



*BOTSWANA INSTITUTE FOR  
DEVELOPMENT POLICY ANALYSIS*

# WORKING PAPER

INSTITUTE OF  
DEVELOPMENT STUDIES

**The African Growth and Opportunity Act: A Preliminary  
Analysis of the Possible Opportunities and Limitations to  
Botswana Exporters**

*Montle Peloentle*

**BIDPA Working Paper No.24  
May 2002**

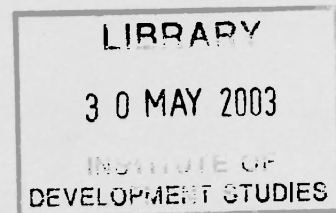


## Abstract

The paper identifies products that have received substantial trade concessions as a result of the African Growth and Opportunity Act (AGOA) which would otherwise carry a tariff rate of 15% or more when exported to USA. It explores Botswana's exports for the period 1998 - 2000 and identifies AGOA qualified products already being exported to the USA. Main findings are that cheese, footwear and apparel products which cover a wide range of products have the greatest concessions. Apparel products dominate the list of Botswana's exports to the USA that are eligible for AGOA. An extension of Least Developed Country (LDC) status to Botswana would yield more profit from exporting apparel products. The LDC status would allow firms in Botswana to import raw materials and still qualify to export to the USA under AGOA. The utilization of AGOA highly depends on the private sector. Firms should improve their production and marketing capabilities. A strategy should be devised to alleviate supply constraints, improve market know-how (especially international demands and standards) and identify efficient and cost effective distribution and transport channels.

### Keywords

Manufacturing, Exports, Trade, Tariffs Botswana, AGOA



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<sup>1</sup> Botswana Institute for Development Policy Analysis (BIDPA) is an independent trust set up by a Presidential Decree. It started operations in 1995 as a non-government policy research institution

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## Table of Contents

|   |           |
|---|-----------|
| TABLE OF CONTENTS .....   | II        |
| ACKNOWLEDGEMENTS .....  | III       |
| LIST OF TABLES .....  | IV        |
| LIST OF FIGURES .....   | IV        |
| LIST OF BOXES .....   | IV        |
| <b>1. INTRODUCTION .....</b>  | <b>1</b>  |
| <b>2. COUNTRY ELIGIBILITY .....</b>   | <b>4</b>  |
| 2.1 Generalized System of Preferences .....   | 4         |
| 2.2 Other Criteria .....  | 4         |
| 2.3 Eligible Countries .....  | 5         |
| <b>3. MARKET ACCESS OPPORTUNITIES .....</b>   | <b>5</b>  |
| 3.1 Market Access Opportunities for General Trade .....   | 6         |
| 3.1.1 Dairy Products .....  | 7         |
| 3.1.2 Luggage Cases and Footwear .....  | 12        |
| 3.1.3 Fruits and Vegetable Products, and Vegetable Oils .....   | 17        |
| 3.1.4 Canned Seafood .....  | 19        |
| 3.1.5 Glassware and Ceramic Products .....  | 19        |
| 3.1.6 Television Equipment, and Vehicles and Parts .....  | 21        |
| 3.2 Market Access Opportunities for Apparel Products .....  | 22        |
| 3.2.1 <i>USA Imports of Apparel Products</i> .....  | 24        |
| 3.2.2 <i>Export Potential</i> .....   | 26        |
| <b>4. FACTORS AFFECTING THE UTILIZATION OF THE AGOA .....</b>   | <b>31</b> |
| <b>5. CONCLUSION AND AREAS FOR FURTHER RESEARCH .....</b>   | <b>33</b> |
| 5.1 Conclusion .....  | 33        |
| 5.2 Areas for Further Research .....  | 34        |
| <b>REFERENCES .....</b>   | <b>35</b> |
| <b>APPENDIX 1: NONE TEXTILE AND APPAREL PRODUCTS THAT ARE<br/>ELIGIBLE FOR AGOA AND HOLD A TARIFF RATE OF AT LEAST 15%.<br/>.....</b> | <b>37</b> |

## Acknowledgements

I would like to thank all those who provided comments that helped in the preparation of this paper. I would particularly like to thank Dr. K. K. Mbekeani, who provided very useful suggestions and comments that contributed substantially to the outcome of the paper. I am also grateful to Dr. J. Salkin for his useful input. Particular gratitude also goes to my dear husband, for both his useful comments and support.

## List of Tables

|   |    |
|---|----|
| Table 1: Botswana's Exports .....   | 2  |
| Table 2: Products that carry high tariffs .....   | 7  |
| Table 3: Eligible Cheese Products attracting high tariffs .....   | 10 |
| Table 4: Eligible Footwear Products .....   | 12 |
| Table 5: Eligible Glass and Glassware Products .....  | 18 |
| Table 6: Botswana's Apparel Exports facing low tariffs .....  | 23 |
| Table 7: Botswana's Apparel Exports facing high tariffs (< P1 million) .....  | 4  |
| Table 8: Botswana's Apparel Exports facing high tariffs (≥ P1 million) .....  | 24 |
| Table 9: AGOA Eligible Products attracting high Tariff Rates<br>(Chapter 61: Knitted or crocheted) .....              | 27 |
| Table 10: AGOA Eligible Apparel Products attracting high Tariff Rates<br>(Chapter 62: Not Knitted or Crocheted) ..... | 28 |

## List of Figures

|   |    |
|---|----|
| Figure 1: Total Exports to the USA .....              | 1  |
| Figure 2: Exports by Sector .....                     | 3  |
| Figure 3: Botswana's Apparel Exports to the USA ..... | 22 |

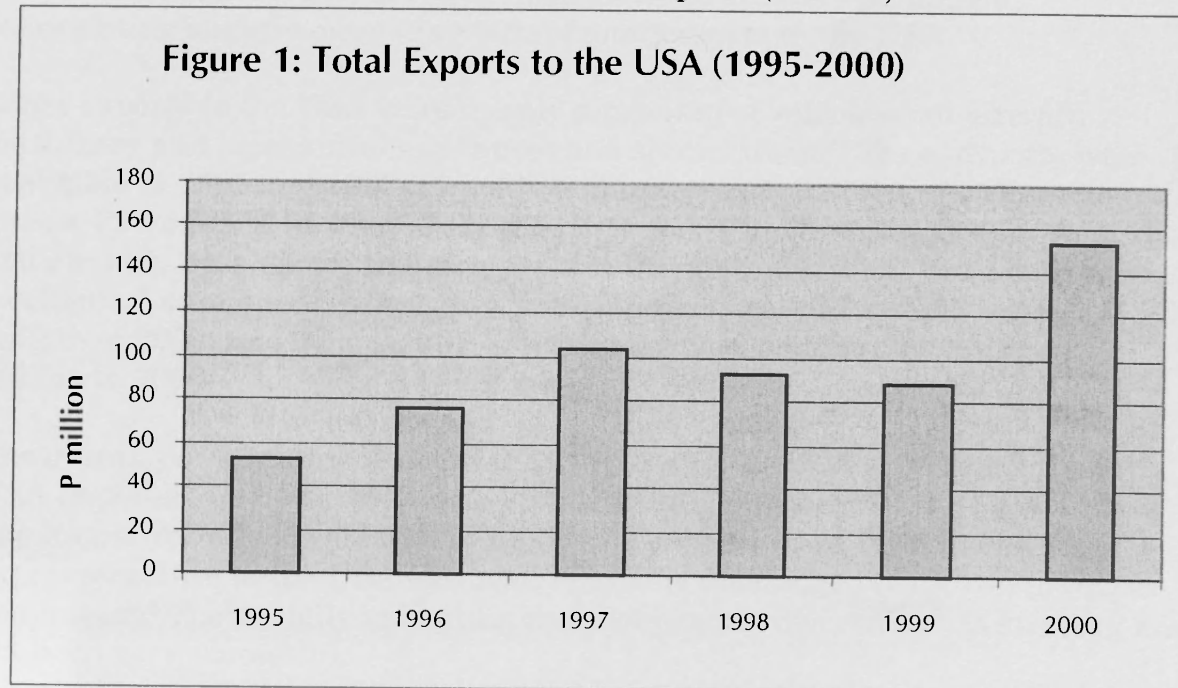
## List of Boxes

|  |    |
|--|----|
| Box 1: General Note 15 of HTS .....                            | 8  |
| Box 2: Note 10 of Chapter 4 of the HTS .....                   | 9  |
| Box 3: Cheese Production .....                                 | 11 |
| Box 4: Actual or Expected Investment as a result of AGOA ..... | 25 |

## 1. Introduction

In May 2000, the President of the United States of America (USA) signed the African Growth and Opportunity Act (AGOA). This is a partnership agreement between the USA and the countries of sub-Saharan Africa (including Botswana), which offers beneficiary countries increased market access into the USA. In effect, it provides quota-free and duty-free market access for certain textiles and apparel products and an expanded coverage of the Generalized System of Preferences (GSP)<sup>2</sup>. In addition, the Act has established a USA - sub-Saharan African Trade and Economic Cooperation Forum. The body acts as a permanent forum for policy debates and discussions on trade and investment issues. The first forum was held in October 2001. According to the USA Trade Representative (2001), achieving the objectives of the Act will help to, among others, create stronger and more stable African economies, more democratic governments and an expanded market access for these economies in the USA.

This Act comes at a timely point when Botswana is faced with the challenge of diversifying its economic activity from the heavy dependence on mineral exports, which account for more than 80% of its total exports. Botswana's overall merchandise exports to the USA have grown significantly from P53m in 1995 to P104 m in 1997. They then fell to P89m in 1999. In 2000, they rose again by almost 75% to P154m (see Figure 1). However, exports to the USA account for only 1.1% of Botswana's total merchandise exports (Table 1).



<sup>2</sup> The USA Generalized System of Preferences (GSP) was introduced in 1976. It provides non-reciprocal tariff preferences to designated beneficiary developing countries, subject to specific country and product eligibility criteria. The GSP is renewable every eight years.

**Table 1: Botswana's Exports (P million)**

|                            | 1995  | 1997   | 1999   | 2000   |
|----------------------------|-------|--------|--------|--------|
| Exports to USA.            | 53    | 104    | 89     | 154    |
| Botswana's total exports   | 5,989 | 10,675 | 11,870 | 14,245 |
| % share of exports to USA. | 0.9   | 1.0    | 0.8    | 1.1    |

Source: Central Statistics Office.

Botswana's exports to the USA are composed mainly of pearls and precious stones, and textile products. In 1995, pearls and precious stones dominated total exports to the USA, accounting for 67% of total exports to that destination. In that year, 86% of the pearls and precious stones comprised of diamonds and 13% represented articles of jewellery. Between 1995 and 1997, exports of pearls and precious stones grew by almost 30% per annum, from P37 million in 1995 to P61 million in 1997. They however, fell to around P44 million in 2000 (see figure 2). In both 1997 and 2000, diamonds and articles of jewellery still dominated, accounting for around 99% of total export of pearls and precious stones.

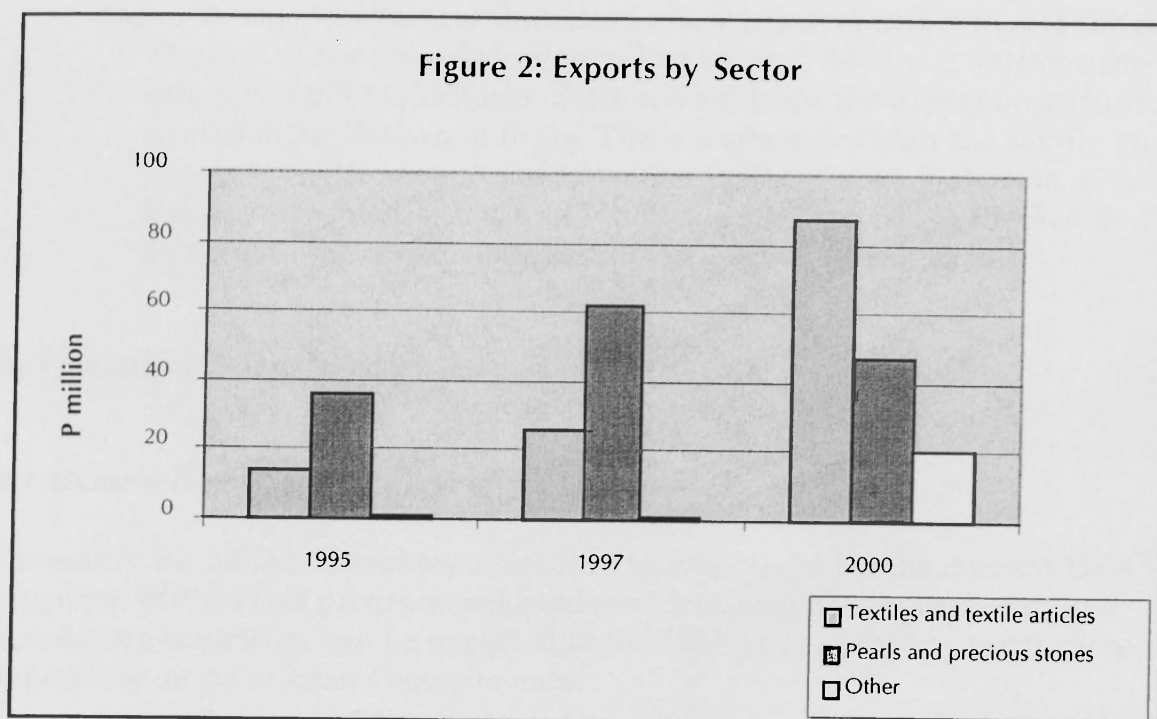
Textile exports to the USA have grown quite significantly by an annual average of approximately 67% between 1995 and 1997, rising from P13 million in 1995 to P39 million in 1997. As depicted in figure 2, in 1995 and 1997, textile products were the second largest export item to the USA, accounting for 28% and 29% of total exports to the USA, respectively. It is also evident from the figure that by 2000, textile exports had grown tremendously to around P87 million, representing slightly more than 50% of total exports to the USA.

Other exports to the USA were mainly comprised of vehicles and aircraft, machinery and mechanical appliances and special items<sup>3</sup>. These exports were negligible in 1995 and 1997 (P1 million in each year). In 2000, they grew to almost P20 million. Much of their growth is attributable to the rise in: vehicle and aircraft, which more than tripled between 1997 and 2000; machinery and mechanical appliances, which rose from approximately P1 million in 1997 to P6 million in 2000; and base metals, which rose from P5 million in 1997 to P7 million in 2000.

The overall performance of Botswana's exports to the USA as a share of total USA imports has, however, remained negligible. The share in the USA market has stagnated at below 0.003% of total USA imports since 1996. Botswana's export structure to the USA has been relatively unchanged (with two products dominating<sup>4</sup>), potentially indicating that Botswana's diversification strategy has not been very successful.

<sup>3</sup> These include re- exports.

<sup>4</sup> Textiles, and pearls and precious stones.



Source: Central Statistics Office.

AGOA's ability to translate into increased trade, economic diversification and long-term economic growth for Botswana depends on three main factors: (1) improved market access for Botswana exporters, (2) exporter's ability to take advantage of the increased market access and (3) the profitability of producing these products. For the exporters to be able to effectively produce and sell through the Act, knowledge of products that are more likely to benefit from AGOA is essential. This paper analyzes AGOA in order to determine products that are most likely to benefit firms operating in Botswana. The main aim is to provide some background material for detailed research on these products. The objectives of this paper are threefold:

- (i) To identify products that would otherwise attract substantial tariff rates if not exported through AGOA. To achieve this, we review the list of products published by the USA Trade Representative and single out products that carry high tariff rates (15% and more). The general rate of duty applicable to these products is included in order to identify the potential benefits firms would enjoy if they were to export such goods under AGOA.
- (ii) To identify products that qualify for AGOA and are already being exported to the USA. We accomplish this by comparing Botswana's exports to the list of products that are published by the USA Trade Representative as eligible for AGOA. The data is analyzed at the 8-digit level because this is the classification system used for purposes of AGOA.



- (iii) To examine factors that could affect effective utilization of the Act. The rest of the paper is organized as follows: Section 2 outlines the country eligibility criteria. Section 3 analyzes the export opportunities available for Botswana firms. This encompasses both the textile and apparel provisions and the expanded GSP provisions. Section 4 outlines the possible factors that could limit the effective use of the Act. Section 5 presents the conclusions and areas for further research.

## **2. Country Eligibility**

### ***2.1 Generalized System of Preferences***

To qualify for AGOA, a country must first be eligible under the current USA GSP program. Within this program, selected products, originating in designated beneficiary countries, can be exported to the USA at preferential tariff rates depending on three basic requirements:

- (i) The product must be from a designated beneficiary country;
- (ii) The product must be eligible for GSP treatment. Products that qualify for GSP include manufactured and semi-manufactured products, and selected agricultural, industrial and fisheries products. Certain articles, including textiles, watches, footwear, handbags, luggage, flat goods, work gloves, some leather wearing apparel and any other products deemed to be import sensitive by the USA authorities are prohibited from receiving GSP treatment; and
- (iii) The product must meet the rules of origin. The rules of origin require that products must be shipped directly from the eligible country. If the products pass through the territory of another country, they must not enter the commerce industry of that country. The local content must be at least 35% of the appraised value of the product at the time of entry into the USA.

Botswana is a designated beneficiary of the GSP and therefore automatically meets this first criterion. In addition to having satisfied the GSP criterion, countries must satisfy other AGOA criteria.

### ***2.2 Other Criteria***

As alluded to in section 2.1, a country must satisfy other criteria in order to be eligible for AGOA. These criteria include a country having established or making continual progress towards establishing the following:

- (i) An economy with minimal government interference, protection of private sector rights and a free market system;
- (ii) A law that is fair and protects everybody equally;
- (iii) Policies aimed at reducing poverty and providing essential social services;
- (iv) Policies aimed at protecting internationally recognized workers rights. The country is not allowed to take part in international efforts to eliminate human rights protection and encourage terrorism activities;
- (v) Policies aimed at fighting corruption and bribery;
- (vi) Policies to eliminate barriers to USA trade and investment (including the provision of national treatment, the protection of intellectual property rights and the resolution of disputes involving trade and investment).

Furthermore, a country must make a commitment not to undertake actions that would undermine USA national security or foreign policy interests. It must also be seen to be actively encouraging the liberalization of its external trade relations, particularly with the USA and other African countries. In addition, a country is required to obtain a clean bill of health from the International Monetary Fund (IMF) and must either be a member of the World Trade Organization or actively pursuing membership in it.

### ***2.3 Eligible Countries***

Currently 35 sub-Saharan countries, including Botswana, are eligible beneficiaries. The rest of the countries are: Benin, Cape Verde, Cameroon, Central African Republic, Chad, Republic of Congo, Djibouti, Eritrea, Ethiopia, Gabon, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Madagascar, Malawi, Mali, Mauritania, Mauritius, Mozambique, Namibia, Niger, Nigeria, Rwanda, Sao Tome and Principe, Senegal, Seychelles, Sierra Leone, South Africa, Swaziland, Tanzania, Uganda and Zambia. However, eligibility is not guaranteed for the entire duration of the Act. If a country is seen to be violating any of the prerequisites, its eligibility status may be terminated.

### **3. Market Access Opportunities**

Theoretically, a reduction in tariff levels induces countries to produce according to their comparative advantage and thereby accelerates the growth of exports. The tariff reductions awarded through AGOA provide Botswana's firms with

potentially huge opportunities to access the largest consumer markets in the world on a duty free, quota free basis, in respect of the approved products. The benefit from the tariff reductions could be in two forms:

- (i) For example, if a firm has been exporting a pair of shoes to the USA valued at P50 (both transportation costs and profit included) and paying a tariff rate of 37.5% at the USA border, the total selling price in the USA would have been P68.75. With AGOA, the elimination of the tariff rate would result in the firm being able to sell the pair of shoes at only P50. This translates into savings of P18.75, which would make the shoes a more attractive buy.
- (ii) In cases where Botswana, as a small country, is forced to be a price-taker in the USA market, then exporters would earn higher net revenues per unit, thereby increasing the chances that producing and exporting to the USA would be profitable.

The key trade benefits of the Act are divided into two broad categories: general trade benefits and textiles and apparel benefits. The sections below provide a preliminary analysis of products that are potentially viable for export to the USA within these categories.

### ***3.1 Market Access Opportunities for General Trade***

The general trade benefits comprise of expanded benefits already available under the GSP. AGOA extends the duty-free treatment under the GSP program until 2008. Unlike the GSP, AGOA has expanded the product coverage to include certain import sensitive products. These products include footwear, handbags, luggage, watches, work gloves, leather wearing apparel, electronic products, steel products and glass products.

For products to benefit from the agreement, they must meet the AGOA rules of origin. The rules of origin require that the product must be "growth, product or manufacture" of a beneficiary sub-Saharan country and must be imported directly from the eligible country. That is, the product must originate and be processed only in AGOA beneficiary countries. In addition, the rules of origin require that the sum of the cost or value of materials produced in one or more beneficiary countries and the cost of processing performed in those countries must not be less than 35% of the product's value when it enters the USA market. At most, 15% points of the 35% may be derived from USA materials. This means that the local content of Botswana products exported to the USA must represent at least 35% of the import value of the product into the USA. This 35% can be accumulated amongst AGOA eligible countries. Where Botswana firms use material from the USA, if 15% points of the final value is derived from USA material, then firms would only need 20% local content to qualify.

There are a number of products whose market access has improved remarkably as a result of AGOA. These are products that carry substantial trade barriers if exported without the AGOA provision (tariff rates of 15% or more). Using this cut-off point, at least 166 products that carry high tariffs were identified [98 with tariff rates of between 15 and 20%, 37 with tariff rates of between 20.1% and 30% and 31 with tariff rates exceeding 30%]. From these product categories, it is clear that processed and manufactured products generally have higher tariff rates and hence the preferences from AGOA are substantial (see Table 2 and Appendix 1). Cheese and footwear products have the highest concessions as a more diversified range of products is involved, followed by other dairy products, dairy preparations, and glass and glassware. More than 30 cheese and 40 footwear items have tariff rates of 15% or more.

**Table 2: Products that carry high tariffs**

| Product                                | Tariff Range/Point |
|--|--------------------|
| Television Equipment                   | 15%                |
| Glass and Glassware                    | 15% - 32.3%        |
| Canned seafood                         | 15% - 35%          |
| Footwear                               | 15% - 48%          |
| Fruit preparations                     | 15.3% - 22.4%      |
| Cheese                                 | 16% - 25%          |
| Dairy preparations (excluding cheeses) | 16% - 17.5%        |
| Vegetables                             | 16% - 21.3%        |
| Dairy Products                         | 17% - 20%          |
| Fruits                                 | 17% - 29.8%        |
| Luggage cases                          | 17.6% - 20%        |
| Vegetable fiber products               | 18%                |
| Fats and Oils (Animal and Vegetable)   | 19.1%              |
| Foodstuffs (miscellaneous)             | 20%                |
| Ceramic products                       | 22.9% - 30.8%      |
| Vehicles and Parts                     | 25%                |

Source: USITC (2001a).

In the sections that follow, the products in Table 2 are analyzed individually to determine their potential feasibility for export by firms in Botswana.

### 3.1.1 Dairy Products

The principal raw material for dairy products is milk, the cost of which is the major determinant of the price of dairy products. It usually accounts for about 50%-75% of the cost of producing dairy products. Milk is very bulky and highly perishable; hence it cannot be transported over very long distances (USITC, 1998a). Milk processing usually takes two broad forms. It is pasteurized, homogenized and then either packaged as fluid for consumption or processed into

other manufactured products, such as cheese, yogurt, yogi-sip, ice cream and dried milk.

The USA market for dairy products is very competitive and is dominated by a few big players. The European Union (EU) is the largest supplier of dairy products, followed by New Zealand and Canada. In 2000, the EU accounted for approximately 40% of all dairy products imported into the USA. New Zealand accounted for 15% and Canada 9%. These countries dominate the market because of cheaper government-aided dairy products from the EU, favorable weather conditions and the use of relatively low-cost, seasonably based pasture-feeding techniques in countries such as New Zealand (USITC, 1998a). Other suppliers were Argentina (6%) and Australia (5%). Statistics show that none of the AGOA eligible countries exported dairy products to the USA in 2000.

Despite the tough competition and the dominance of a few countries in the USA dairy market, AGOA eligible countries may be able to penetrate the market because of the reduced tariff rates applicable to their products. For cheese products, the tariff rate cut ranges between 16% and 25%. For other dairy products, the tariff cut is between 17% and 20%. It is difficult to envisage how soon or how fast firms in Botswana could access the USA market because Botswana's dairy sector is very small and at its infancy. The majority of firms in the sector are engaged in milk production at farm level. Even though there are a few milk-processing plants, many are not engaged into more complicated manufacturing of value added products such as cheese. Most manufacture yogurt, yogi-sip and ice cream, and sell in the domestic market.

Even though Botswana has not exported dairy products to the USA, the country has exported quite a number of products that could possibly qualify to be exported to the USA through AGOA. More than 95% of these products have been exported to South Africa and the rest to Zambia and Zimbabwe. These products are:

- (I) Milk and cream, concentrated, sweetened, in powder, granules or other solid forms, with a fat content exceeding 1.5% (Harmonized Tariff Schedule (HTS) heading 040229).

Two products that attract a tariff rate of more than 15% were identified within the category of milk and cream, as defined in (i). These are classified as HTS 040229.05 and 040229.10. Even though these products are classified as two products in the HTS system, they are essentially one product, defined as in (i). They are only differentiated by the purpose for which they are imported. If the product is imported for purposes outlined in general note 15 of the HTS of the USA (see Box 1) then the product will enter the USA as HTS 040229.05.

**Box 1: General Note 15 of HTS**

Note 15 stipulates that whenever agricultural products, including dairy products, are subjected to a tariff rate quota or to the use of safeguard measures, products that are exported for purposes outlined below will not be counted against the quota or safeguard measures:

- (a) Use by USA government;
- (b) Personal use. Exports of these products should not exceed 5 kg; and
- (c) Samples or products imported for displays in exhibitions, etc. These products should not enter the commerce industry and permission has to be granted before they are exported to the USA.

Source: USITC (2001a).

If the product is imported for commercial purposes, then it enters the USA as HTS 040229.10. The product will then be subjected to USA note 10 of Chapter 4 of the HTS of the USA (see Box 2). But because of AGOA, the quantitative restriction set out in Note 10 will not apply for AGOA beneficiary countries.

**Box 2: Note 10 of Chapter 4 of the HTS**

That is, the aggregate quantity of products entered under this sub-heading must not exceed 4,105,000 kilograms in any particular year.

Source: USITC (2001a).

- (ii) Milk and cream (except condensed milk), concentrated in non-solid forms and sweetened (HTS 040299).

Two products that fall in the category of milk and cream as defined in (ii) attract tariff rates of more than 15%. They are defined in HTS terms as 040299.68 and 040299.70. These products are essentially one product, that of milk and cream, except condensed milk, concentrated in non-solid form and sweetened. They are only differentiated by the purpose for which they are imported. Just as in (i) above, the product is either subjected to general note 15 or note 10, in which case they will enter the USA as HTS 040299.68 and 040299.70 respectively.

- (iii) Yogurt (HTS 040310).

The list of eligible products reveals at least two products in this category that hold tariff rates of 17% and 20%. One of the products is defined as Yogurt (in dry form), whether or not flavoured or containing fruit or cocoa. It can enter the USA market as HTS 040310.05 or 040310.10 depending of whether it is subjected to general note 15 and note 10, respectively. This product attract a tariff rate of 20%. The other product (HTS 040310.90) is yogurt, in a form other than dried. It attracts a tariff rate of 17%.

(iv) Buttermilk, curdled milk and cream, yogurt, kephir and others (HTS 040390).

Two products were found to attract tariff rates of more than 15%. One of the products (HTS 040390.85) is defined as fermented milk other than dried fermented milk or dried milk with added lactic ferments. The tariff rate applicable is 17%. The other product falls in the category of curdled milk or cream or kephir and other fermented or acidic milk or cream. It is subjected to general note 15 and note 10 and hence can enter the USA as either HTS 040390.87 or 040390.90).

(v) Processed cheese (HTS 040620, 040630, 040640 and 040690).

Cheese has a wide variety of eligible products that hold tariff rates of more than 15% (see Table 3). The tariff rates range between 15% and 25% and the quantitative restrictions are outlined in the short description. However, the tariff rates and the quota restrictions would not apply for AGOA eligible countries.

**Table 3: Eligible Cheese Products attracting high tariffs**

| Product  | HTS Code | Short Description  | Tariff Rate (2001) |
|--|----------|--|--------------------|
| <i>Blue-veined cheese, grated or Powdered.</i> | 04064051 | In original loaves, subject to general note 15 of the HTS (defined above).                         | 15%                |
|  | 04062022 | Grated or powdered, subject to general note 15.  | 20%                |
|  | 04063012 | Processed but not grated or powdered, subject to general note 15.                                  | 20%                |
|  | 04064052 | Not in original loaves, subject to general note 15.  | 20%                |
| <i>Cheddar Cheese.</i>                         | 04062029 | Grated or powdered, subject to gen. note 15 of the HTS   | 16%                |
|  | 04062031 | Grated or powdered. Quantities exported should not exceed 100,000 kg per year.                     | 16%                |
|  | 04063022 | Processed, not grated or powdered, subject to general note 15.                                     | 16%                |
|  | 04063024 | Processed, not grated or powdered. Quantities exported should not exceed 100,000 kg per year.      | 16%                |
| <i>Colby Cheese.</i>                           | 04062034 | Grated or powdered, subject to general note 15.  | 20%                |
|  | 04062036 | Grated or powdered. Quantities exported should not exceed 168,556 kg per year.                     | 20%                |
|  | 04063032 | Processed, not grated or powdered, subject to general note 15.                                     | 20%                |
|  | 04063034 | Processed, not grated or powdered. Quantities exported should not exceed 168,556 kg per year.      | 20%                |
|  | 04069051 | Subject to general note 15.  | 20%                |
|  | 04069052 | Quantities exported should not exceed 168,556 kg per year.   | 20%                |
| <i>Edam and Gouda Cheese.</i>                  | 04062043 | Grated or powdered. Subject to general note 15.  | 15%                |
|  | 04062044 | Grated or powdered. Quantities exported should not exceed 25,402 kg per year.                      | 15%                |
|  | 04063042 | Processed, not grated or powdered, subject to general note 15.                                     | 15%                |
|  | 04063044 | Processed, not grated or powdered. Quantities exported should not exceed 25,402 kg per year.       | 15%                |
|  | 04069014 | Nesoi, Subject to general note 15.   | 15%                |
|  | 04069016 | Nesoi, Quantities exported should not exceed 25,402 kg per year.                                   | 15%                |
| <i>Romano (made from cow's milk)</i>           | 04062049 | Grated or powdered. Subject to general note 15.  | 15%                |
|  | 04062051 | Grated or powdered. Quantities exported should not exceed 13,064 kg per year.                      | 15%                |
|  | 04069039 | Subject to general note 15.  | 15%                |
|  | 04069041 | Quantities exported should not exceed 13,064 kg per year.  | 15%                |
| <i>Gova Cheese</i>                             | 04069033 | Not from cow's milk, Quantities exported should not exceed 13,064 kg per year.                     | 21.3%              |
|  | 04069028 | Subject to general note 15.  | 25%                |
|  | 04069031 | From cow's milk, not in original loaves. Quantities exported should not exceed 13,064 kg per year. | 25%                |
| <i>Sbrinz Cheese</i>                           | 04069034 | Subject to general note 15.  | 19%                |
|  | 04069036 | From cow's milk. Quantities exported should not exceed 13,064 kg per year.                         | 19%                |

Source: USITC.

Of all the dairy products, cheese products could have a better chance of returns because of the large number of products involved. With a wide range of products, it would be easier to diversify and target certain niche markets and still qualify. Furthermore, the main raw material, fresh milk, is readily available in Botswana. In addition, because South Africa is an AGOA eligible beneficiary, firms in Botswana could import milk from South Africa. The close proximity of South Africa to Botswana is an added advantage, hence costs would not rise substantially.



### Box 3: Cheese Production

"Cheese production techniques vary substantially. To make cheddar cheese, some of the cream is removed from the pasteurized milk. Starter culture is added to the milk to produce both acid and flavor. Then rennet is added to form curd and whey. The curd is cut, heated, and stirred to allow the whey to drain. A process called 'cheddaring' then takes place, which involves the curd being allowed to mat together before it is milled, salted, pressed, and packed. The cheese is stored to develop the desired maturity and flavor (the longer it is stored, the stronger the flavor). Milk cheddar is matured for about 3 months, semi-matured cheddar for 3 to 6 months, and mature cheddar for up to 1 year."

USITC (1998a), page A-3.

Even though cheese production is potentially viable for export under AGOA, supplying and servicing the USA market would not be a simple task. Firms would have to work hard to remain competitive.

- (i) First, dairy products in the USA are subject to strict health, sanitary and environmental regulations, which must be adhered to. Food products must be shown to be safe to consume. Exporters must also meet customer requirements such as packaging.
- (ii) For many firms competing in the USA market, technology for dairy processing (see box 3 for cheese manufacturing) is sufficiently disseminated such that it is not a significant factor affecting competition. New suppliers would have to use and keep abreast with new technologies to be competitive.
- (iii) Dairy marketing in the USA is dominated by cooperatives and current foreign suppliers to the USA market have long and well-established ties with food distributors (USITC, 1998a). Hence, a lot of proficiency in marketing skills is required to penetrate the market.

### 3.1.2 Luggage Cases and Footwear

#### *a) Luggage Cases*

Various luggage products have been designated as eligible for AGOA. Those that are subjected to tariff rates of at least 15% include handbags (with or without shoulder strips or without handles), trunks, suitcases, vanity cases, attache cases (with outer surface of plastic, vulcanized fiber or paperboard), and travel or sorts bags with outer surface of plastic sheeting. Luggage products that attract tariff rates of more than 15% should have outer surfaces of either plastic or vulcanized fiber or paperboard. Botswana does not produce or own the necessary raw

materials to produce these items. Therefore, most of the inputs would have to be imported. If most inputs are imported, it would be difficult for products to meet the 35% local content. Therefore, these products might not be profitable for firms in Botswana.

*b) Footwear*

The footwear industry can substantially benefit from AGOA. As is the case with cheese, the number of products that qualify are diverse and hence it would be easier for firms to diversify their production within the footwear industry. Tariff rates on the designated products are as high as 48% (see Table 4). Most of the products are subject to tariff rates of 37.5%. Designated products that have a tariff rate of more than 15% fall within the following broad groups. The detailed product descriptions are outlined in Table 4.

- (i) Waterproof footwear, with outer soles and uppers of rubber or plastic. The uppers should neither be fixed to the sole nor assembled by stitching, riveting, nailing, screwing, plugging or similar processes;
- (ii) Other footwear with outer soles and uppers of rubber or plastics;
- (iii) Footwear with outer soles of rubber, plastics, leather or composition leather and uppers of leather;
- (iv) Footwear with outer soles of rubber, plastics, leather or composition leather and uppers of textile material;
- (v) Formed uppers for footwear made with either textile material or materials other than leather or composition leather.

**Table 4: Eligible Footwear Products**

| Product  | HTS Code | Short Description   | Tariff Rate (2001)   |
|--|----------|---|----------------------|
| <i>Sports and Athletic footwear</i>  | 64021950 | Sports shoes with outer soles and uppers of rubber or plastics. Valued between \$3 and \$6.50 per pair.   | 76 cents/kg + 32%    |
|  | 64021970 | Sports shoes with outer soles and uppers of rubber or plastics. Valued between \$6.50 and \$12 per pair.  | 76 cents/kg + 17%    |
|  | 64041140 | Tennis shoes, basketball shoes, gym shoes, training shoes and other similar items, with outer soles of rubber or plastics and uppers of textile. Valued at most \$3 per pair. Soles should be fixed with adhesives without foxing.            | 37.5%                |
|  | 64041150 | Other tennis shoes, basketball shoes, gym shoes, training shoes and other similar items, with outer soles of rubber or plastics and uppers of textile. Valued at most \$3 per pair.   | 48%                  |
|  | 64041160 | Tennis shoes, basketball shoes, gym shoes, training shoes and other similar items, with outer soles of rubber or plastics and uppers of textile. Valued between \$3 and \$6.50 per pair. Soles should be fixed with adhesives without foxing. | 37.5%                |
|  | 64041170 | Other tennis shoes, basketball shoes, gym shoes, training shoes and other similar items, with outer soles of rubber or plastics and uppers of textile. Valued between \$3 and \$6.50 per pair.  | 90 cents/pr. + 37.5% |
|  | 64041180 | Tennis shoes, basketball shoes, gym shoes, training shoes and other similar items, with outer soles of rubber or plastics and uppers of textile. Valued between \$6.50 and \$12 per pair.   | 90 cents/pr. + 20%   |
|  | 64041190 | Tennis shoes, basketball shoes, gym shoes, training shoes and other similar items, with outer soles of rubber or plastics and uppers of textile. Valued over \$12 per pair.   | 20%                  |
| <i>Waterproof footwear (neither fixed to the sole nor assembled by stitching, riveting, nailing, screwing, plugging, or similar processes.</i> | 64011000 | With outer soles and uppers of rubber or plastics, with metal toecap.   | 37.5%                |
|  | 64019100 | With outer soles and uppers of rubber or plastics, covering the knee  | 37.5%                |
|  | 64019290 | With outer soles and upper of rubber or plastics, covering the ankle but not the knee.  | 37.5%                |
|  | 64019930 | Designed to be worn over or in lieu of other footwear as a protection. With outer soles and uppers of rubber or plastics, not covering the ankle and without closures.  | 25%                  |
|  | 64019960 | Designed to be worn over or in lieu of other footwear as a protection. With outer soles and uppers of rubber or plastics, not covering the ankle and with closures.   | 37.5%                |
|  | 64019990 | With outer soles and uppers of rubber or plastics, not covering the ankle.  | 37.5%                |
| <i>Other footwear with outer soles and uppers of rubber or plastic.</i>  | 64023050 | Designed to be worn over or in lieu of other footwear as a protection against liquids, chemicals, weather etc. Should have a metal toecap.  | 37.5%                |
|  | 64023060 | With metal toe-cap, not protective. Valued not over \$3 per pair.   | 24%                  |
|  | 64023080 | With metal toe-cap, not protective, valued between \$6.50 and \$12 per pair.  | 90cents/pr. + 20%    |
|  | 64023090 | With metal toe-cap, not protective, valued over \$12 per pair.  | 20%                  |
|  | 64029150 | Covering ankle, designed as protection against liquids, chemicals, weather, etc.  | 37.5%                |
|  | 64029160 | Other footwear covering the ankle. Valued not over \$3 per pair.  | 48%                  |
|  | 64029170 | Other footwear covering the ankle. Valued between \$3 and \$6.50 per pair.  | 90cents/pr. + 37.5%  |
|  | 64029180 | Other footwear covering the ankle. Valued between \$6.50 and \$12 per pair.   | 90 cents/pr. + 20%   |
|  | 64029190 | Other footwear covering the ankle. Valued over \$12 per pair.   | 20%                  |
|  | 64029920 | Designed to be worn over or in lieu of other footwear as a protection against liquids, chemicals, weather, etc. Not covering the ankle.   | 37.5%                |
|  | 64029930 | With open toes or heels; or of the slip-on type. Not covering the ankle.  | 37.5%                |
|  | 64029960 | Other footwear not covering the ankle. Valued at most \$3 per   | 48%                  |

|  |          |   |                      |
|--|----------|---|----------------------|
|  |          | pair.   |                      |
|  | 64029970 | Other footwear not covering the ankle. Valued between \$3 and \$6.50 per pair.  | 90 cents/pr. + 37.5% |
|  | 64029980 | Other footwear not covering the ankle. Valued between \$6.50 and \$12 per pair.   | 90 cents/pr. + 20%   |
|  | 64029990 | Other footwear not covering the ankle. Valued over \$12 per pair.   | 20%                  |
| <i>Footwear with outer soles of rubber or plastic and uppers of textile.</i> | 64041920 | Designed as a protection against liquids, chemicals, weather, etc.  | 37.5%                |
|  | 64041935 | With open toes or heels; or of the slip-on type.  | 37.5%                |
|  | 64041940 | With soles affixed to upper with adhesives, and without foxing. Valued at most \$3 per pair.  | 37.5%                |
|  | 64041950 | Other footwear valued at most \$3 per pair.   | 48%                  |
|  | 64041960 | With soles affixed to upper with adhesives, and without foxing. Valued between \$3 and \$6.50 per pair.   | 37.5%                |
|  | 64041970 | Other footwear valued between \$3 and \$6.50 per pair.  | 90 cents/pr. + 37.5% |
|  | 64041980 | Other footwear valued between \$6.50 and \$12 per pair.   | 90 cents/pr. + 20%   |
| <i>Footwear with outer soles of leather or composite leather.</i>            | 64042020 | Not over 50% by weight of rubber and plastics and not over 50% by weight of textile, rubber or plastics with at least 10% by weight being rubber or plastics. Valued at most \$2.50 per pair. | 15%                  |
|  | 64042060 | Footwear other than that of HTS 64042020.   | 37.5%                |
| <i>Uppers for footwear.</i>  | 64061025 | Of textile materials. Valued at most \$3 per pair.  | 33.6%                |
|  | 64061030 | Of textile materials. Valued between \$3 and \$6.50 per pair.   | 63 cents/pr. + 26.2% |
|  | 64061035 | Of textile materials, Valued between \$6.50 and \$12 per pair.  | 62 cents/pr. + 13.7% |
|  | 64061050 | Of materials other than leather, composite leather or textile materials.  | 26.2%                |

Source: USITC.

Footwear manufacturing is relatively labour-intensive and thus could substantially contribute to alleviating the unemployment problem in Botswana. Footwear products that are most likely to be of benefit to firms in Botswana are those that are manufactured from either leather or textiles or both. This is because raw materials for these products could easily be supplied from Botswana and neighboring countries. As regards leather, Botswana is a beef producing country and therefore produces hides and skins. Currently most of the hides and skins are exported unprocessed. In 2000, 80% of these exports went to Italy and 13% to South Africa. If Botswana could instead process most of its hides and skins domestically, then the country could supply most of the leather required for footwear manufacturing. Likewise, Botswana's textile industry is relatively developed, and hence could produce textile inputs for the footwear industry. The use of domestically produced inputs would also help Botswana's economic development through the creation of backward linkages within the economy. In addition, firms would find it easier to meet the local content requirement.

Competition in the USA is, however, intense. The market is dominated by footwear from low cost producing countries, particularly China. In 2000, China supplied 67% of total USA imports of footwear. The second and third largest suppliers were Italy and Brazil, who supplied 9% and 8%, respectively. There are also some very small suppliers like Indonesia, Mexico, Thailand, Spain and the United Kingdom.

Increasingly, different countries are adopting competitive strategies to be able to compete with footwear from low cost producing countries. For example, the USA footwear firms have adopted a variety of strategies to build on their competitive strengths. Some of these strategies are: the ability to react quickly to fashion changes and produce quality products, investment in state of the art manufacturing, providing good customer service and improving on marketing technology (USITC, 1995). China has identified its competitive strength in producing cheap shoes of reliable quality, and is very strong in responding to massive standardized orders. Italy has also been able to penetrate world markets mainly because of its innovative design capability, strong component industry, and ability to target niche markets. High levels of subcontracting with a wide network of enterprises specializing in particular aspects of the production process characterize the Italian footwear industry. More than 80 per cent of Italian footwear firms subcontract the production of soles, insoles and heels. Around 70 per cent sub-contract the production phases of edging and sewing of uppers and about half of the firms subcontract the cutting phase. This splitting up of the production process allows the use of specialized machines and specific labour skills for particular tasks and provides for larger economies of scale than are possible in shoe production itself (Brenton, P. et al, 2000).

For Botswana to compete effectively, it has to identify competitive strategies. Some of these strategies could include:

- (i) Innovative design and quality control;
- (ii) Identification of niche markets;
- (iii) Productivity growth. This area is very critical for Botswana because of the low productivity levels in the country. Enhanced productivity levels are an important determinant of how fast firms can respond to changing technological and market conditions;
- (iv) Outsourcing or sub-contracting certain production processes. This can be done in two ways: (1) outsourcing parts of production to locations outside the country and (2) outsourcing to other local firms. The latter may be preferred as domestic output and employment levels can be maintained. However, it may not be possible to sub-contract within Botswana due to lack of manufacturing capabilities. The former may be ideal for Botswana because its footwear industry is very small. Therefore, it would be better for firms that start up footwear industries to sub-contract certain production processes to other AGOA eligible countries such as Lesotho, Malawi and South Africa. AGOA allows sub-contracting amongst AGOA beneficiary countries. According to the rules of origin, all the manufacturing conducted in these countries would collectively contribute to the 35% local content requirement.

### 3.1.3 Fruits and Vegetable Products, and Vegetable Oils

#### *(a) Vegetable Products*

The USA is one of the world's largest importers and producers of fresh vegetables. Large manufacturers primarily dominate the USA vegetable-processing industry. Processed vegetables usually fall into three major categories: canned vegetables; frozen vegetables; and dried vegetables. In 2000, Mexico was the principal supplier of processed vegetables into the USA, accounting for almost 60% of total USA vegetable imports. Other important suppliers included Canada (18%), Netherlands (6%) and Peru (3%). In sub-Saharan African countries, only Ghana, Zimbabwe and South Africa supplied the USA, although in very small quantities. Their combined exports amounted to US\$4 million, representing just a negligible proportion of total imports.

The largest concessions on vegetable products awarded through AGOA are on fresh or chilled vegetables. USA tariff rates on fresh or chilled leeks, broccoli, asparagus, spinach and sweet corn (HTS 07039000, 07049040, 07092090, 07097000, 07099045 and 07099090<sup>5</sup>) are between 20% and 21.3%. Fresh or chilled mushrooms (HTS 07095100) attract a tariff rate of 20% plus 8.8 cents per kilogram.

Exporting vegetables from Botswana is, however, unlikely to be profitable. This is due to the following:

- (i) Current suppliers have already established ties with processors in the USA; and hence it would be difficult for new suppliers to break into the market;
- (ii) High transportation costs would generally make trade in these products uneconomical;
- (iii) It would be very difficult for firms in Botswana to compete with freshly harvested products from farms in the USA;
- (iv) Low production levels and capacity. Even though the Botswana National Master Plan for Agricultural Development (NAMPAD) indicates a potential for vegetable and fruit production, past poor performances of the agricultural sector provides little support to the plan. According to the NAMPAD report, Botswana has a potential to produce 75% of its vegetable and fruits requirements by 2010 (Government of Botswana, 2001).

#### *(b) Vegetable Oils*

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See Appendix 1

Vegetable oils are manufactured from oilseeds, which are crushed to produce the oil. The two most commonly used vegetable oils are palm oil and soybean oil. Applied tariffs on oils for the USA reach a maximum of 19.1% (USITC, 2001a). The major import suppliers to the USA are Italy and Canada. In 2000, total imports from these countries accounted for 24% and 21%, respectively. Asian countries (Philippines, Malaysia, Indonesia, India and Japan) collectively accounted for 36%.

AGOA has resulted in a significant reduction in at least two products that are subjected to a maximum tariff rate of 19.1%. These are crude soybean oil (whether or not degummed) (HTS heading 15071000) and soybean oil (other than crude) and its fractions (whether or not refined, but not chemically modified) (HTS heading 15079040).

It is very difficult to envisage the profitability of vegetable oils. The main raw material, oilseeds, is not available in Botswana. But if the raw material could easily be obtained from neighboring AGOA eligible countries at reasonable costs, the product could be viable. This is especially so because vegetable oils are transportable over long distances. Packaging costs would also not be too expensive. Bottles could even be supplied within the country, as is the case with bottles for beverage products.

#### *(c) Fruit Products*

The fruit sector consists of three major sub-sectors: fresh fruit, processed fruit and fruit juices. In the USA, this sector is comprised of fruit farmers and fruit processing facilities (USITC, 2001b). The supply of fruit products is less concentrated. During 2000, Chile and Mexico supplied the highest share of 19% and 18%, respectively. Other significant suppliers were Costa Rica (14%), Ecuador (8%), Guatemala (7%), Colombia (6%) and India (6%). Among the sub-Saharan countries, South Africa was the highest supplier; supplying just over 1%. Mozambique supplied around 0.3%.

Some of the products that have benefited significantly from AGOA are fresh and dried dates (HTS heading 08041080), Fresh watermelons and Other melons (HTS headings 08071140 and 08071980). For watermelons to qualify, they must be exported between the period 1 April and 30 November. Other melons must be exported during the period 1 June to 30 November. AGOA also extends to more value-added fruit products. These include prepared or preserved pears, dates, nectarines and mixtures of nuts or other seeds.

Competition in the USA is rigorous and production costs worldwide are quite high. In recent years, rising costs and increased domestic and foreign competition have led to consolidation and a reduction in the number of fruit farmers and fruit processors in the USA. The industry has become more capital intensive and economies of scale have become more important, giving the larger growers a

competitive advantage in the purchase of equipment and other inputs (USITC, 1999a).

Despite the preferential treatment awarded to fruit products, it would be difficult for producers to compete in the USA. Most of the reasons are the same as those mentioned above for vegetable products. In addition firms in both the USA and other large foreign suppliers have already established economies of scale. As a result, they have managed to substantially reduce unit production costs.

### **3.1.4 Canned Seafood**

One of the most important determinants of the success of the fish industry is the availability and abundance of fisheries resources. The abundance of fish resources tends to yield greater harvests at relatively low costs and hence substantially reduce production costs (USITC, 2001c). Transporting unprocessed fish is more costly than transporting processed fish. Hence, proximity to unprocessed fish is of greater importance than proximity to the market. Canned fish processing is also highly capital intensive, requiring huge investments in plant and equipment (USITC, 1998b).

Botswana is land-locked and very far from the nearest harbours in South Africa. Therefore seafood is unlikely to be profitable for producers in Botswana.

### **3.1.5 Glassware and Ceramic Products**

#### *a) Glassware Products*

Glassware products are obtained by the fusion of several inorganic substances, of which silica sand is the main one. Other important raw materials are soda ash and limestone. The fused mass is cooled and molded into desired shapes.

Glass manufacturing requires substantial amount of heating, as raw materials are heated to very high temperatures to make glass and shape glassware products. The availability of fuel supplies strongly affects the locational decisions of firms in the glassware industry (Lamoreaux and Sokoloff, 1997). Packaging costs and transportation costs associated with glass products are also very high because of the fragility of the product.

As a result of AGOA, some glass products have had their tariff rates eliminated for beneficiary countries. Products that have had reductions in tariff rates of more than 15% mainly concern glassware for table and kitchen purposes and glassware for toilet, office and indoor decoration purposes. These are outlined in Table 5.



**Table 5: Eligible Glass and Glassware Products**

| HTS                                | Short Description   | Tariff Rates |
|------------------------------------|---|--------------|
| <b>Drinking Glasses</b>            |   |              |
| 70132110                           | Drinking glasses (other than glass ceramics) made of lead crystal. The value of each glass should not be more than US\$1.   | 17%          |
| 70132910                           | Drinking glasses (other than of glass ceramics and lead crystal). The value of each glass must not be more than US\$0.30.   | 32.3%        |
| 70132920                           | Drinking glasses (other than of glass ceramics and lead crystal). The value of each glass must be between US\$0.30 and US\$3.   | 25.5%        |
| <b>Other Table and kitchenware</b> |   |              |
| 70133110                           | Glassware for table and kitchen purposes (other than drinking glasses). The products should be made of lead crystal (but not glass ceramics) and the value of each product should not exceed US\$1.   | 17%          |
| 70133220                           | Glassware for table and kitchen purposes (other than drinking glasses). The products should be made of low coefficient of heat expansion glass and the value of each product should not exceed US\$3.   | 25.5%        |
| 70133920                           | Glassware for table and kitchen purposes (other than drinking glasses). The products should be made of material other than lead crystal and low coefficient of heat expansion glass. The value of each product should not exceed US\$3.           | 15.5%        |
| 70133950                           | Glassware for table and kitchen purposes (other than drinking glasses). The products should be made of material other than lead crystal and low coefficient of heat expansion glass. The value of each product should be between US\$3 and US\$5. | 15%          |

Source: USITC.

The main raw materials for the production of glassware products are available in Botswana. Despite the availability of raw materials, starting up glassware plants just for purposes of AGOA is likely to be unprofitable:

- (i) Products that have tariff rates of 15% or more are delicate, especially drinking glasses. Selling to the USA market would require more expensive packaging that necessitates long distance transportation.
- (ii) The project would require large amounts of fuel supplies for heating; hence production costs are relatively very high, especially in countries where electricity costs are high.
- (iii) Glassware products that have had tariff rate reductions of more than 15% are low value products. Botswana, being very far from the USA, is unlikely to benefit from low value products because of the relatively high transportation costs per unit of output that would have to be incurred.

Nevertheless, Botswana could potentially benefit from exporting high value glass products, such as flat glass. High value products have a better chance of yielding

enough returns to be able to pay for project costs such as electricity and transportation costs. They are also less delicate and hence would not require expensive packaging materials. For successful penetration of these products into the USA market, it is essential that these products be added to the lists of products eligible for AGOA.

#### *b) Ceramic Products*

Three products that fall in the category of ceramic products that attract a tariff rate of more than 15% were found. These include:

- (i) Ceramic tableware and kitchenware other than porcelain or china. The products should be for hotel, restaurant or other non-household use. The tariff rate applicable is 30.8%.
- (ii) Porcelain or china (other than bone china) hotel, restaurant or other non-household tableware and kitchenware. This product attracts a tariff rate of 22.9%
- (iii) Glass-ceramic ware of a kind used for household, office, indoor decoration or similar purposes and the tariff rate applicable is 26%.

Ceramic products could potentially be viable for produce in Botswana. The main raw materials (including sand) are available in the country.

#### **3.1.6 Television Equipment, and Vehicles and Parts**

Several television equipment and automotive products qualify for duty-free and quota free market access into the USA. Notably, motor vehicles for the transportation of goods have substantial tariff rates of 25% if exported outside AGOA. As regards television equipment, cathode-ray television and video monitor tubes and television picture tubes hold tariff rates of 15%. These products would hence benefit from the tariff elimination through AGOA.

However, these products are unlikely to be profitable in Botswana.

- (i) The operations are highly capital intensive and therefore require substantial investments in capital.
- (ii) For vehicle products, the main raw material for the production of the frame, steel, let alone the materials for the engine, might be difficult and expensive to import.
- (iii) The country does not have sufficient skilled labour and manufacturing capabilities along the entire automotive production chain to run these operations. One option is to buy manufactured parts for assembly in Botswana, but this may make it even more

difficult for firms to be able to meet the 35% local content requirement.

### ***3.2 Market Access Opportunities for Apparel Products***

Textile and apparel products are an important part of Botswana's manufacturing sector, representing nearly 13.4% of total exports of manufactured products in 2000. Textile processing involves a variety of operations, including bleaching, dyeing and texturizing fabrics, weaving threads or yarn into fabrics, and knitting yarns into outerwear. Apparel production, on the other hand, involves producing clothing items, belts, embroideries, house finishing and automotive trimmings (Levinsohn and Petropoulos, 2001). Apparel production is highly labour-intensive and usually requires few skills. "While there have been important technical advances in this industry, including the computerization of tasks, such as product design and the placement of patterns on fabric to minimize waste, technical changes have been less important in apparel than in the textile industry" (Levinsohn and Petropoulos, 2001, pp 5).

The reduction of the tariff rates for textiles and apparel is a major achievement of AGOA. It represents an essential step towards achieving market access for developing country exports. Generally, AGOA does not address all textiles. Most benefits apply to finished apparel, classified as Chapters 61 (Articles of apparel and clothing accessories, knitted or crocheted) and 62 (Articles of apparel and clothing accessories, not knitted or crocheted) of the HTS of the USA. The principal elements include duty-free market access for the following:

- (i) Apparel articles assembled in one or more sub-Saharan African beneficiary countries. The apparel products must be made from fabrics wholly formed and cut in the USA from yarn wholly formed in the USA. Fabrics not formed from yarns, but are classified under sections 5602 or 5603 (felt and nonwovens, respectively, whether or not impregnated, coated, covered or laminated) of the HTS of the USA, are also eligible.
- (ii) Apparel articles cut and assembled in one or more sub-Saharan African beneficiary countries from fabrics and yarn wholly formed in the USA and thread formed in the USA. Fabrics not formed from yarns, but are classified under sections 5602 or 5603 (as defined above) of the HTS, also qualify.
- (iii) Apparel articles wholly assembled in one or more beneficiary sub-Saharan African countries from fabric wholly formed in one or more beneficiary sub-Saharan African countries. The fabric must be derived from yarn originating from either the USA or from beneficiary sub-Saharan countries. Least Developed Countries are allowed to use fabric originating from anywhere in the world up until 30 September 2004. Under this product category, there is a

limit to the amount of goods that can go into the USA market. The applicable percentage is set at 1.5% of USA imports for the first year and it is allowed to grow to 3.5% in the final year (2008). Imports of these products will also be monitored closely. If the USA authorities determine that there is a surge of imports of a particular product and are able to prove that this flow of imports is damaging or threatening to seriously damage USA industries, then the duty-free treatment afforded for the particular product will be terminated.

- (iv) Cashmere and merino wool sweaters knit to shape in one or more beneficiary countries. Cashmere sweaters must be classifiable under articles of wool or fine animal hair, knitted or crocheted. These include sweaters, pullovers, sweatshirts, waistcoats (vests) and similar articles. Merino wool sweaters must have a 50% or more weight of wool measuring 18.5 microns in diameter or finer. AGOA II amends the merino wool provision so that sweaters made of yarn of 21.5 microns or finer will be eligible.
- (v) Apparel articles wholly assembled from fabric or yarn not available in commercial quantities in the USA<sup>6</sup>. Beneficiary countries may apply for additional products to be added to this category. Investigations on the lodged requests are carried out by the USA authorities. A decision as to whether to grant a request or not is then made.
- (vi) Handloomed, handmade, or folklore articles of beneficiary countries, certified as such by a competent authority of the country and accepted as such by the USA authorities.

There are some customs related requirements, aimed at protecting against transshipment, that countries must meet in order to qualify. These include:

- (i) A legislation that permits USA customs services access to information necessary to investigate allegations of transshipment;
- (ii) A requirement that producers and exporters keep up to date records of the production and export of goods covered in the Act, Exporters are required to complete and provide a textile certificate of origin to importers in the USA. Even though the certificate is not required upon shipment of the goods, it must be available to the USA Customs Department upon request;
- (iii) The country agrees to report on total exports and imports covered under the Act whenever the information is needed;

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<sup>6</sup> The USA publishes a list of fabric and yarns that are deemed not available in commercial quantities.

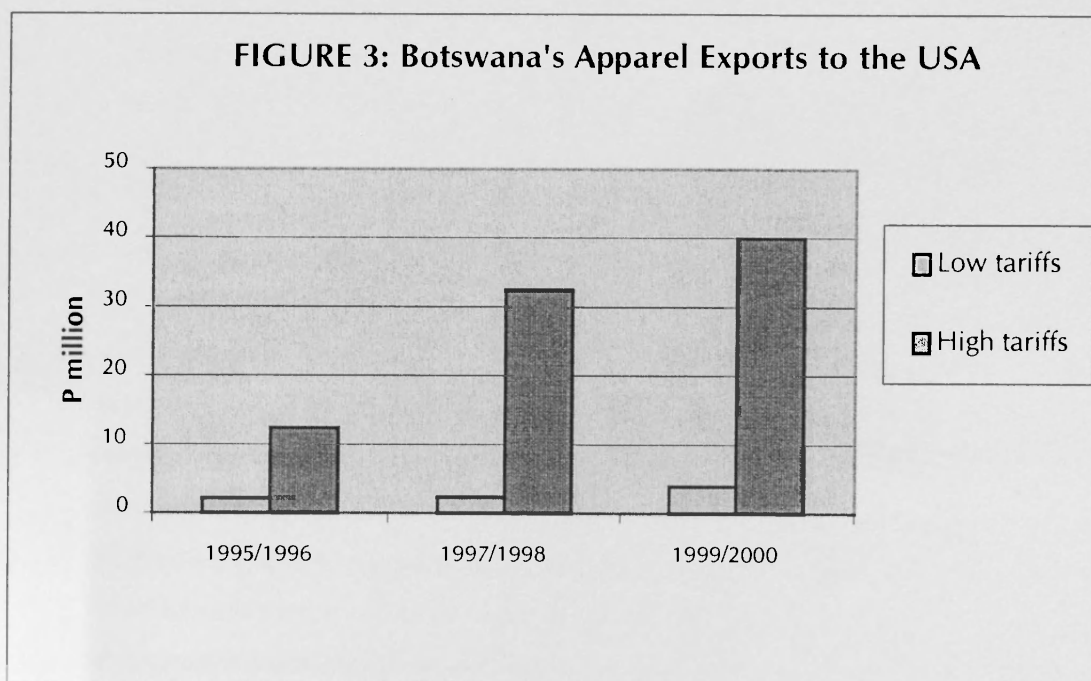
- (iv) The country fully cooperates with the USA to address and take action necessary to prevent circumvention; and
- (v) The country adopts an effective USA approved visa system.

Botswana, Mauritius, Kenya, Madagascar, Lesotho, Malawi, Swaziland, Uganda, Zambia, Namibia, Ethiopia and South Africa qualify for special treatment for textile and apparel products. Their visa systems have been approved.

### 3.2.1 USA Imports of Apparel Products

Imports supply more than 50% of the USA apparel market (USITC, 1999c). In 2000, the largest foreign suppliers of apparel products were Mexico, China, Hong Kong, Korea and the Dominican Republic, which together accounted for 53% of total apparel imports. The largest single supplier was Mexico (19%), probably as a result of the trade benefits derived from the North American Free Trade Agreement, the favorable transportation linkages between the two countries and the relocation of USA firms to Mexico (USITC, 1999b).

Botswana has exported some apparel products to the USA. Figure 3 shows the growth of apparel export to the USA. As depicted in the figure, the growth of exports products that attract low tariff rates (10% and less) has been very minimal, while that of products that attract tariff rates of more than 15% has been substantial.



Source: USITC.

Tables 6, 7 and 8 outline products that have been exported with individual revenues in excess of P100 thousand. All of these products qualify under AGOA, provided that they meet the conditions stipulated in section 3.3. Only seven products fall within the tariff range of 10% and less (see Table 6). The tariff rates applicable to these products range between 8.2% and 9.7%. It is interesting to note that all products exported in 2000 were new products. These products fall in the category of women's anoraks and skirts. In 1999, there was a substantial shipment of men's anoraks amounting to over P6 million, which then dropped to zero in 2000, possibly because it was a one-off shipment.

A substantial boost in the production of goods outlined in Table 6 resulting from AGOA is, however, not expected, because the improvement in market access due to the tariff rate cut is not significant. Firms that are already exporting these products may continue to export, especially in cases where they have established niche markets in the USA. They may even experience a slight increase in the demand for their products as the tariff rate cut makes their products more competitive than those of their rivals.

**Table 6: Botswana's Apparel Exports facing low tariffs  
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| HTS Code                   | Description   | 1998           | 1999             | 2000           | Duty (2001) |
|----------------------------|---|----------------|------------------|----------------|-------------|
| <b>Low Tariff ( ≤ 10%)</b> |   |                |                  |                |             |
| 62114200                   | Women's or girl's jumpers of cotton.  | 352,382        | 0                | 0              | 8.2%        |
| 62045220                   | Women's skirts and divided skirts of cotton blue denim.   | 0              | 0                | 500,249        | 8.4%        |
| 62029220                   | Women's anorak and similar articles of cotton corduroy.   | 0              | 0                | 137,405        | 9.1%        |
| 62029220                   | Women's anorak and similar articles of cotton.  | 0              | 0                | 309,160        | 9.1%        |
| 62046220                   | Women's bib and brace overalls of cotton.   | 0              | 171,464          | 0              | 9.1%        |
| 62019220                   | Men's anoraks and similar articles of cotton.   | 0              | 6,655,344        | 0              | 9.6%        |
| 62044230                   | Women's cotton dresses with at least two colours in the warp or filling, containing 36% or more by weight of flax fibers. | 110,088        | 0                | 0              | 9.7%        |
|                            | <b>TOTAL</b>  | <b>462,470</b> | <b>6,826,808</b> | <b>946,814</b> |             |

Source: USITC.

Table 7 outlines products that hold a tariff rate of at least 15% and have been exported in quantities of more than P100 thousand but less than P1 million. These products comprise of cotton blouses, shirts, trousers, t-shirts and sweaters. Even though overall apparel exports to the USA rose substantially from 1998 to 2000, products in Table 7 have shown a considerable reduction since 1998 (from approximately P27 million in 1998 to P3 million in 2000). Most of the reduction has emanated from a fall in the export of men's cotton shirts, which fell from P17 million in 1998 to just less than P1 million in 2000. The fall might be attributable to the closure of some textile companies in Botswana around this period. In fact, Botswana's overall export of men's and boy's shirts (comprised mainly of men's shirts), fell from P48 million in 1998 to approximately P4 million in 2000.

The tariff rates applicable to the products in Table 7 range from 15.7% to 32.7%. These tariff rates are very high, especially those applicable to sweaters (32.7%). Therefore a boost in the production of these goods would greatly benefit exporters in Botswana.

**Table 7: Botswana's Apparel Exports facing high tariffs (less than P1 million)**

| HTS Code                      | Description  | 1998             | 1999             | 2000             | Duty (2001) |
|-------------------------------|--|------------------|------------------|------------------|-------------|
| <b>High Tariffs (&gt;15%)</b> |  |                  |                  |                  |             |
| 62063030                      | Women's cotton blouses with at least two colours in the warp and/or filling, not knitted or crocheted.           | 338,550          | 0                | 0                | 15.7%       |
| 62034240                      | Boy's shorts of cotton (not imported as parts of playsuit), not knitted or crocheted.                            | 189,761          | 272,365          | 662,204          | 16.9%       |
| 62046240                      | Girl's trousers of cotton (not imported as parts of playsuit), not knitted or crocheted.                         | 187,845          | 280,878          | 0                | 16.9%       |
| 62046240                      | Women's trousers and breeches of other cotton, not knitted or crocheted.   | 4,283,811        | 466,568          | 907,924          | 16.9%       |
| 61091000                      | Men's knitted or crocheted t-shirts of cotton, except underwear  | 2,282,118        | 0                | 0                | 17.8%       |
| 61091000                      | Women's knitted or crocheted t-shirts of cotton, except  | 239,555          | 0                | 170,249          | 17.8%       |
| 61102020                      | Men's and Boys' knitted or crocheted apparel of cotton   | 669,155          | 0                | 0                | 17.8%       |
| 62052020                      | Men's cotton dress shirts with two or more colors in the warp and/or filling, not knitted or crocheted.          | 800,340          | 1,016,249        | 0                | 20.1%       |
| 62052020                      | Men's cotton shirts with two or more colors in the warp and/or filling, napped but not knitted or crocheted.     | 6,351,550        | 544,503          | 0                | 20.1%       |
| 62052020                      | Men's cotton shirts with two or more colors in the warp and/or filling, not napped and not knitted or crocheted. | 606,718          | 0                | 0                | 20.1%       |
| 62052020                      | Men's cotton shirts, not knitted or crocheted.   | 10,316,950       | 777,201          | 877,211          | 20.1%       |
| 62052020                      | Boy's cotton shirts (not imported as playsuits parts), not knitted or crocheted.                                 | 0                | 0                | 107,318          | 20.1%       |
| 61051000                      | Men's shirts of cotton, knitted  | 164,189          | 6,409,025        | 364,458          | 20.1%       |
| 61103030                      | Women's knitted or crocheted sweaters of man-made fibers   | 401,559          | 184,323          | 190,885          | 32.7%       |
| 61103030                      | Women's or girl's knitted or crocheted sweaters of man-made  | 0                | 0                | 131,298          | 32.7%       |
|                               | <b>TOTAL</b>   | <b>26,832,10</b> | <b>9,951,112</b> | <b>3,411,547</b> |             |

Source: USITC.

Most of the increase in apparel exports to the USA emanates from just a few products (see Table 8), which almost doubled from P15 million in 1998 to P30 million in 2000. These exports accounted for 37% of total export of apparel products to the USA in 1998. In 2000, they accounted for 71%. Men's cotton shorts accounted for the greatest share in 2000, representing around 40% of the value of products in Table 6 (P30 million) and 6% of total apparel exports to the USA. All of the products in Table 6 attract a tariff rate of 16.9%, hence the preferences afforded by AGOA could provide a boost in the export of these goods.

**Table 8: Botswana's Apparel Exports facing high tariffs (greater than P1 million)**

| HTS Code                      | Description   | 1998              | 1999              | 2000              | Duty (2001) |
|-------------------------------|---|-------------------|-------------------|-------------------|-------------|
| <b>High Tariffs (&gt;15%)</b> |   |                   |                   |                   |             |
| 62034240                      | Men's trousers and breeches of cotton corduroy.               | 0                 | 0                 | 7,748,8.9         | 16.9%       |
| 62034240                      | Men's trousers and breeches of other cotton corduroy.         | 0                 | 4,185,007         | 1,851,028         | 16.9%       |
| 62034240                      | Men's shorts of cotton.                                       | 0                 | 740,176           | 11,815,405        | 16.9%       |
| 62034240                      | Boy's trousers of cotton (not imported as parts of playsuit). | 322,744           | 626,748           | 1,808,142         | 16.9%       |
| 62046240                      | Women's trousers and breeches of blue cotton denim.           | 8,468,197         | 12,399,538        | 7,562,224         | 16.9%       |
| 62046240                      | Women's cotton shorts.  | 7,002,681         | 10,250,619        | 7,000,855         | 16.9%       |
|                               | <b>TOTAL</b>  | <b>15,793,622</b> | <b>28,202,088</b> | <b>30,037,654</b> |             |

Source: USITC.



Apparel exports constitute a significant proportion of Botswana's total exports to the USA. In 2000, they accounted for 56% of total exports to the USA. The fact that some producers in the country have managed to sell to the USA is a positive sign. It shows that the USA market is accessible and could provide a lucrative market for Botswana's apparel exports. Botswana's sound economic, political and investment climate further enhances this potential.

### **3.2.2 Export Potential**

Some countries have already either started utilizing or in the process of utilizing opportunities under AGOA. These countries include Ghana, Madagascar, Malawi, Mauritius, Kenya, Senegal, Tanzania, Uganda, Zambia, South Africa and Lesotho (see Box 4). Although it is too early to evaluate the impact of AGOA on these countries' exports, statistics from the USA Trade Representative show that in the first three months of 2001, total imports from AGOA eligible countries rose by 24% compared to the same period in 2000. Apparel imports from qualifying countries, particularly Lesotho, Madagascar, Kenya and South Africa, rose by 28% between 2000 and 2001. Some of the products that have reflected a considerable increase are knit apparel, woven apparel, knit sweaters and men's and boy's suits (USTR, 2001).

**Box 4: Actual or Expected Investment as a result of AGOA**

| <b>Country</b> | <b>Investment</b>   |
|----------------|---|
| Ghana          | Investment in the tuna industry.  |
| Kenya          | Expected investment in apparel, leather, horticulture, agricultural and seafood industries.                           |
| Lesotho        | New industries and expansions expected (mainly textiles and apparel, e.g., denim mill, garments, textiles and jeans). |
| Madagascar     | Investment in knit and woven apparel.   |
| Malawi         | Expected investment in textiles and apparel (garments).   |
| Mauritius      | Expected investment in cotton yarn spinning mill.   |
| South Africa   | Expected investment in the clothing industry.   |
| Senegal        | Expected investment in apparel and textiles.  |
| Tanzania       | Expected expansion of textile mill.   |
| Uganda         | Investment in a textile mill and apparel products.  |
| Zambia         | Expected investment by agricultural processors of non-traditional exports.  |

Source: USTR, 2001

Botswana's apparel industry is relatively small and underdeveloped. The ability to determine costs, establish business relationships with customers, assess market trends and strategy and position products in the market may not be well understood by many producers, especially those who have not yet penetrated international markets. However, for the country to benefit from AGOA, it is important for industry participants to sharpen their competitive edge. Some of the factors that have been used by small apparel producers in the USA to increase their competitiveness include: the development of marketable brand names and concomitant consumer loyalty; the formation of strategic alliances with large retailers; and investment in "quick response<sup>7</sup>" manufacturing and distribution systems (USITC, 1999c).

Labour costs are a major cost factor for the apparel industry. As one of the major competitiveness strategies, Botswana would have to increase labour productivity and reduce unit labour costs. Major import suppliers of apparel products in the USA have managed to dominate the market because of their low labour costs.

One factor that could greatly hamper Botswana's export of apparel products through AGOA is that, as a developing country, it is only allowed to import raw materials from either the USA or from other AGOA eligible countries whose visa systems have been approved. Specifically, the yarn and the fabric must be sourced from an AGOA eligible country or the USA. Cotton and other fibres can come from anywhere in the world as long as the fiber is spun into yarn in an AGOA eligible country. However, in November 2001, the USA Trade Representatives approved AGOA II. Though it still has to go through the USA Senate, expectations are that the Senate will also pass it. AGOA II extends Least Developed Country status to Botswana. With this amendment, producers in Botswana would be able to buy raw material from anywhere in the world, and therefore be able to access less expensive material from non-AGOA eligible countries (e.g., East Asia). Even though this is the case, the Least Developing Country status expires in 2004.

Currently, Botswana obtains most of its cotton from South Africa, Zimbabwe, United Kingdom, Belgium and Luxembourg and Asia. In 2000, these countries accounted for 44%, 28%, 9%, 8% and 4% of total cotton imported, respectively. Other inputs, especially manmade fibers and fabrics, were obtained from South Africa (56%), USA (30%), Zimbabwe (10%) and Malawi (4%). In its current form, AGOA allows Botswana to get material from South Africa, Malawi and the USA. With AGOA II, Botswana would be allowed to source material globally, including Zimbabwe and the far Eastern countries.

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<sup>7</sup> Because of changing fashions and retailer requirements, USA apparel producers have gained some competitive strength by quickly responding to changes in market demand. They have used computers to speed the flow of goods, services and information between segments of the industry chain, linking apparel producers with textile suppliers and retailers.

Botswana exporters can start exploiting the agreement, provided that they meet the rules of origin. The list of products in Tables 4 - 6 only show products that qualify for AGOA and are already being exported to the USA. There are many other products that can be produced. Some of the products that are highly protected in the USA market, but qualify for AGOA, are listed in Tables 9 and 10. It must be borne in mind that for these products to be given preferential access, they must meet the rules of origin stated above. The 8-digit classification used is very narrow, and therefore it may be difficult for exporters to differentiate between two similar products. It may, therefore, be useful for exporters to contact relevant Ministries or the USA Embassy in Botswana to verify the eligibility of products before they start producing them.

**Table 9: AGOA Eligible Products attracting High Tariff Rates  
(Chapter 61: Knitted or Crocheted)**

| HTS Code | Short Description   | Tariff Rate (2001) |
|----------|---|--------------------|
| 61124100 | Women's and girl's swimwear of synthetic fibers.                                      | 25.4%              |
| 61043910 | Women's and girl's suit type jackets and blazers of artificial fibers.                | 25.8%              |
| 61123100 | Men's and boy's swimwear of synthetic fibers.   | 26.4%              |
| 61119040 | Babies sweaters, pullovers, sweatshirts and vests of artificial fibers.               | 28.6%              |
| 61013020 | Men's and boy's overcoats, carcoats, capes, cloaks and anoraks of man-made fibers.    | 28.7%              |
| 61023020 | Women's and girl's overcoats, carcoats, capes, cloaks and anoraks of man-made fibers. | 28.7%              |
| 61031220 | Men's or boy's suits.   | 28.7%              |
| 61033320 | Men's and boy's suit type jackets and blazers.  | 28.7%              |
| 61034315 | Men's and boy's trousers, breeches and shorts.  | 28.7%              |
| 61034910 | Men's and boy's trousers, breeches and shorts.  | 28.7%              |
| 61043320 | Women's and girl's suit type jackets and blazers.                                     | 28.7%              |
| 61046320 | Women's and girl's trousers, breeches and shorts of synthetic fibers.                 | 28.7%              |
| 61113010 | Babies' trousers, breeches and shorts of synthetic fibers.                            | 28.7 %             |
| 61121200 | Track suit of synthetic fibers.   | 28.7%              |
| 61121910 | Track suit of artificial fibers.  | 28.7%              |
| 61122010 | Track suit of man-made fibers.  | 28.7%              |
| 61046920 | Women's and girl's trousers, breeches and shorts of artificial fibers.                | 28.8%              |
| 61143010 | Tops of man-made fibers.  | 28.9%              |
| 61113040 | Babies' sweaters, pullovers, sweatshirts and vests of synthetic fibers.               | 31.4%              |
| 61099010 | Men's and boy's t-shirts, tank tops and similar garments of man-made fibers.          | 32.6%              |
| 61103030 | Sweaters, pullovers, sweatshirts and vests of man-made fibers.                        | 32.7%              |
| 61143020 | Bodysuits and body shirts of man-made fibers.   | 32.7%              |
| 61052020 | Men's and boy's shirts of man-made fibers.  | 32.8%              |
| 61062020 | Women's and girl's shirts of man-made fibers.   | 32.8%              |
| 61113020 | Babies' blouses and shirts of synthetic fibers.                                       | 32.8%              |
| 61113030 | Babies' t-shirts of synthetic fibers  | 32.8%              |

Source: USITC.

**Table 10: AGOA Eligible Apparel Products attracting High Tariff Rates  
(Chapter 62: Not Knitted or Crocheted)**

| HTS Code | Short Description   | Tariff Rate (2001) |
|----------|---|--------------------|
| 62031220 | Men's and boy's suits of synthetic fibers.  | 27.8%              |
| 62033320 | Men's and boy's suit type jackets and blazers of synthetic fibers.  | 27.8%              |
| 62033920 | Men's and boy's suit-type jackets and blazers of artificial fibers.   | 27.8%              |
| 62043350 | Women's and girl's suit-type jackets and blazers of synthetic fibers.   | 27.8%              |
| 62043930 | Women's and girl's suit-type jackets and blazers of artificial fibers.  | 27.8%              |
| 62011340 | Men's and boy's overcoats, carcoats, capes, cloaks and similar coats of man-made fibers.  | 28.2%              |
| 62019990 | Men's and boy's anoraks, windbreakers and similar articles of man-made fibers.  | 28.2%              |
| 62021340 | Women's and girl's overcoats, carcoats, capes, cloaks and similar coats of man-made fibers.   | 28.2%              |
| 62029350 | Women's and gisl's anoraks, windbreakers and similar articles of man-made fibers.   | 28.2%              |
| 62112028 | Men's and boy's anoraks, windbreakers and similar articles imported as part of ski-suits and made of cotton, man-made fibers and other textiles.    | 28.2%              |
| 62111110 | Men's and boy's swimwear of man-made fibers.  | 28.3%              |
| 62034340 | Men's and boy's trousers and breeches of synthetic fibers.  | 28.4%              |
| 62034920 | Men's and boy's trousers, breeches and shorts of artificial fibers.   | 28.4%              |
| 62112038 | Women's and girl's anoraks, windbreakers and similar articles imported as part of ski-suits and made of cotton, man-made fibers and other textiles. | 28.5%              |
| 62112038 | Men's and boy's trousers and breeches imported as part of ski-suits made of cotton, man-made fibers and other textile materials.                    | 28.6%              |
| 62046335 | Women's and girl's trousers, breeches and shorts of synthetic fibers.   | 29.1%              |
| 62046925 | Women's and girl's trousers, breeches and shorts of artificial fibers.  | 29.1%              |
| 62093020 | Babies trousers, breeches and shorts of synthetic fibers.   | 29.1%              |
| 62112068 | Women's and girl's trousers and breeches imported as part of ski-suits made of cotton, man-made fibers and other textile materials.                 | 29.1%              |

Source: USITC.

#### 4. Factors Affecting the Utilization of the AGOA

There are several factors that could limit the effective utilization of AGOA. One of them relates to the eligibility of countries. Each country's eligibility status is reviewed every year. This brings a lot of uncertainty, especially on firms considering investing in Botswana mainly to take advantage of AGOA. Firms planning to invest in Botswana for purposes of AGOA might hesitate because of the possibility that Botswana or any other AGOA eligible country that the investor might derive its inputs from could lose their eligibility. Hence, the main reason for the investment could be removed. This is particularly true for non-Textile and Apparel products. As for Textile and Apparel, by 2005, most products would have been integrated into the World Trade Organisation (WTO) and hence most quantitative restriction would have been removed and tariff rates reduced.

Another limitation concerns the use of quantitative restrictions. Apparel products made with African fabric/yarn are subject to a cap. For the first year, the cap is set at 1.5% of overall USA apparel imports. For the remaining seven years, the cap is allowed to grow up to 3.5% in the last year of the Act (2008). If AGOA II is approved, the cap will be doubled. Currently, the cap is not subdivided between countries. It is based on a "first come, first served" basis. This could work against Botswana, whose industry is still at its infancy. Countries with more export-oriented apparel industries could occupy the cap. Furthermore, as more and more countries access the USA, there is a likely risk of countries concentrating their exports on the same sectors, resulting in market saturation. The USA has the right to suspend duty-free treatment for any product that is considered to be causing or threatening to cause serious damage to USA industries. This could limit exports from many developing countries, including Botswana.

Rules of origin can also have distorting impacts on exports and thereby affect market opportunities. AGOA has very stringent rules of origin that could, in some cases, lead producers to obtain raw materials from high cost producing countries so as to qualify for AGOA. For example, in the case of Botswana, producers may decide to switch from buying cheaper raw materials from Zimbabwe to buy from high cost AGOA eligible countries so that they meet the eligibility criteria. However, for apparel products, the USA has already taken steps to allow Botswana to source raw materials from anywhere. Numerous and complex customs procedures may also substantially limit such market access.

Supply-side constraints could greatly limit Botswana's capabilities to take full advantage of AGOA. Some of the major impediments are Botswana's limited production capacity, its poor endowment of the necessary human capital and a weak technological capacity. However, unlike many other developing countries, macroeconomic stability and political stability coupled with the availability of financial resources would be an added advantage to developing sound and competitive industries in Botswana.

Notwithstanding the limitations presented above, firms can still take steps to make the most of AGOA. Firms that are likely to succeed are those that would pro-actively seek other market options to guard against losses in export sales should the preferential market access to the USA come to an end. Furthermore, the global trading environment is changing towards increased trade liberalization and more competition is expected to continue. As tariffs go down, concessions on AGOA are likely to be eroded as they are extended to other countries through the Most Favored Nation clause of the General Agreement on Tariffs and Trade. Firms that would utilize AGOA, but also actively seek out market opportunities are likely to develop the international marketing competencies required to expand export sales even beyond the USA market.

## 5. Conclusion and Areas for Further Research

### 5.1 Conclusion

The market opening initiative by the USA is a very important and welcome step for Botswana. The elimination of tariffs on most products presents an opportunity for market-led investment and economic growth. Using AGOA, the country could pursue its economic objective of diversifying its economic activity into non-traditional products such as apparel, footwear and cheese products. Successful and sustainable diversification requires that the private sector strategically explore the AGOA preferences, using the provision as a stepping stone to penetrating the international economy. This strategy involves identifying and dealing with supply-side constraints, improving market know-how (especially international demands and standards) and identifying efficient and cost effective distribution and transport channels. Firms could benefit from pursuing pro-active strategies like forming business partnerships with companies in the USA to improve the flow of information, skills and technology.

The paper has identified products whose market access into the USA has increased substantially as a result of AGOA. These are defined as products that attract a tariff rate of 15% or more when exported without the AGOA provision. Cheese products and footwear products are found to have a better chance of being viable for export to the USA. The raw materials required for the production of these goods are readily available in Botswana, and hence it would be easier for the country to meet the required 35% local content. Glassware products could also potentially be viable. But this depends on the extension of AGOA eligible products to include high value products such as flat glass. The glassware products that are currently eligible for AGOA are low value products that need expensive packaging for long distance transportation.

Even though Botswana's apparel industry is relatively underdeveloped, AGOA could be a stepping stone towards the international market. Botswana is already exporting apparel products to the USA that qualify under AGOA. The tariff elimination resulting from AGOA would greatly benefit exporters of these products. Furthermore, because the apparel provision basically cover all apparel products provided that they meet the rules of origin, there are many other apparel products which have not yet been ventured into. Firms in Botswana can therefore start producing for export to the USA. We, however, advice that firms should consult relevant authorities before they can start producing these goods, in order to confirm the eligibility of these products.

The main impediments to the effective utilization of AGOA were also looked into. These include the eligibility of countries, quantitative restrictions, stringent rules of origin and supply-side constraints. Despite these limitations, it could still be profitable to make use of AGOA in products such as cheese, footwear and



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