

Are Trade Preferences a Panacea? The Export Impact of the African Growth and Opportunity Act

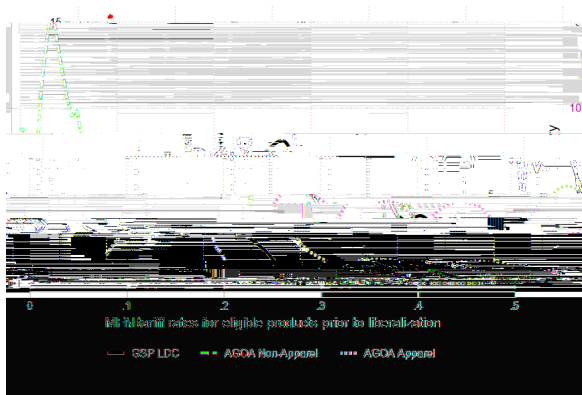
This paper

- Did preferential access durably boost African export performance?
 - ▶ Exploit US trade policy changes over long period



- Preferential access to rich markets as "infant industry" assistance
 - ▶ Benefits conditional on competing successfully in foreign markets.
 - ▶ True measure of success is not whether performance improves while assistance is in place but whether improvement survives a **reduction in assistance** (through erosion of preferences).

This paper (cont.)



AGOA reduces tariff rates imposed by the US more substantially for apparel products

Scope of AGOA and GSP

Key results

- 1 AGOA led to initial boost in African apparel exports but effects leveled off after end of MFA though response to AGOA differed across African sub-regions/countries
- 2 GSP for LDCs boosted African non-apparel exports

Literature

- Impact of nonreciprocal trade preferences on developing countries' trade
 - ▶ Gravity model of trade and aggregate trade data: Gil-Pareja et al. (2014), Herz & Wagner (2011), Ornelas & Rittel (2018)
 - ★ Country-year indicator makes it difficult to infer causal effect of preferences since not all products are eligible for preferential treatment
 - ▶ Triple-differences model and highly disaggregated trade data: Frazer & Van Biesebroeck (2010)
 - ★ Unable to assess whether benefits of AGOA survived erosion of preferences given focus on short post-AGOA time horizon (2001-2006) & findings mix effect of AGOA and GSP LDC
 - ▶ Emphasis on early impact of AGOA provisions on apparel: Collier & Venables (2007), Edwards & Lawrence (2010), De Melo & Portugal-Perez (2013), Rottuno et al. (2013)

Data

- 26 years of highly disaggregated trade data (1992-2017) for ALL countries - exporting to the US from US Census.
 - ▶ Exports to the US by country-HS8-digit-year.
 - ▶ Aggregated to country-HS6-digit-year and using HS1996 revision codes.
 - ▶ Dataset expanded to add zero trade flows => 27 million observations.
- Import tariffs at country-product year level for the period 1997-2017 from USITC.
- AGOA and GSP country and product eligibility from USITC.
- Trade and Market Access data in the EU

Empirical Strategy

Triple-differences specification

$$\begin{aligned}
 \ln(\text{Imp}_{cpt}) = & \alpha_0 + \alpha_1 \text{GSP}_p + \alpha_2 \text{GSP}_c + \alpha_3 \text{PostGSP}_{ct} + \alpha_4 \text{LDC}_{ct} + \alpha_5 \text{AGOA}_{ct} \\
 & \times \left[\alpha_6 \text{ANonApp}_p + \alpha_7 \text{ANonApp}_c + \alpha_8 \text{ANonApp}_{ct} + \alpha_9 \text{LDC}_{ct} + \alpha_{10} \text{AGOA}_{ct} \right] \\
 & + \alpha_{11} \text{AApp}_p + \alpha_{12} \text{AApp}_c + \alpha_{13} \text{AApp}_{ct} + \alpha_{14} \text{LDC}_{ct} + \alpha_{15} \text{AGOA}_{ct} \\
 & + \alpha_{16} \left[\alpha_{17} \text{ANonApp}_p + \alpha_{18} \text{ANonApp}_c + \alpha_{19} \text{ANonApp}_{ct} + \alpha_{20} \text{LDC}_{ct} + \alpha_{21} \text{AGOA}_{ct} \right] \\
 & + \alpha_{22} \text{AApp}_p + \alpha_{23} \text{AApp}_c + \alpha_{24} \text{AApp}_{ct} + \alpha_{25} \text{LDC}_{ct} + \alpha_{26} \text{AGOA}_{ct} + \alpha_{27} \text{cp} + \alpha_{28} \text{ct} + \alpha_{29} \text{pt} + \alpha_{30} \text{cpt}
 \end{aligned} \tag{1}$$

- ▶ five categories of treated countries and products: GSP LDC(2), AGOA non-apparel (2) and AGOA apparel (1).
- ▶ cp - impacts identified relative to pre-AGOA imports of that country-product.
- ▶ ct - shocks to overall US imports from a country (supply shocks).
- ▶ pt - shocks to US imports of a product (US preferences or global technological/supply shocks).
- ▶ cpt - treated country-product-specific trend.

Positive impacts of GSP LDC and AGOA apparel

Table 1: Baseline impacts of AGOA and GSP and some robustness checks

Data at exporting country-HS 6-digit-y(o)0 1 -10.912 -106.5 cmB2ping6.000cmB2pingat exp1ud9

Understanding country heterogeneity in AGOA apparel impact

Table 3: Correlates of country heterogeneity

| | Data at country-HS 6-digit-year level (including zeros) is used Dependent variable is log (US imports + 1) | | | |
|---|---|--------------------|--------------------|----------------------|
| | (1) | (2) | (3) | (4) |
| GSP LDC * Africa | 0.114*** (6.70) | 0.121*** (6.73) | 0.115*** (6.49) | 0.112*** (6.59) |
| GSP LDC * Non-Africa | -0.046* (-2.43) | -0.044* (-2.34) | -0.044* (-2.32) | -0.045* (-2.37) |
| AGOA Non-LDC | 0.028 (1.92) | 0.020 (1.08) | 0.020 (1.04) | 0.025 (1.60) |
| AGOA Non-apparel | 0.063 (1.74) | 0.069 (1.44) | 0.091 (1.60) | 0.042 (1.11) |
| AGOA apparel | 0.390*** (4.97) | 0.237*** (4.46) | 0.142** (3.18) | 0.231*** (5.36) |
| AGOA apparel * Avg. import tari | -0.017*** (-3.95) | | | |
| AGOA apparel * Cost to start a business | | -0.0001 (-1.71) | | |
| AGOA apparel * Internet users | | | 0.049** (3.25) | |
| AGOA apparel * Oil rents as % of GDP | | | | -0.015*** (-7.32) |
| Treated group time trends | Yes | Yes | Yes | Yes |
| Country-product xed e cts | Yes | Yes | Yes | Yes |
| Country-year xed e cts | Yes | Yes | Yes | Yes |
| Product-year xed e cts | Yes | Yes | Yes | Yes |
| Observations | 27,420,560 | 26,310,236 | 25,889,429 | 26,893,286 |

Notes: Robust t-statistics in parentheses, clustered by HS 6-digit product.

- Stronger impact when tari s are lower, IT infrastructure is stronger, specialization in natural resources is lower.

Firm dynamics behind AGOA apparel impact

- Analysis uses firm-level data for 4 African countries.
- Two possible sources of apparel export growth:



Conclusion

- Aggregate Africa effects suggest stagnant but persistent benefits post-MFA (2005).
- Regional heterogeneity reveals that persistence is entirely due growth in East Africa offsetting contraction in Southern Africa.
- Country heterogeneity reveals that within East Africa, post-MFA growth is driven primarily by Ethiopia and Kenya.
- Ethiopia only began to grow after the period of high preferences ended in 2005; Kenya did begin to grow before 2005 and sustained it after 2005.
- Firm level data suggests that Kenya's sustained growth was driven mostly by firms that entered post-MFA and not by firms that benefited from high preferences.

THANK YOU!!

Scope and Breadth of AGOA and GSP LDC

| | Number of US tariff lines (HTS 8-digit) | | % of Exports to US | |
|-------------------|---|---------|--------------------|---------------|
| | LDC | Non-LDC | LDC | Non-LDC |
| MFN Zero | 3,131 | 3,131 | 9% | 28% |
| GSP duty-free | 3,507 | 3,507 | 1% | 4% |
| GSP LDC duty-free | 1,670 | | 79% | |
| AGOA Apparel | 555 | 555 | 11% | 3% |
| | 1,610 | | 64% | AGOA Non-LDC |
| | | | | GSP LDC |
| | | | | No Preference |
| MFN (MFN>0) | 1,096 | 1,156 | 0% | 1% |
| | 10,184 | 10,184 | 100% | Total |

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