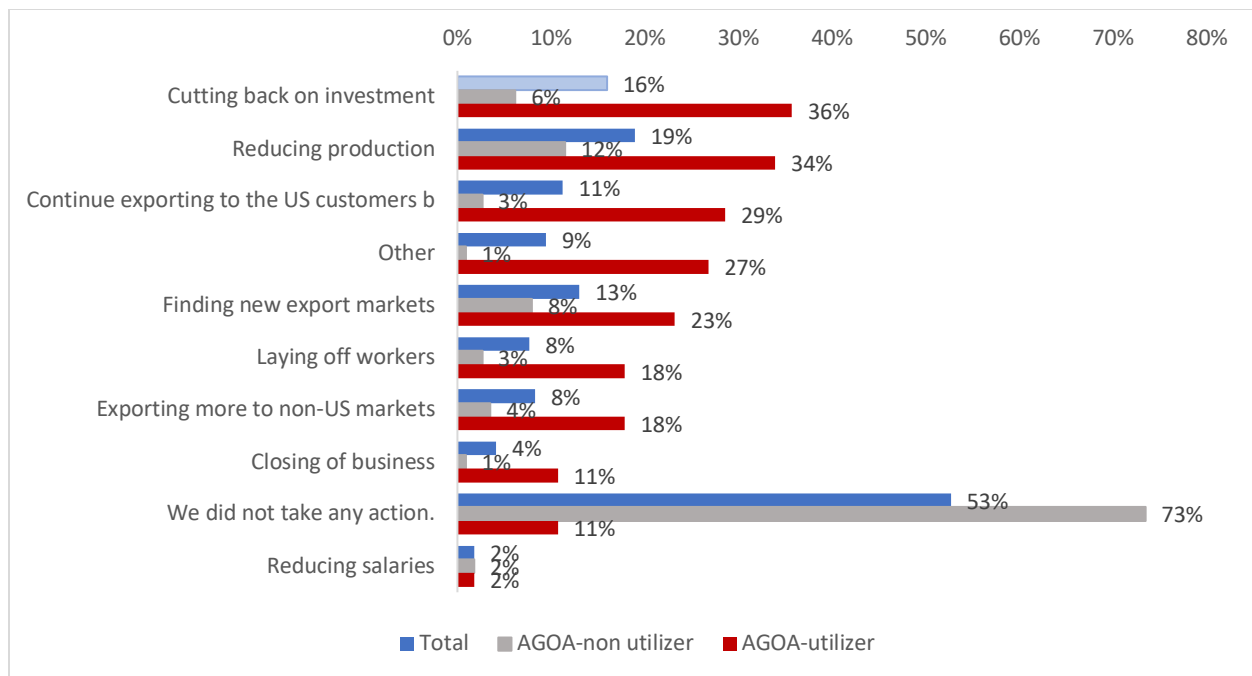
Source: Authors' own computation based on the survey data.

5.1.6 Copying strategies adopted by firms

Firms adopt different coping strategies to minimize the adverse impacts of trade shocks. Concerning the coping strategy employed by firms in our sample, 47% of firms used a variety of strategies to deal with the effects of the AGOA suspension. The actions adopted by the surveyed companies range from output reductions to salary reductions. The most widely used strategies are output reduction, investment reduction, and locating new export markets, which are implemented by 19%, 16%, and 13% of enterprises, respectively. Moreover, about 11% of firms continue exporting to the US market because of pre-existing contractual agreements. Close to 8% of the surveyed firms considered exporting more to non-US markets as one vital coping strategy. On the other hand, about 53% of businesses took no action.

When categorized by AGOA utilization status, we see significant differences. AGOA utilizers were more inclined to adopt drastic measures, such as reducing production (34%) and cutting back on investments (36%), compared to their non-utilizer counterparts (12% and 6%, respectively). Moreover, AGOA non-utilizers showed reluctance to close their businesses (1%) compared to AGOA utilizers, where 11% chose this path. Further differentiation was evident in the decision to take no action; 73% of AGOA non-utilizers refrained from taking specific measures, while only 11% of AGOA utilizers opted for inaction.

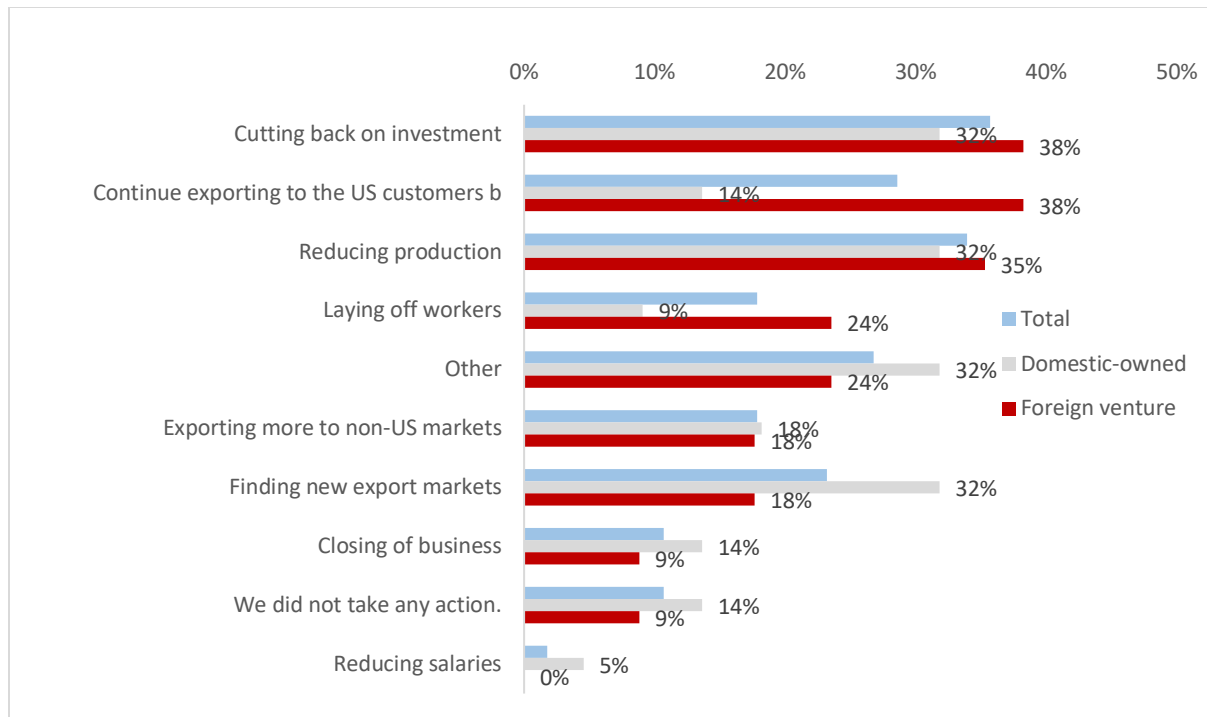
Figure 5.11: Measures implemented following AGOA suspension: AGOA utilizers versus non-AGOA utilizers



Source: Authors' own computation based on the survey data.

Examining the data by ownership type, we discern significant disparities, particularly among foreign-owned and joint venture firms within the AGOA utilizer category. Firstly, foreign ventures faced notable challenges, as 68% of them reported a reduction in investments in response to the AGOA suspension, underscoring the substantial impact on this subgroup. In stark contrast, only 32% of foreign-owned AGOA utilizers opted to maintain their investment levels. This highlights that the AGOA suspension had a more pronounced effect on foreign-owned ventures among AGOA utilizers, with a majority of them choosing to curtail their investment activities. These findings emphasize the distinct challenges faced by foreign firms in navigating the AGOA suspension.

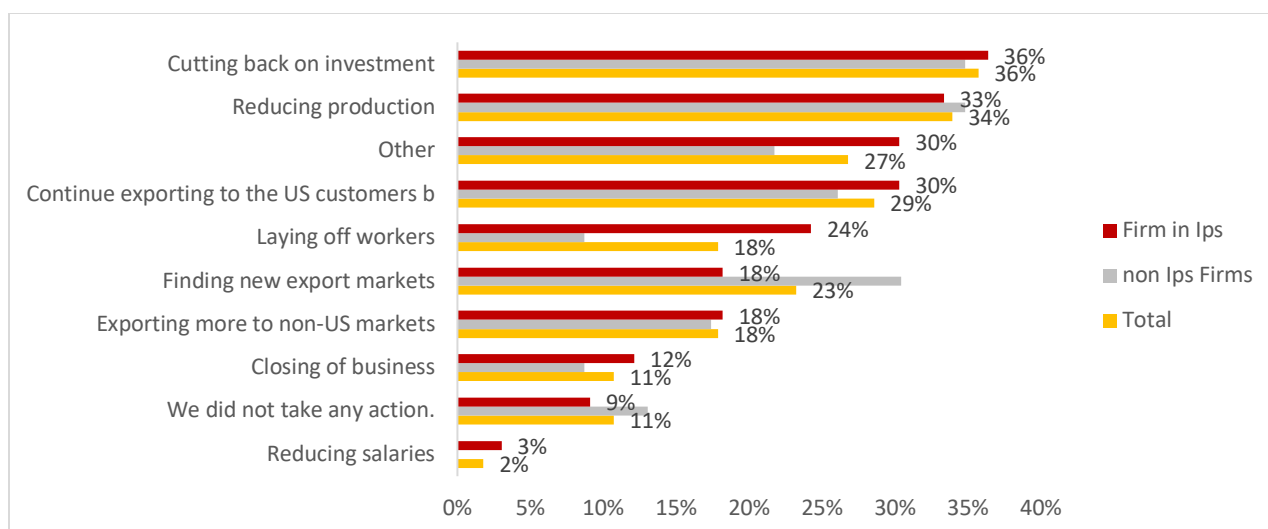
Figure 5.12: Measure implemented following AGOA suspension: Local versus foreign



Source: Authors' own computation based on the survey data.

Examining coping strategies among AGOA utilizer firms, with a specific focus on those situated inside Industrial Parks compared to those outside Industrial Parks (Figure 5.13), 36% of IP firms chose to cut back on investments, mirroring the trend among non-IP firms (also 36%). However, 30% of IP firms continued exporting to US customers due to existing contractual agreements, a slightly higher proportion than non-IP firms (26%), underscoring the significance of pre-existing contractual agreements for firms within Industrial Parks. Moreover, 33% of IP firms opted for reducing production, similar to non-IP firms (35%), indicating a shared strategy to optimize production processes. Interestingly, 18% of IP firms actively explored new export markets, aligning with non-IP firms (18%), highlighting a common approach to diversify revenue streams.

Figure 5.13: Measure implemented following AGOA suspension: Firms in IPS versus non-IPS



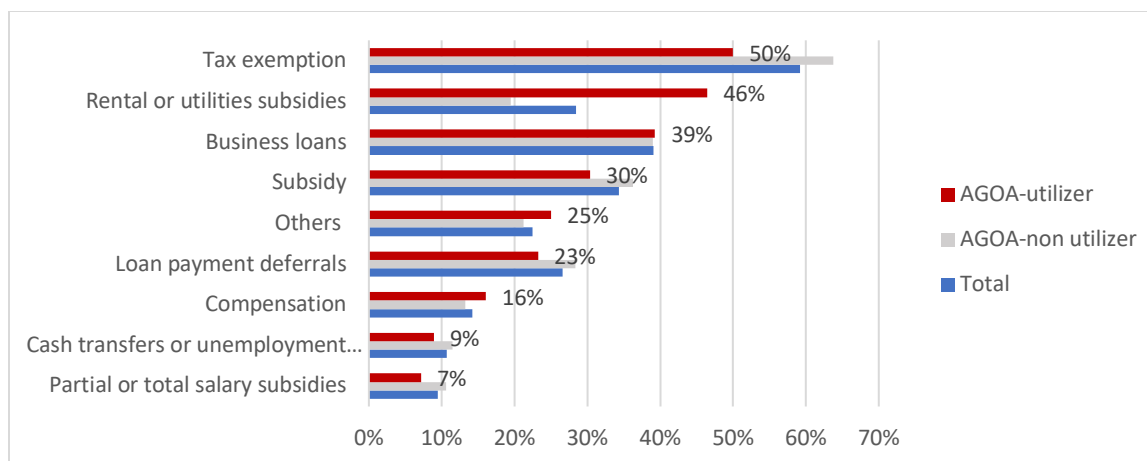
Source: Authors' own computation based on the survey data.

5.1.7 Policy Responses by the Government:

We asked firms about the top three policies that would be needed to support businesses affected by the trade shock arising from the AGOA suspension. Figure 5.14 presents the top three policies firms indicate that they would need to overcome the adverse effects of AGOA suspension. Accordingly, 59%, 39% and 34%, of firms in our sample indicate tax exemption, the provision of business loans, and subsidy schemes, respectively, as the most important policy support they would need from the government to withstand the adverse impacts of the suspension.

When comparing AGOA utilizers and non-utilizers, differences become apparent. While AGOA non-utilizers place a higher emphasis on tax exemptions (63.7%), business loans (39%) and subsidies (36%) as their three top priorities, AGOA utilizers put particular significance on tax exemptions (50%), rental or utility subsidies (46%), and business loans (39%). This delineates the nuanced policy preferences of these two groups in addressing the challenges posed by the AGOA suspension.

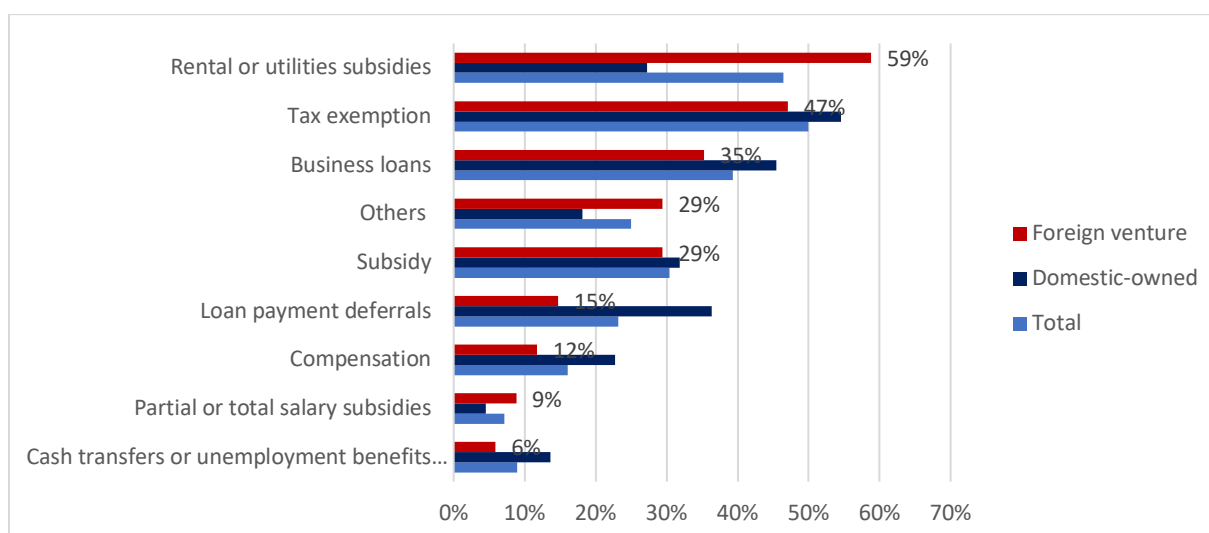
Figure 5.14: Top three needed policies to support businesses affected by AGOA suspension: AGOA utilizers versus non-AGOA utilizers



Source: Authors' own computation based on the survey data.

Assessing the needed policies by ownership types, for domestic-owned enterprises, tax exemption (55%) takes precedence, followed closely by business loans (45%) and rental or utilities subsidies (27%). Compensation (23%) and loan payment deferrals (36%) also hold notable importance. In contrast, foreign venture firms prioritize rental or utility subsidies (59%) as their primary policy requirement, followed by tax exemption (47%) and business loans (35%). These divergent preferences underscore the tailored policy approaches needed to address the unique challenges posed by the AGOA suspension for domestic-owned and foreign venture firms.

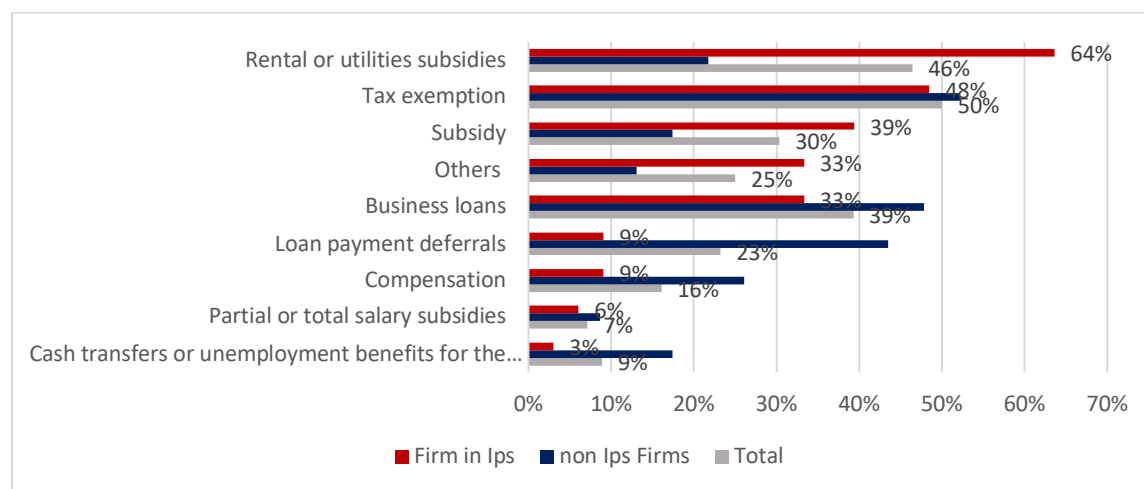
Figure 5.15: Top three needed policies to support businesses affected by AGOA suspension: by Firm ownership type.



Source: Authors' own computation based on the survey data.

Examining the same question for firms located within Industrial Parks (IPs) versus those within IPs, firms outside IPs prioritize business loans (33%) and subsidy schemes (39%), indicating their focus on financial support and broader policy measures. Rental or utility subsidies (22%) remain significant for IP firms, but their policy needs encompass a more diversified spectrum, with tax exemption (48%) and subsidy schemes (39%) also holding considerable weight. Conversely, non-IP firms place the highest priority on rental or utility subsidies (64%), emphasizing the significance of infrastructure-related assistance. Tax exemption (52%) and business loans (48%) are also of substantial importance to these firms.

Figure 5.16 Top three needed policies to support businesses affected by AGOA suspension: Firms in IPS versus non-IPS



Source: Authors' own computation based on the survey data.

Concerning whether firms received any form of government support for their business affected by the free trade deal suspension,

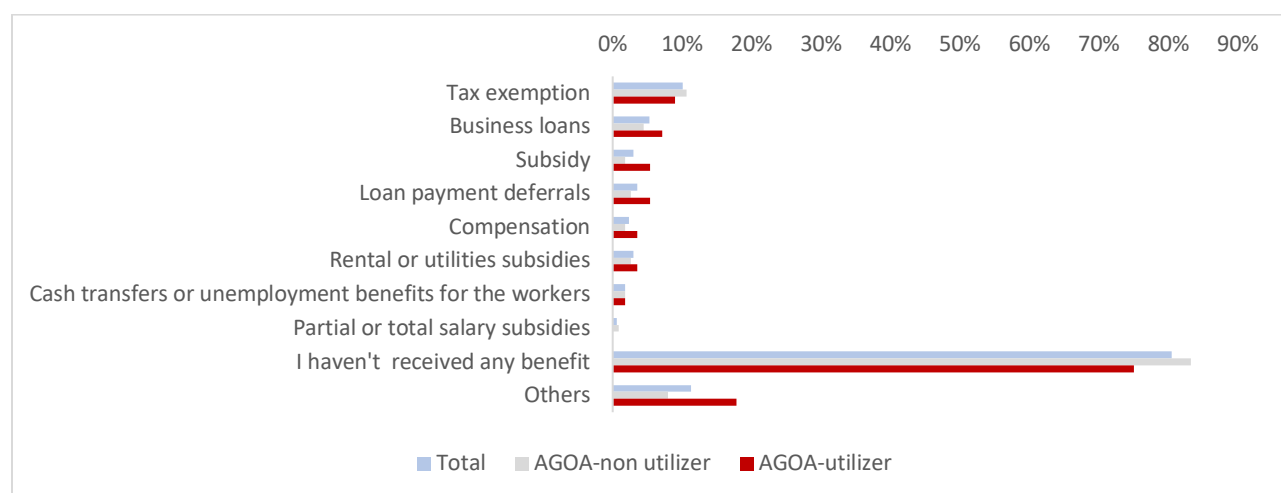
A closer examination of AGOA utilizers versus non-AGOA utilizers underscores significant disparities in government support. Among AGOA utilizers, 75% indicated they hadn't received any benefit, whereas a higher percentage of AGOA non-utilizers reported the same, signifying a noteworthy contrast in access to government assistance. When considering specific support mechanisms, it becomes apparent that AGOA utilizers had distinct experiences. While 10% of firms across both groups mentioned receiving tax exemptions, the divergence becomes evident in business loans, with 7% of AGOA utilizers receiving this support compared to 4% of AGOA non-utilizers. Additionally, subsidies, encompassing various forms like salary subsidies,

utility subsidies, and loan repayment deferrals, were reported by 5% of AGOA utilizers, contrasting with 2% of AGOA non-utilizers.

4.17 shows that 80% of the firms in our sample did not receive any support from the government. The remainder of the firms reported that they received various forms of support from the government. While 10% of firms indicated that they received tax exemptions, 5% of them were provided with loans, and some of them received different forms of subsidies such as salary subsidies, utility subsidies, and loan repayment deferrals.

A closer examination of AGOA utilizers versus non-AGOA utilizers underscores significant disparities in government support. Among AGOA utilizers, 75% indicated they hadn't received any benefit, whereas a higher percentage of 83% of AGOA non-utilizers reported the same, signifying a noteworthy contrast in access to government assistance. When considering specific support mechanisms, it becomes apparent that AGOA utilizers had distinct experiences. While 10% of firms across both groups mentioned receiving tax exemptions, the divergence becomes evident in business loans, with 7% of AGOA utilizers receiving this support compared to 4% of AGOA non-utilizers. Additionally, subsidies, encompassing various forms like salary subsidies, utility subsidies, and loan repayment deferrals, were reported by 5% of AGOA utilizers, contrasting with 2% of AGOA non-utilizers.

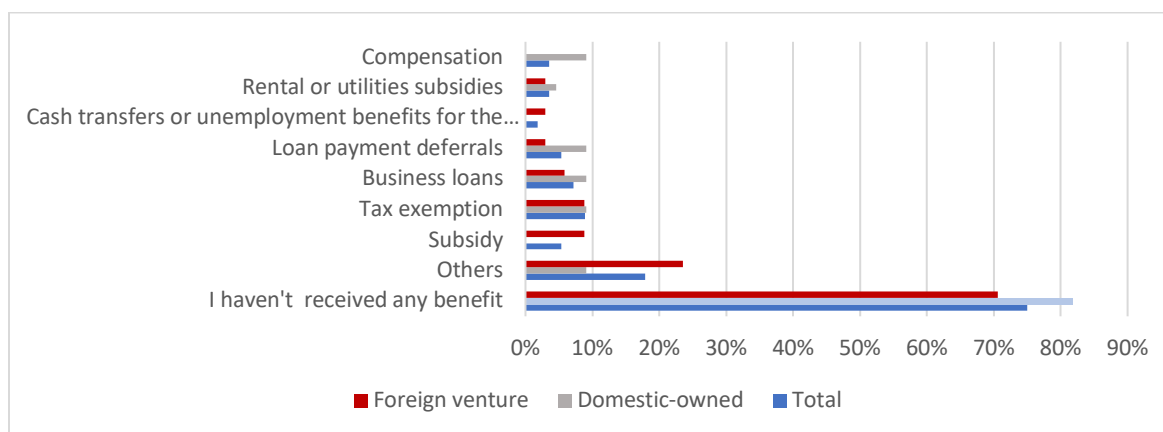
Figure 5.17: Government support to businesses affected by AGOA suspension: AGOA utilizers versus non-AGOA utilizer



Source: Authors' own computation based on the survey data.

In the context of AGOA utilizers, categorized into foreign ventures and domestic-owned firms, there are notable differences in government support received during the AGOA suspension. Among foreign ventures, 71% reported no government support, whereas a higher percentage of 82% of domestic-owned AGOA utilizers indicated the same. Conversely, foreign ventures were more likely to receive various forms of support, with 9% benefiting from subsidies compared to no reported subsidies among domestic-owned firms. Additionally, foreign ventures received tax exemptions at the same rate as domestic-owned firms (9%). However, when it comes to business loans, 6% of foreign ventures received this support, slightly less than the 9% among domestic-owned AGOA utilizers.

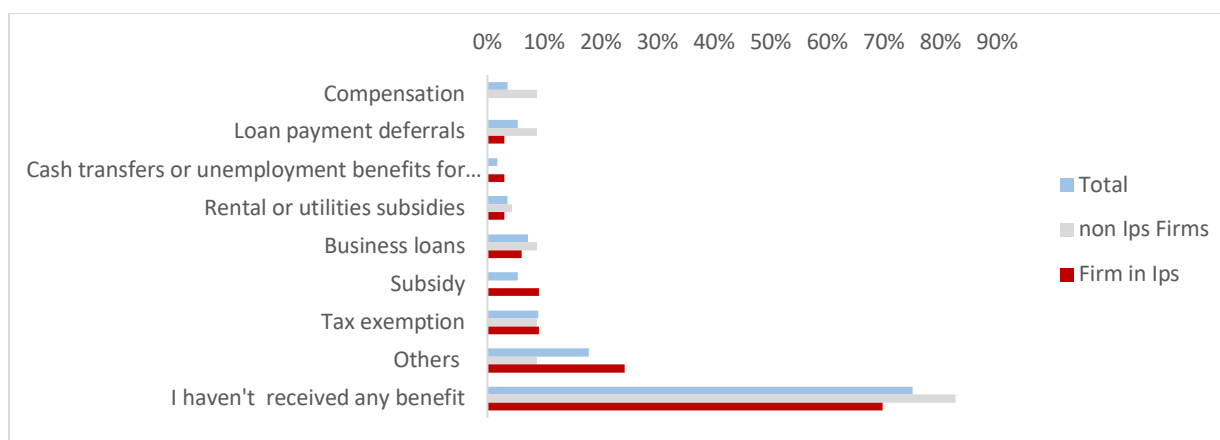
Figure 5.18: Government support to businesses affected by AGOA suspension: local versus foreign firms



Source: Authors' own computation based on the survey data.

When comparing firms located inside Industrial Parks with those outside Industrial Parks in terms of government support during the AGOA suspension, IP firms were more likely to benefit from subsidies (9%) when compared to non-IP firms (0% for subsidies). On other types of support, there is no significant difference between IP firms and non-IP firms.

Figure 5.19: Government support to businesses affected by AGOA suspension: Firms in IPS versus non-IPS



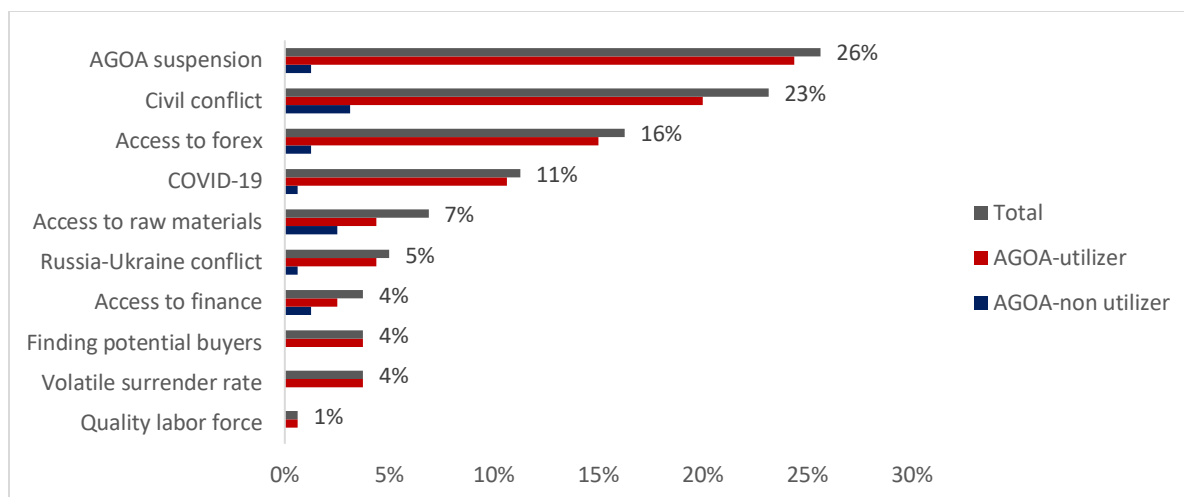
Source: Authors' own computation based on the survey data.

Moreover, exporting companies were asked to list the top three challenges facing their export operations. Accordingly, 26%, 23%, and 16% of the enterprises indicated Ethiopia's suspension from AGOA, civil unrest, and access to foreign exchange, respectively, as the three main factors preventing export expansion (see Figure 5.20).

For AGOA Utilizers: The suspension of AGOA, unsurprisingly, emerges as the most significant challenge, with 24% of AGOA utilizers highlighting it as a major obstacle to their export operations. Additionally, civil unrest is a prominent concern for AGOA utilizers, with 20% acknowledging it as a significant challenge. Access to foreign exchange also proves to be a substantial hurdle, with 11% of AGOA utilizers identifying it as a key issue affecting their export expansion. Collectively, these challenges underscore the complex landscape faced by AGOA utilizers during the AGOA suspension period.

For AGOA Non-Utilizers: Among AGOA non-utilizers, the challenges differ slightly. While AGOA suspension still holds relevance, it is cited by only 1% as a challenge. Instead, access to raw materials and civil conflict both garner attention, with 3% of AGOA non-utilizers mentioning each of these factors as obstacles to their export operations. These findings highlight that AGOA non-utilizers face distinct challenges compared to their AGOA-utilizing counterparts, with the suspension of AGOA playing a minor role in their concerns.

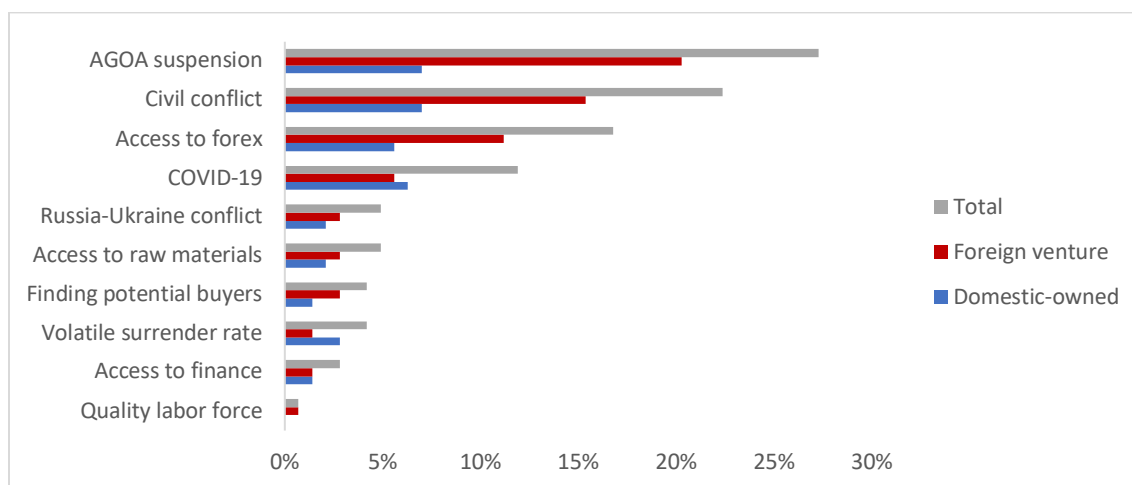
Figure 5.20: Top three major constraints to your export business: AGOA-utilizer versus AGOA-non-utilizers



Source: Authors' own computation based on the survey data.

In assessing the primary challenges encountered by AGOA utilizers, classified by ownership type, domestic firms have cited civil unrest (7%) and access to foreign exchange (6%) as the main challenges, while the AGOA suspension, though present, holds relatively less significance. Conversely, for foreign venture AGOA utilizers, the suspension of AGOA stands out as the most prominent challenge (20%), underscoring its substantial impact on this subgroup. Civil unrest (15%) and access to foreign exchange (11%) also emerge as significant challenges for foreign ventures.

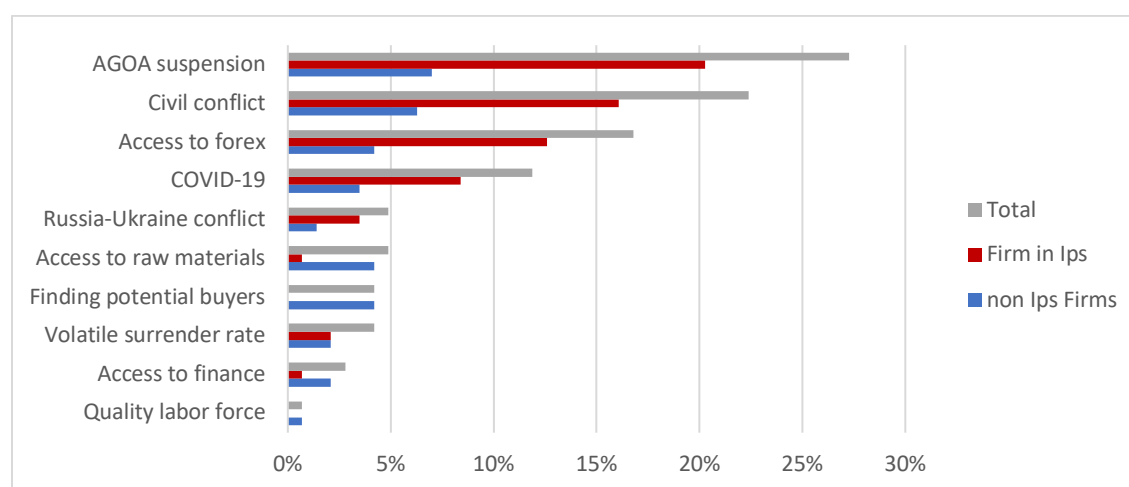
Figure 5.21: Top three major constraints to your export business: local versus foreign firms



Source: Authors' own computation based on the survey data.

When examining the top three challenges confronting firms inside Industrial Parks compared to those outside Industrial Parks, notable disparities emerge. For IP firms, the AGOA suspension significantly stands out as the foremost challenge, with a substantial 20% highlighting its impact on their export operations. Civil conflict also ranks prominently as a concern, cited by 16% of IP firms. Additionally, access to foreign exchange remains a significant hurdle, with 13% of IP firms identifying it as a key issue. In contrast, non-IP firms report the AGOA suspension as a challenge but at a lower rate of 7%, with civil conflict (6%) and access to foreign exchange (4%) also featuring as significant concerns. These findings underscore the distinctive challenges faced by IP firms, particularly the pronounced impact of the AGOA suspension while emphasizing the multifaceted nature of obstacles encountered by firms both inside and outside Industrial Parks during the AGOA suspension period.

Figure 5.22: Top three major constraints to your export business: Firms in Ips versus non-Ips

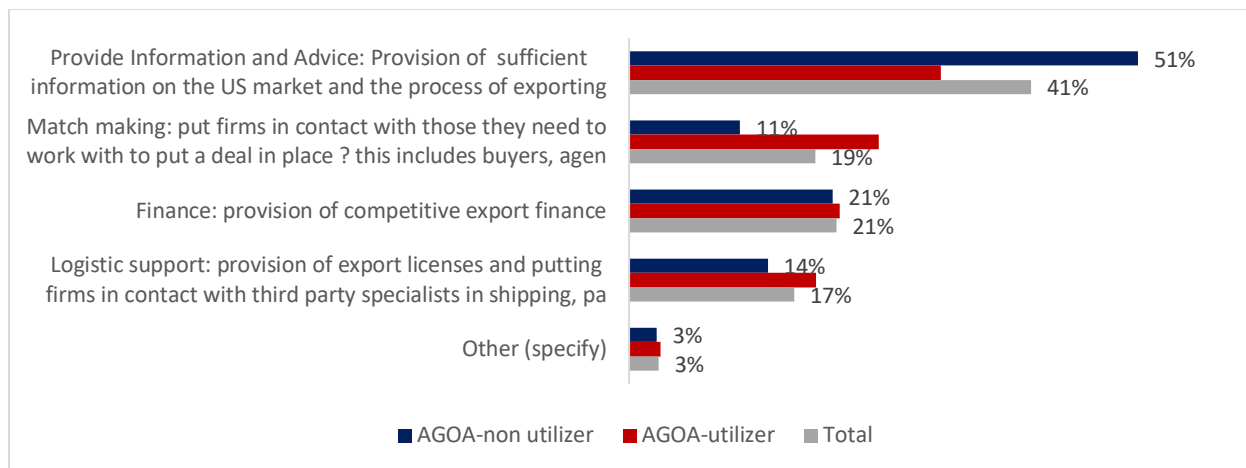


Source: Authors' own computation based on the survey data.

Firms were also asked to identify the top three initiatives the government could undertake to boost AGOA participation. Figure 5.23 shows that the top three support areas listed by businesses are the provision of US market information (selected by 41% of firms), finance (21%), and matchmaking (19%).

AGOA utilizers placed a greater emphasis on matchmaking, with 25% highlighting its significance, while AGOA non-utilizers leaned more towards information provision, with 51% stressing its importance.

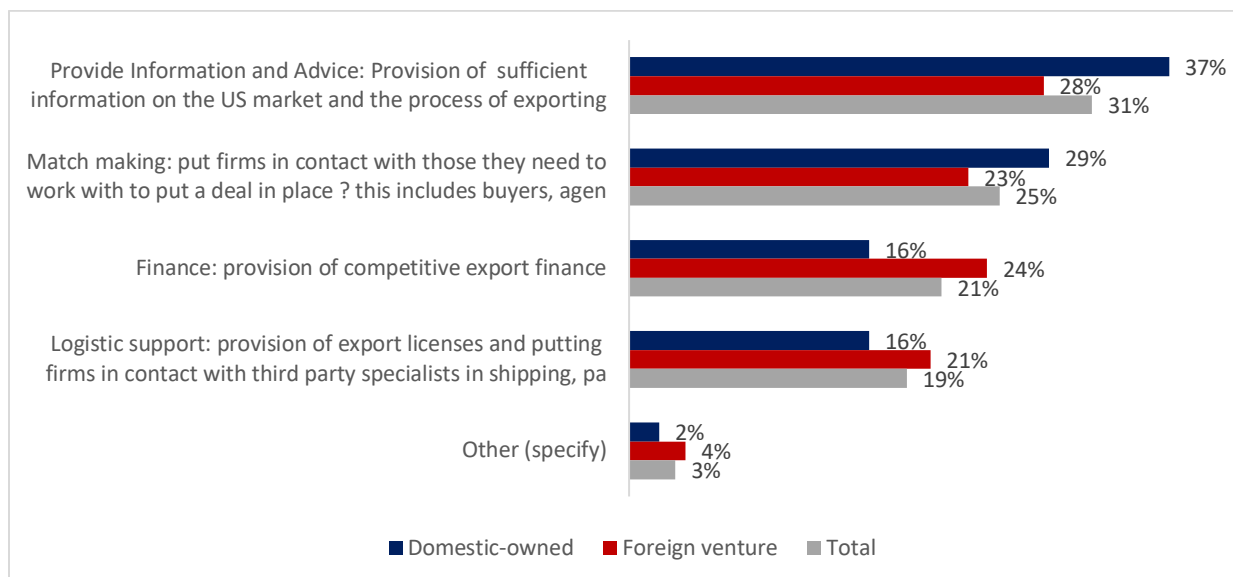
Figure 5.23: Top 3 activities that the government should do to increase AGOA participation: AGOA utilizer versus AGOA-non utilizer



Source: Authors' own computation based on the survey data.

Looking at firms' response by ownership type, the provision of sufficient information on the US market and the export process is dominant, with 37% of domestic-owned firms and 28% of foreign and Join venture firms emphasizing its importance. Matchmaking, facilitating crucial partnerships for deal-making, is another critical initiative, resonating with 29% of domestically-owned firms and 23% of foreign and joint ventures. Finance, specifically the provision of competitive export finance, also garners significant attention from both groups, with 16% of domestic-owned firms and 24% of foreign ventures expressing a need for this support.

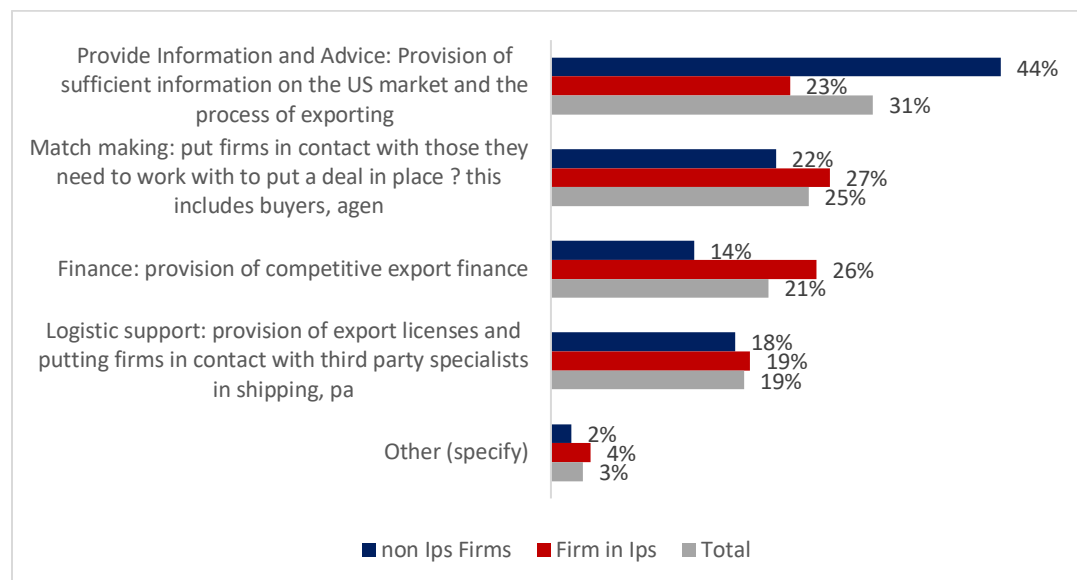
Figure 5.24: Top 3 activities that the government should do to increase AGOA participation: Local firms, foreign firms (AGOA utilizers)



Source: Authors' own computation based on the survey data.

When considering the top three initiatives proposed by firms located inside Industrial Parks (IPs) in comparison to those outside Industrial Parks (non-IPs) to bolster AGOA participation, notable variations emerge. For non-IP firms, the highest priority is the provision of sufficient information on the US market and the export process, resonating with 44% of firms, and emphasizing the critical need for enhanced market insights. Matchmaking for essential partnerships is also essential for non-IP firms, as noted by 22%. In contrast, firms within IPs prioritize matchmaking as their foremost initiative, with 27% highlighting its significance, followed closely by information provision at 23%. Finance remains highly regarded among IP firms as well, with 26% expressing a need for competitive export finance.

Figure 5.25: Top 3 activities that the government should do to increase AGOA participation: Firms in IP and firms in non-IP



Source: Authors' own computation based on the survey data.

6. Conclusion and policy recommendations

Ethiopia's suspension from the African Growth and Opportunity Act (AGOA) is a significant blow to Ethiopia's garment industry, which heavily relies on textiles and apparel exports under AGOA. The garment industry accounted for 90% of duty-free exports to the U.S. in 2020. With the suspension, Ethiopia may lose its competitive advantage in the U.S. market due to the reinstated tariffs on previously duty-free products. This could also lead to a decline in Foreign Direct Investment (FDI) from the U.S. or other countries that may have been attracted to Ethiopia partly because of Ethiopia's AGOA privileges. This paper reviews the different trade shocks that the Ethiopian economy is potentially exposed to and makes an assessment of the impact of Ethiopia's suspension from AGOA on exports, employment, investment and firm-to-firm relations.

The survey conducted on firms reveals that 28% of firms experienced a reduction in exports to the U.S. market after the AGOA suspension, and the share of exports going to the U.S. market declined by 14 percentage points in 2022. Moreover, 24% of firms have diverted their exports to the domestic market, and 14% to other foreign countries than the US due to the suspension. The data also shows that 16% of firms laid off workers following the AGOA suspension. Among those

who were laid off, female workers take a higher proportion compared to male workers. When we analyze the data by AGOA utilization, it becomes apparent that AGOA-utilizing firms were more severely affected, with 63% of them reporting a decrease in exports to the US market in 2022. In contrast, AGOA-non utilizers were less impacted, with only 13% reporting reduced exports. This variation suggests that AGOA-dependent firms faced greater challenges in adapting to the suspension. We find similar trends for trade diversion, layoffs, investment reduction and supply chain disruptions.

6.1. Policy Implications

Support for affected firms: Governments should provide support to firms affected by AGOA suspension or termination, particularly those in the garment industry, to help them transition to new markets or adjust to the loss of duty-free access to the US market. The survey indicates that businesses require government support in the form of tax exemptions, rental or utility subsidies, business loans.

Enhance regional integration: The African Continental Free Trade Area (AfCFTA) presents an opportunity for Ethiopia to deepen its economic integration with other African countries, diversify its export markets, and mitigate the effects of global trade shocks. Ethiopia should make efforts to take advantage of the AfCFTA by enhancing regional cooperation, reducing non-tariff barriers, and investing in infrastructure to facilitate trade. Unlike AGOA, regional and multinational trade agreements are not left at the discretion of the preference-giving country.

Diversify the economy and trading partners: In the medium to long run, Ethiopia should work towards diversifying its economy by exploring new sectors and expanding into different markets to reduce its reliance on a particular sector or trading partner. This can be achieved by encouraging and supporting investments in non-traditional sectors such as technology, tourism, and renewable energy. Moreover, the country should look for new trading partners in Asia and Europe, among others. Most of Ethiopia's IPs have been specially designed for garments only and attracting FDI has solely been targeted at AGOA should not have been the government's focus. It is important to make sure that the IPs are flexible enough to accommodate firms from other sectors and the government should focus on attracting foreign direct investors that are not

exclusively aiming at explaining the AGOA opportunity. Moreover, Ethiopia should aim to move from the mass-market-based system to technology and knowledge-intensive products even within the garment sector.

Promotion of domestic markets: Governments should encourage the development of domestic markets to absorb excess production, particularly in sectors affected by AGOA suspension or termination. This could involve providing incentives for local producers or promoting buy-local campaigns and this can be considered as part of the government's import substitution policy.

Investment promotion: Governments should continue promoting investment in their countries, even without AGOA eligibility. This could involve improving the investment climate, providing incentives for foreign investors, and promoting investment in non-traditional sectors.

Gender-sensitive policies: Governments should adopt gender-sensitive policies to minimize the impact of AGOA suspension or termination on women, who are often employed in sectors affected by AGOA, such as textiles and apparel.

Promote local production and export-oriented industries: Ethiopia should promote local production and export-oriented industries by providing necessary support such as access to finance, infrastructure, and technology. This would help to increase the country's export earnings and reduce its reliance on imports, thus mitigating the effects of global trade shocks.

Strengthen social safety nets: In the event of trade shocks, vulnerable groups such as low-income workers in the textile industry are often the most affected. The government should strengthen social safety nets by providing targeted support to these groups to mitigate the impact of trade shocks on their welfare.

Develop a crisis management framework: Ethiopia should develop a crisis management framework that outlines measures to be taken in the event of a trade shock. The framework should include early warning systems, contingency plans, and communication strategies to mitigate the effects of trade shocks.

Establish a trade information system: The government should establish a trade information system that provides up-to-date information on trade flows, commodity prices, and other

relevant trade-related data. This would help policymakers to make informed decisions and take timely action to mitigate the effects of trade shocks.

Restoration of Ethiopia's eligibility for AGOA: the government of Ethiopia should redouble its diplomatic effort to restore Ethiopia's eligibility for AGOA.

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