End of development-friendly trade policy: Could AGOA expiry harm Sub-Saharan Africa?

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Background and motivation

- Twin shock of Africa-US trade relations:
  - Looming expiration of AGOA and GSP (original focus)
  - Introduction of so-called „reciprocal tariffs“ (extension)

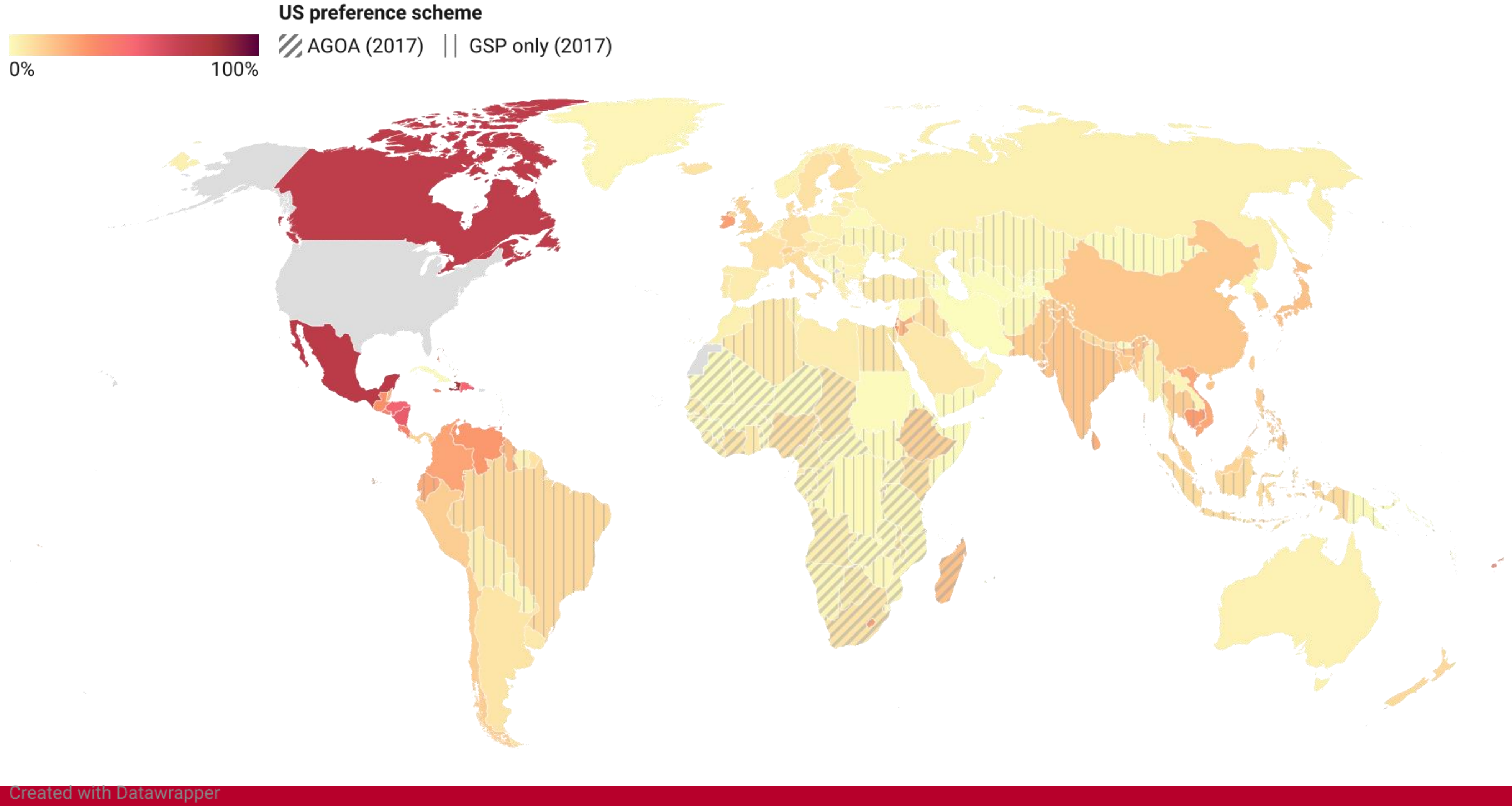
- US preference schemes:
  - Generalized System of Preferences (GSP) established in 1974
    → granted duty-free access for 5,100 products and 119 countries
    → expired end of 2020

  - “African Growth and Opportunity Act” (AGOA) established in 2000
    → duty-free access for over 1,800 products additional to GSP
    → reduces some legal requirements to import under GSP (e.g. RoO)
    → GSP access provisionally extended for AGOA beneficiaries
    → currently 32 Sub-Saharan African countries eligible
    → set to expire in 2025

Research question: How would an expiry of the AGOA preference scheme effect Sub-Saharan countries?
Extentions: How do potential „Trump“ tariffs changes the effects?

Background and motivation

Figure 1 **Bilateral dependency of goods exports from the US-market**



Literature

- Extensive literature on the impact of AGOA on the economic performance of SSA countries:
  - ➢ Positive effect on beneficiary exports, which varies strongly across countries and sectors, while being rather limited in general (Seyoum and Abraham, 2022; Coulibaly and Kassa, 2022;… Tadesse, 2024)
  - ➢ Declined utilization of AGOA‘s benefits: While in 2008 over 80% of US imports from 39 SSA countries were processed under AGOA and GSP rules, this number fell to 24.7% in 2021 (UNCTAD, 2023)
- Scarce literature on AGOA expiry:
  - ➢ Edjigu et al. (2023) investigate impact of AGOA suspension on exports from suspended SSA countries to the US using a triple difference-in-differences estimation and find a 39% decline in AGOA exports to the US
  - ➢ Baskaran and Ramkolowan (2023) apply GTAP model and find a small direct impact from the loss of AGOA and GSP preferences for South Africa: decline of total South Africa’s exports by 0.1%, decline of GDP and welfare by 0.11% and 0.04%, respectively

Data and model characteristics

Core data:

- GTAP 11 data for 2017 aggregated to
  - 39 countries and regions (including 38 AGOA eligible countries as well as 56 US GSP eligible countries)
  - 99 sectors (split of 10 GTAP agri-food sectors to 44 according to Britz, 2022)
  - Market Access Map for AVEs of the US MFN tariff rates for 2017 and TASTE for aggregation and robustness

Computable General Equilibrium (CGE) model:

- Standard GTAP Model (Corong et al., 2017; Van der Mensbrugghe, 2018): accounts simultaneously for interactions among producers, households, and governments in multiple product markets and across different countries and regions of the world capturing the economy-wide responses to the policy shock
- Extensions:
  - GTAP-AEZ (Lee, 2005): Agro-Ecological Zone extension to model allocation decisions on land use
  - MyGTAP (Walsmley and Minor, 2013) to analyze differentiated impacts on agri and non-agri households
  - GTAP-E (Peters, 2016) to allow for energy substitution and emmissions accounting

- Model is applied in a flexible and modular framework for CGE modelling called CGEBox (Britz and Van der Mensbrugghe, 2018)

Scenarios

Main analysis on AGOA

- Expiration of GSP for non-AGOA countries (as baseline year is 2017)
- Expiration of GSP and AGOA

➔ Switching to MFN treatment

Add-on: Extension to Trump tariffs (based on Expiration of GSP and AGOA; illustrative)

- Universal 10% on goods sectors for all countries except China; 60% on goods from China
- “reciprocal” tariffs based on tariffs announced on liberation day
- Shortcomings:
  - No detailed modeling of exemptions, sector-tariff arrangements, interactions between different tariff programs (stacking, etc.)
  - No retaliation

Main results – AGOA and GSP expiry

Table 1 Regional trade for AGOA and GSP eligible countries

Exporter \ Importer	US		AGOA-eligible[1]		US GSP-eligible[2]		EU-27		China		Rest of the world		World	
Programme expiry	GSP	GSP + AGOA	GSP	GSP + AGOA	GSP	GSP + AGOA	GSP	GSP + AGOA	GSP	GSP + AGOA	GSP	GSP + AGOA	GSP	GSP + AGOA
AGOA-eligible	+0.09	-1.20	+0.00	+0.05	-0.13	+0.01	+0.01	+0.20	+0.01	+0.16	+0.01	+0.27	-0.01	-0.51
	+0.3%	-3.7%	+0.0%	+0.1%	-0.2%	+0.0%	+0.0%	+0.3%	+0.0%	+0.2%	+0.0%	+0.3%	-0.0%	-0.1%
US GSP-eligible	-8.41	-8.25	+0.15	+0.01	+0.33	+0.32	+1.38	+1.37	+0.83	+0.83	+2.54	+2.54	-3.18	-3.18
	-3.2%	-3.1%	+0.3%	+0.0%	+0.1%	+0.1%	+0.3%	+0.3%	+0.3%	+0.3%	+0.3%	+0.3%	-0.2%	-0.2%

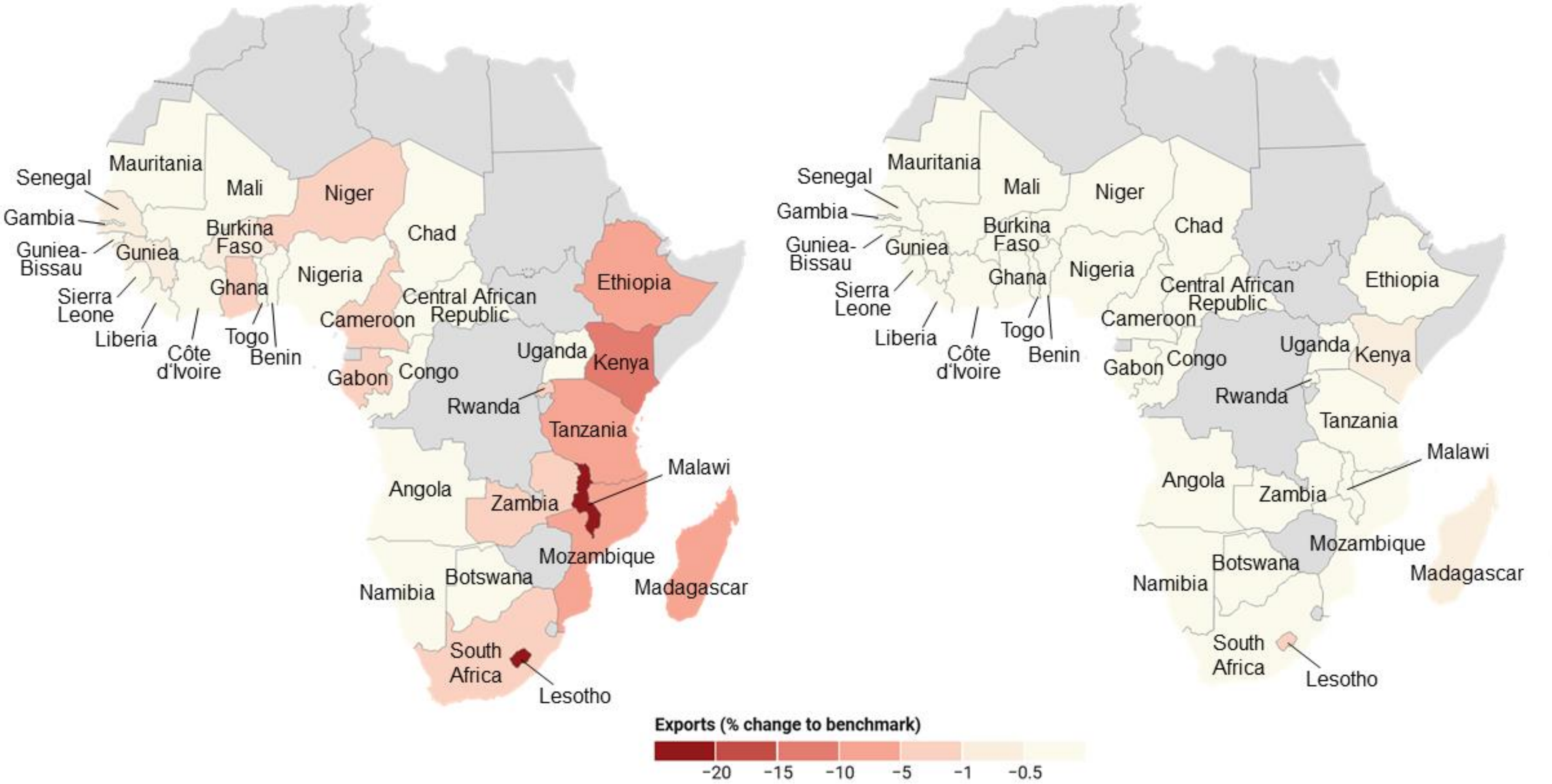
Notes: The upper value represents absolute changes of bilateral trade in billion 2017 dollars. The lower value represents corresponding relative changes against the benchmark with both preference programmes in force.

[1] Among AGOA-eligible countries we include Benin, Botswana, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Republic of Congo, Côte d'Ivoire, Ethiopia, Gabon, Ghana, Guinea, Kenya, Lesotho, Madagascar, Malawi, Mali, Mauritius, Mozambique, Namibia, Niger, Nigeria, Rwanda, Senegal, South Africa, United Republic of Tanzania, Togo, Uganda and Zambia as well as two GTAP rest regions (the Rest of South and Central Africa as well as the Rest of Western Africa) covering Angola, Sao Tome & Principe, Cabo Verde, the Gambia, Guinea-Bissau, Liberia, Mauritania and Sierra Leone.

[2] The US GSP-eligible group excludes countries that are eligible for AGOA. It includes Afghanistan, Albania, Armenia, Azerbaijan, Bolivia, Brazil, Algeria, Democratic Republic of the Congo, Eswatini, Ecuador, Egypt, Georgia, Indonesia, India, Iraq, Kazakhstan, Kyrgyzstan, Cambodia, Lebanon, Sri Lanka, Mongolia, Nepal, Pakistan, Philippines, Paraguay, Serbia, Thailand, Tunisia, Turkey, Ukraine, Uzbekistan and Zimbabwe as well as the following countries from GTAP rest regions: Burundi, Djibouti, Somalia, South Sudan, Eritrea, Cook Islands, Fiji, Niue, Pitcairn Islands, Papua New Guinea, Tokelau, Tonga, Kiribati, Solomon Islands, Tuvalu, Vanuatu, Samoa, Wallis and Futuna, Moldova, Bhutan, Maldives, Burma (Myanmar), Timor-Leste and Yemen. Djibouti is the only country that also had AGOA preferences, but it is part of the GTAP rest region that qualifies for GSP preferences.

Main results – AGOA and GSP expiry

Figure 2 **Export changes of AGOA-eligible countries to the US (left) and to the world (right) due to the expiry of GSP and AGOA**



Welfare results

Table: Equivalent variation per capita in constant 2017 USD

Country	GSP			GSP+AGOA		
	Aggregate Household	Agr	NonAgr	Aggregate Household	Agr	NonAgr
Gabon	-0.13	0.03	-0.17	-0.64	0.17	-0.85
Ethiopia	0.02	0.00	0.03	-0.49	-0.22	-0.62
Kenya	0.01	-0.09	0.02	-2.61	0.00	-3.15
Madagascar	0.20	0.38	0.11	-0.36	0.60	-0.81
Malawi	0.04	0.04	0.05	-1.42	-1.09	-1.85
Mauritius	0.34	0.51	0.32	-17.16	-18.82	-16.99
Botswana	-0.23	0.01	-0.24	0.90	0.23	0.92
Namibia	0.07	0.08	0.07	0.62	-3.68	0.82
South Africa	0.08	-0.13	0.08	-0.87	-6.06	-0.76
Lesotho	0.02	0.02	0.02	-28.50	-28.02	-28.55
EU 27	0.11	-0.44	0.15	0.13	-0.69	0.18
Only US GSP eligible countries	-0.55	-0.24	-0.61	-0.54	-0.28	-0.60
United States of America	-5.00	-5.40	-5.00	-5.62	-6.62	-5.61

Note: Only countries reported with an absolute change higher than 0.5 USD for one of the indicators

Main results – AGOA and GSP expiry

- **Most relatively affected sectors**
  - Sugar (-61.6% or –$44 million)
  - Wearing apparel (−57.1% or −$695 million)
  - Leather products (−42.1% or −$25 million)
- **However country level heterogeneity**
  - South African motor vehicle sector to the US down by 9.8% or $123 million

- **Explanations for limited effects**
  - US MFN rates are mostly well below 5% (39% of all HS6 lines are zero, over 76% are lower than 5%); notable exceptions for e.g. sugar, tobacco, textiles and dairy products
  - relatively small share of AGOA eligible countries' exports to the US (8%) compared to around 20% for China or the EU
  - Trade diversion effects illustrate that reductions in exports to the US are partly compensated by exports to other destinations

Addon – Trump tariffs

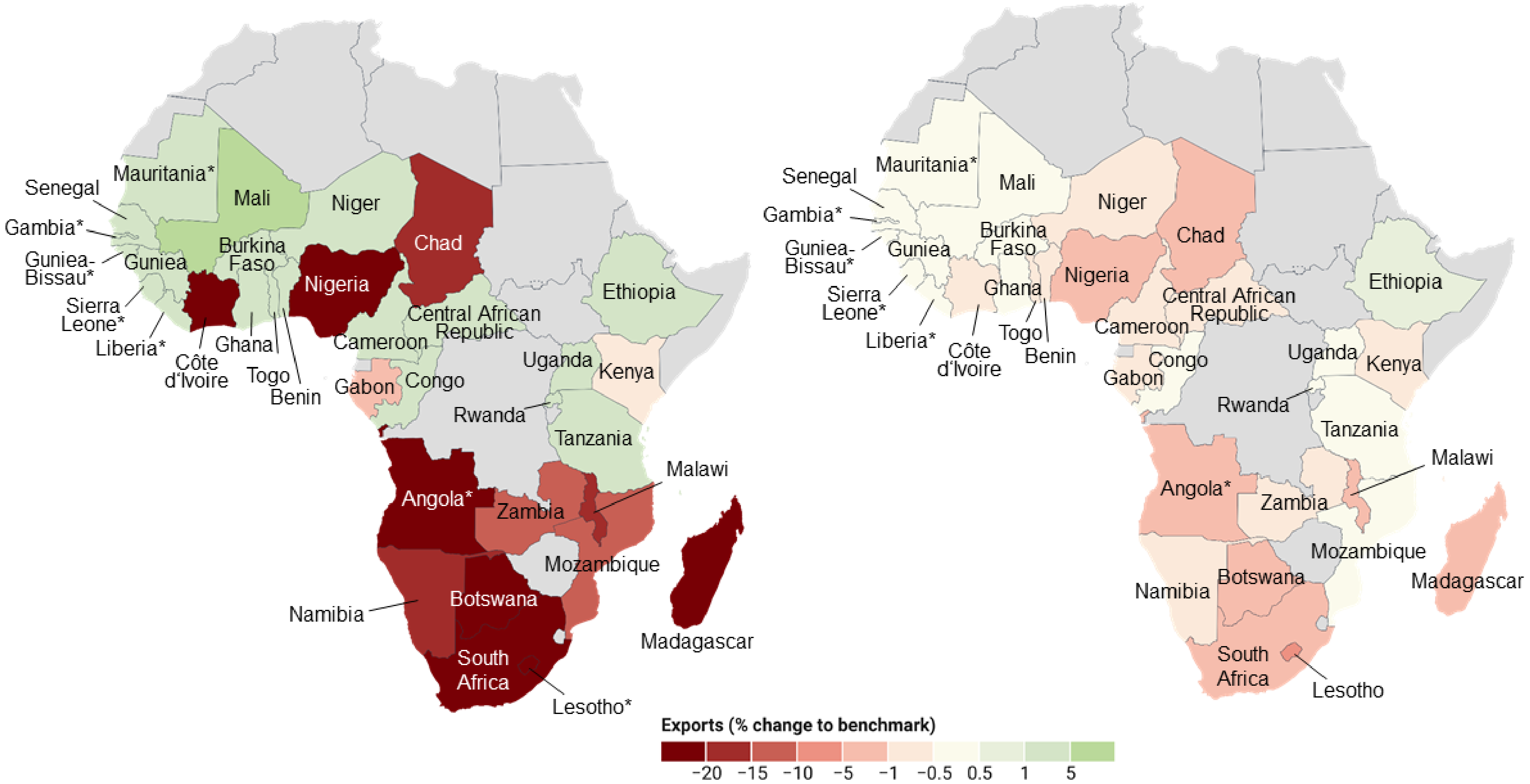
Table 1 **Regional trade for AGOA and GSP eligible countries**

Scenario	Universal tariffs							"Reciprocal" tariffs						
	Importer													
Exporter	World	AGOA eligible	EU-27	US GSP eligible	United States	China	Rest of world	World	AGOA eligible	EU-27	US GSP eligible	United States	China	Rest of world
AGOA eligible	-1.45	-0.31	1.08	0.57	-2.69	-1.70	1.61	-4.29	0.01	1.38	1.21	-11.35	0.94	3.52
	-0.4%	-0.7%	1.4%	1.0%	-8.2%	-2.2%	1.8%	-1.1%	0.0%	1.8%	2.0%	-34.7%	1.2%	3.9%
US GSP eligible	0.97	-1.36	-3.08	-3.61	24.10	-13.54	-1.56	-25.04	-0.42	2.04	1.43	-50.31	-2.67	24.88
	0.1%	-2.3%	-0.7%	-1.1%	9.2%	-4.7%	-0.2%	-1.2%	-0.7%	0.5%	0.4%	-19.1%	-0.9%	3.3%

Notes: The upper value represents absolute changes of bilateral trade in billion 2017 dollars. The lower value represents corresponding relative changes against the benchmark with both preference programmes in force.

Addon – Trump tariffs

Figure 2 **Export changes of AGOA-eligible countries to the US (left) and to the world (right) due to the introduction of "reciprocal" tariffs**



Conclusions and policy implications

- **Overall limited effects from the AGOA expiry (including GSP products) on the eligible SSA countries:**
  - While AGOA's exports to the US decline by 3.30%, overall exports fall by only 0.12%
  - Real GDP of AGOA eligible countries remains almost unaffected with -0.01%
  - Reason: relatively weak ties to the US and rather small US MFN tariff rates
  - This result highlights rather low effectiveness of the AGOA preference scheme

- **We identify which countries and sectors would suffer most from AGOA's expiry:**
  - The strongest reduction of exports to the US occurs in Lesotho (-35%), Malawi (-25%), Kenya (-16%), Mauritius (-12%), Ethiopia (-10%), Tanzania (-10%)
  - The most affected sectors include sugar, wearing apparel, leather, diary products, beverages & tobacco

Conclusions and policy implications

- **Aggregate impact more pronounced under “reciprocal” tariffs**
  - overall exports declining by up to 1.1%, exports of AGOA eligible countries to the US fall by 34.7%
  - most affected sectors include: wearing apparel, leather products, and other manufacturing.

- **Highlights importance for more resilient and diversified trade structures**
  - Diversifying export destinations and products
  - Prioritising regional integration within the continent (AfCFTA and RECs)
  - create higher value-added products and to move up regional and global value chains

Thank you!

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