Trade Policies and Institutions under the African Growth and Opportunity Act

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Introduction

The African Growth and Opportunity Act (AGOA) is a nonreciprocal trade preference program that provides duty-free treatment to U.S. imports of certain products from eligible sub-Saharan African (SSA) countries. [1, 2] The U.S. Congress first authorized AGOA into law in 2000, since then it has been extended and reauthorized on five occasions. In September 2015, congress again reauthorized and extended the program until 2025-a 10-year time horizon. Eligibility for AGOA preferences is based rule of law, human rights, and respect for core labor standards.

Although AGOA has successfully led to increased and more diversified exports to the U.S. from SSA countries, approximately 90 percent of all U.S.-Africa trade is composed of crude oil. While agriculture exports to the U.S. have increased by over 400 percent from $59 million in 2001 to $261 million in 2014, apparently growth in sub-Saharan Africa agriculture exports to the U.S., as a share of non-oil exports to the U.S. under AGOA, has declined from 6.2 percent in 2001 to 2.2 percent in 2014.[1, 2] Notwithstanding, under AGOA or the GSP, the U.S. still retains various trade barriers on the form of high tariff and quotas on a range of agriculture goods that, if reduced, would likely lead to increased exports.[1, 2] Albeit, almost all manufactured goods enter from SSA to U.S. duty-free under AGOA and Generalized System of Preferences (GSP). With respect to agriculture, U.S. maintains 46 tariff rate quotas (TRQs) on seven commodities: sugar, tobacco, dairy, beef, peanuts, cotton, and green olives. Of the top ten leading agricultural exports from Africa, which account for 41 percent of the total, four are not covered under AGOA, GSP, or other duty free regimes. Furthermore, the sanitary and phytosanitary (SPS) rules of the U.S. remain an additional barrier that hinders African agricultural export potential and market access.

The U.S. lacks any type of comparable free trade agreement (FTA) with many of SSA countries albeit a few African countries have initiated reciprocal trade preference agreement with European Union-the Economic Partnership Agreements (EPAs). In addition, two-way trade between China and Africa was $210 billion in 2013 and China overtook the U.S. as Africa's largest trading partner since 2009. [3] Anecdotal evidence suggests that there are compelling reasons for U.S. to focus toward a two-way trade agreements given improving and healthy economic growth conditions in many African countries.

The objective of this study is to evaluate empirically how removing the remaining tariffs and quotas on agricultural products will improve agricultural export from selected SSA countries to U.S. In addition, the paper analyzes the impact of AGOA trade policy and institutional factors attributed to individual African countries on agricultural export to the U.S. In a nutshell, the paper provides an econometric examination of AGOA's trade policy, tariffs and quotas of U.S. on imports of agricultural products, and institutional factors affecting selected SSA countries agricultural export to the U.S. The results of this paper will provide insights to policy makers and literature by shedding light on the relative importance of trade policies and institutional factors affecting agricultural trade flows.

Research Methodology

The analysis is based on gravity trade model [4] and panel data depicting annual agricultural trade between U.S. and selected SSA countries from 2000 to 2015. To deal with pervasive issues of possible zero trade flow and heteroscedasticity, Heckman, Poisson and Binomial family models (Poisson Pseudo Maximum-Likelihood, Negative Binomial, Zero-Inflated Poisson, and Zero-Inflated Negative Binomial) will be used. [5, 6] In the gravity equation, the dependent variables are quantity of agricultural import from selected African countries to the U.S. with and without AGOA preferential trade. Disaggregated product categories without AGOA preferential trade are: sugar, tobacco, dairy and beef, peanuts, and cotton. The explanatory variables in the gravity equations includes real GDPs, import tariffs and quotas, population density, composite indicators for quality of institution and trade competiveness using corruption and rule of law indices from World Bank and Freedom House

measure of political freedom. The equations also comprise a host of dummy variables that indicate having sea port or landlocked, fixed effects for both time and country, if specific SSA country has any form of reciprocal FTA with U.S. In the model, we will test the relative importance of trade versus institutions and governance as an engine of agricultural export growth to U.S. by controlling domestic (African) policy variables: institution and trade competiveness.

The Data

Data for the empirical model estimation will be drawn from various sources. Data on trade flows, tariffs and quota for each agricultural products will be taken from U.S. International Trade Commission, The National Bureau of Economic Research (NBER), U.S. Foreign Agricultural Services and other potential sources. We use the U.S. International Trade Commission import data and work at the HS eight-digit level of aggregation. GDP and population density for U.S. and selected SSA countries will be drawn from World Development Indicators (WDI) of the World Bank. Institutional and trade competiveness indices will be extracted from WDI and other potential sources.

Anticipated Results, Conclusion and Implications of Findings

This paper is based on an ongoing research project and in the early stages of data compilation and model specification. Obviously, we anticipate eliminating trade barriers including high tariffs and import quotas on the remaining agricultural product will increase overall agricultural export from SSA to U.S. In addition, the empirical results would likely show AGOA policy might be induced growth in agricultural export from SSA to U.S., however portion of observed export increase might be attributed to factors other than AGOA trade policy. Beyond tariffs and quotas, there might be domestic (African) factors such as institution, corruption and poor business climate are likely to limit agricultural export even if there is AGOA policy. Furthermore, we predict that African countries that has strong institutions and FTA with the U.S. may better able to take advantage of AGOA preferential trade and export more agricultural product to the U.S. We also anticipate that African countries that are landlocked and/or remote from U.S. markets be likely to trade less than those that are not. [7, 8, 9, 10, 11] Eliminating the remaining trade barriers will expand opportunities for SSA agriculture exports to the U.S. and will potentially promote growth and employment in the agriculture sector, reduce poverty in SSA given SSA agriculture is responsible for 30 percent of GDP and 70 percent of employment with significant incorporation of female workers.

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