The Impact of the African Growth and Opportunity Act (AGOA): An Empirical Analysis of Sub-Saharan African Agricultural Exports

About $1 trillion in foreign aid has been lavished on Sub-Saharan Africa (SSA) since 1960, to little avail, Dambissa Moyo (2010), a Zambian economist, has argued. Annual per capita income growth has averaged less than 0.2 percent since 1976; per capita income adjusted for inflation is almost identical to the level reached in the late 1970s; and almost half the people in the region are living in extreme poverty (less than $1.25 per day in terms of 2005 purchasing power), a figure that has changed very little over the past 30 years (authors’ calculations using World Bank data). Moyo and others have suggested that greater access for African exports to markets in high-income countries offers a better avenue for growth and development than foreign aid. In 2000, the United States government adopted the African Growth and Opportunity Act (AGOA), which aims to increase trade and investment between the United States and eligible SSA countries by reducing or eliminating tariffs applied to African goods, promoting economic development and reform and supporting increased access and investment opportunities. Of the 48 SSA countries, 41 are eligible for AGOA trade preferences. The U.S. and other foreign aid donors continue to provide foreign aid (about $126 billion in 2012, according to the Organization for Economic Cooperation and Development, OECD). But AGOA, a similar program of the European Union known as “Everything but Arms,” and recent initiatives by OECD countries to provide support for the development of infrastructure and the legal framework related to trade (“Aid for Trade”), suggest that a shift in the development strategies of governments in high-income countries may be underway (Moyo, OECD).

International trade plays an important role in the economic development of African countries, accounting for about a third of the Gross Domestic Product (GDP) in SSA (World Bank, 2010). Exports are often concentrated in a small number of primary commodities (e.g., cocoa, coffee, copper, bauxite or petroleum) so that higher commodity prices are very important for economic growth (World Bank, 2010). When markets in other countries are protected by trade barriers, world commodity prices are depressed, and in addition often become

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more volatile. These conditions make it difficult for low-income countries in SSA to finance needed investments and to implement long-term development strategies. Reducing trade barriers has become an important objective for governments in both high-income countries and SSA, and AGOA represents a promising approach to this goal.

The African Growth and Opportunities Act

Because most of Africa was colonized by Europeans searching for raw materials to feed industrial development in their home countries, African trade has historically been oriented toward Europe. In 2011, almost 35 percent of African merchandise exports were destined for European countries, compared with about 15 percent sold to the U.S. and 11 percent to China (authors’ calculations based on data from the World Trade Organization, WTO). Eighty-six percent of U.S. imports from Africa consist of petroleum and minerals, while agricultural goods imported from the eligible AGOA countries account for less than two percent of total U.S. agricultural imports (WTO and FAS/USDA). There have been relatively few studies of the impact of AGOA on exports from the eligible SSA countries, and even fewer that focus on agricultural trade. These studies were often carried out in the early years of AGOA, when the program was not fully established. For both total merchandise exports and agricultural exports, most studies find that the impact of AGOA on SSA exports to the U.S. appears to be small, although this may be due in part to data limitations (see Nove and Statz, 2003; Condon and Stern, 2010). The research reported in this newsletter focuses on agricultural exports from the AGOA countries -- using a longer time frame and divided into a pre-AGOA period (1990-99) and a post-AGOA period (2000-2011).

The economic model estimated for this study traced the evolution of agricultural exports to the U.S. from 35 eligible countries over the period 1990-2011. The statistical results are consistent with other studies in finding that the AGOA trade preferences do not have a statistically significant impact on U.S. agricultural imports, although it appears that greater access to the U.S. market has been of benefit to several countries. These results are not surprising, given that trade barriers were only reduced on agricultural products that do not compete with goods produced in the U.S. The top five commodities imported from the AGOA countries by the U.S. in 2012, coffee, rubber, cocoa, tree nuts and wine, account for 71 percent of all agricultural imports from these countries (FAS/USDA). Products such as sugar, peanuts, cotton, tobacco, dairy, beef and processed agricultural goods such as dried garlic or canned fruits are not covered by the AGOA tariff or quota reductions. Sugar, cotton and peanuts are important export commodities in many African countries, and their exclusion from the AGOA trade barrier reductions lessens the impact of this program. Peanuts and peanut products account for 18 percent of Senegal’s agricultural exports (FAOSTAT), for example, but no peanuts, peanut oil or other peanut products are imported from Senegal by the U.S.

The AGOA countries with the largest agricultural exports to the U.S. in 2012 were South Africa (21% of total AGOA agricultural exports to the U.S.), Ghana (17% of the total), Liberia (12%), Kenya (9%) and Ethiopia (8%). In most cases, exports from these countries were dominated by a single commodity. Thus, 85 percent of Ghana’s agricultural exports to the U.S. were made up of cocoa and cocoa products, while virtually all of Liberia’s exports consisted of rubber and related products. Exports from South Africa and Kenya were somewhat more diversified, but still concentrated in a limited number of commodities (coffee and tree nuts in Kenya; wine, fresh fruits and vegetables and tree nuts in South Africa). Coffee made up 74 percent of Ethiopia’s exports to the U.S. (FAS/USDA, 2013). In general, the major agricultural commodity exports from SSA are cocoa, coffee, cotton, peanut oil, palm oil, sugar and tobacco. Because commodities such as coffee, cocoa and palm oil are not produced in the U.S. in significant amounts, it is unlikely that there were extensive trade barriers on these commodities prior to the adoption of AGOA. As a result, the potential impact of trade liberalization for these commodities was probably limited, as the barriers were already low. On the other hand, the inflation-adjusted average value of total agricultural exports from the AGOA countries to the U.S. between 2000 and 2012 was about 70 percent greater than the average for the period 1990-99, although not all of this increase can be attributed to AGOA (authors’ calculations based on data from FAS/USDA).

Conclusion

Although AGOA may not have had a substantial impact on SSA agricultural exports to the U.S., it may have brought about gains for particular countries exporting such classic tropical products as coffee, cocoa or rubber. In addition, while the im-
pact on agricultural trade may have been modest, the effects of AGOA in such sectors as textiles and apparel may have been more significant (Condon and Stern, 2011). As wages in China and other emerging economies increase, these countries will lose their competitive advantage in textiles and apparel, and this may lead to increased development of these industries in lower-wage countries in SSA. AGOA may contribute to this transition and, by extension, to increased economic growth and development in SSA. With respect to agriculture, however, the impact of AGOA is likely to remain limited as long as markets for commodities such as sugar, tobacco, peanut oil and cotton are not fully opened to African exports.

References:


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