
Does the African Growth and Opportunity Act (AGOA) impact EU-15's imports of apparel from Africa?

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Key words

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Abstract

At the heart of the African Growth and Opportunity Act (AGOA) are substantial trade preferences which, coupled with the Generalised System of Preferences (GSP), grant a wide range of goods produced in qualified African countries duty-free access to USA. To be AGOA-eligible, countries are assessed annually on their progress in improving institutional quality, eradicating poverty, encouraging trade and investment, increasing access to health services and education and strengthening private sector. While previous studies have given attention to direct impacts of the Act on trade with USA, our paper seeks to cover new grounds by exploring whether exports of apparel to USA complement EU-15's imports from Africa over the period 2000-2014. The Act's initiatives to reduce behind-the-border barriers could have a positive impact on beneficiaries' exports to other main markets. Ordinary least squares and fixed effects estimates of our gravity model provide evidence of such complementarity, although countries show a preference to export under AGOA. This is confirmed by two-stage least squares estimates used as robustness check to address potential endogeneity issues. The complementary effect is, however, not discernible for non-AGOA countries. The positive impact for beneficiaries is evident mainly after the phasing out of the Agreement on Textiles and Clothing, suggesting that these countries diversified their exports markets in face of stronger competition. Focusing on non-knitted apparel subsector, we also examine whether the special waiver embodied in AGOA's apparel provision allowing beneficiaries to source fabric from third countries, cause exports to EU-15, whose preferential schemes offer less lenient rules of origin, to be crowded out. We find that 'special rule' beneficiaries' exports to the two markets still complement each other, but for every percentage increase in exports to USA, there is a less than proportionate increase in exports to EU-15, indicating a higher utilisation of the special waiver.
