The African Growth and Opportunity Act

Report Overview

Africa Growth Initiative at BROOKINGS

United Nations Economic Commission for Africa

An Empirical Analysis of the Possibilities Post-2015

The African Growth and Opportunity Act (AGOA), the primary legislation defining the trade and commercial relationship between the United States and Africa, will expire on September 30, 2015. So far, there have been heightened discussions both by African and U.S. policymakers on this relationship post-2015. These discussions have largely focused on whether to extend the current legislation, and, if so, for how long, and which elements of the current legislation should be changed. For the most part, the various proposals for a post-2015 AGOA and claimed outcomes have largely been theoretical and not supported by empirical evidence. Thus, these proposals have not been very useful in informing the design of the post-2015 relationship. As AGOA's extension is debated, it is important that such discussions be informed by empirical evidence on how various changes to the legislation could impact trade patterns as well as how changes in the global trading environment could affect U.S.-Africa trade volumes and African economies more broadly.

The report, "The African Growth and Opportunity Act: An Empirical Analysis of the Possibilities Post-2015," authored by the Africa Growth Initiative at the Brookings Institution and the United Nations Economic Commission for Africa provides an analysis of the possible outcomes of U.S.-Africa trade under five categories of post-2015 scenarios. The report assumes as a baseline that AGOA is extended in its current structure for 10 years through 2025. It then compares the effects of each of the five scenario categories to this baseline. The five categories of scenarios explore the trade and income implications of i) not extending AGOA beyond 2015; ii) expanding product eligibility under AGOA; iii) revising the list of the currently eligible countries; iv) restructuring AGOA to resemble the economic partnership agreements (EPAs) of the European Union; and v) the effects that a possible EU-U.S. free trade agreement (FTA) could have on AGOA or an EPA-like arrangement, with an additional scenario examining how a continental free trade area (CFTA) would play into such an integrated trade environment.

The Effects of Nonrenewal of AGOA

Analysis of the effects of not renewing AGOA indicate, first of all, that AGOA is clearly supporting African countries' exports to the U.S., higher wages in the region and, implicitly, employment there. If AGOA were not to be extended and currently AGOA-eligible countries revert back to the U.S. Generalized System of Preferences (GSP) after 2015, it would be detrimental for AGOA-eligible countries as a whole because their exports to the U.S. would be reduced by 2.1 percent (or $1.3 billion) when compared to the baseline. The trade losses, however, would affect African economies and sectors quite unequally.

A return to the GSP would greatly impair certain countries' trade and wages (mostly in Southern and East Africa, with some exceptions), while others would not see their access to the U.S. market worsen or their wages decline considerably. Some export sectors, like milk and dairy products, leather, meat products, textiles and apparel, and other manufactured goods would see fewer exports to the U.S. as a result of slower growth (for example, exports of meat products would decline by 60.7 percent and textiles and apparel products by 51.2 percent). Unsurprisingly, the countries/regions that would see declines in wages are also the countries that would experience the largest declines in exports, should AGOA expire in 2015: Wages for agricultural unskilled labor would be negatively affected in South Africa, other countries included within the South African Customs Union (SACU), Nigeria and countries in East Africa. Skilled labor wages—due largely to the changes in textile and apparel exports—would be negatively affected in countries within SACU as well as Mauritius and Malawi.

Importantly, AGOA has considerably larger trade effects on certain countries and regions over others, indicating the limited role it has played in diversifying African economies. This trend highlights the necessity for AGOA to become more inclusive and for countries to better utilize the trade benefits currently available.

Expanding Product Eligibility

The results from the analysis also show that expanding product eligibility for AGOA would have only small effects on the exports coming from AGOA-eligible countries, unless complete duty-free and quota-free (DFQF) market access was granted because the 1 percent most import-sensitive sectors for the U.S. (e.g., sugar, cotton and clothing) are still the products from which Africa would gain the most. If Africa had 97 percent DFQF export access to the U.S. then AGOA-eligible African exports would increase by only $15 million; with 99 percent DFQF they would increase by $33.3 million; but with full DFQF, African exports would increase by $72.5 million, while costing the U.S. only $9.6 million.

Revising AGOA Country Eligibility

The analysis shows that excluding middle-income countries that are currently eligible for AGOA or adding other non-African least-developed countries (LDCs) that are currently not AGOA-eligible would result in considerable trade losses and increased competition for Africa. In brief, African middle-income countries (MICs) currently eligible for AGOA would suffer considerable trade losses if they were to become ineligible for AGOA. Mauritius would be the most affected if it were to be removed from AGOA, with a decrease of its exports to the U.S. above 9 percent. LDCs that are currently AGOA eligible would not draw much benefit from the exclusion of initially eligible MICs from the agreement, as they would only marginally increase their market access to the U.S.

Extending AGOA to all LDCs, including those outside of Africa, would only be a concern for African countries if the textile and apparel clause were to be granted to all, in which case the added competition would severely decrease African textile and apparel exports to the U.S. by 37.5 percent. East Asian economies, however, would see considerable trade expansion that would be relatively equally divided between Bangladesh and Cambodia, which would see an additional $2.2 billion and $1.9 billion in exports to the U.S., respectively.

Restructuring AGOA to Resemble the EPAs

If the U.S. implemented a trade agreement modeled after the EPAs, there would be varying advantages and disadvantages for the U.S. and for African countries. One of the disadvantages posed by the EPA design is that EPAs impose certain structures of regional integration upon those countries and disincentivize intra-African trade outside those structures. Thus, while the results indicate increases in trade flows, they do not totally capture the way in which the EPAs work against efforts toward increased intra-African trade.

The results show that if the U.S. implemented a trade agreement modeled after the EPAs, the U.S.

would see significantly increased exports because its market access on the African continent would greatly improve, though it would actually see less of an increase were a CFTA to be in place because the increases in intra-African trade that would follow such an agreement would compete with U.S. exports.

African countries would experience some trade gains, mostly due to deepened regional integration—especially if a CFTA was in place—but these trade gains would be accompanied by varying effects upon real income, with some countries seeing large declines likely due to reductions in tariff revenues. Additionally, a decomposition of these intra-African trade gains from FTA reforms shows that the deeper regional integration in Africa, the stronger the potential to increase intra-African trade in industrial products. Indeed, gains in textiles and apparel and other industries account for about 55 percent and 62 percent of the total intra-African trade gains, considering FTAs and CFTA respectively.

Establishing Expanded International Free Trade Areas

If an FTA were to be established between the EU and the U.S., either in the context of an extension of AGOA in the U.S. and negotiated EPAs between the EU and Africa, or with the U.S. also taking on an EPA-like reform, this scenario could result in the expansion of exports worldwide ranging between \$107 billion and \$124.2 billion. About half this gain would be captured by the EU alone, with the U.S. capturing the next largest piece. Africa, especially the countries that are currently AGOA eligible, would also benefit. The rest of the world that is not a part of any of the above agreements would see their exports reduced as a result of higher competition in the EU, U.S. and African markets.

An African continent that is highly integrated would limit some of the potential trade diversion for Africa—specifically, an increase in intra-African trade following FTA reforms would produce enough export gains for Africa to compensate for export losses that could occur due to the formation of an EU-U.S. FTA and EPA-like scenarios. Moreover, EPAs could actually benefit a handful of African countries, especially those that still face significant protection today when exporting to the EU.

Nevertheless, for most African countries, export gains would not be sufficient to ensure real income benefits partly due to tariff revenues losses implied by the trade reforms. As a consequence, tariff reduction alone does not appear to be sufficient for producing positive trade and real income benefits to all, thereby justifying the need for support aimed at trade capacity building in order to make the potential losses of tariff revenue less detrimental for African countries.

Policy Recommendations

These findings suggest certain recommendations for policymakers, including extending AGOA beyond 2015: Without an extension, there will be declines in African exports, economic diversification and employment for many AGOA-eligible countries. Thus, there remains a strong case for continuing or expanding the current preferences. The results also show the importance of regional integration in making it possible for African exporters to remain competitive, and the importance of making efforts toward offsetting the potential tariff revenue losses that could be experienced with EPAs (or agreements like them) or external FTAs that would compete with African exports. Increased trade assistance, trade capacity building and investment would likely be necessary for countries to make progress toward such increased regional integration. Policymakers should also be cautious about the possibility of extending AGOA benefits to LDCs outside Africa due to the negative effects such a reform could have for African economies. Finally, there is an obvious need for AGOA-eligible countries to further exploit the benefits of the trade preferences available under the legislation.

The report has been written by Simon Mevel of the United Nations Economic Commission for Africa (ECA), and Zenia Lewis and Anne Kamau of the Brookings' Africa Growth Initiative (AGI) , under the overall guidance and supervision of Stephen Karingi, ECA's director of the Regional Integration and Trade Division, and Mwangi Kimenyi, director of AGI. This report was prepared under the leadership of ECA Executive Secretary Carlos Lopes.