

Relaxed trade rules boost African development, study finds

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(PhysOrg.com) -- Often thought to be hobbled by corruption, poor infrastructure and a weak financial system, African exporters rose to the opportunities presented by a U.S. trade liberalization policy, a recent University of Toronto study has found.

The African Growth and Opportunity Act (AGOA) of 2000 dropped duty charges on thousands of products for the 42 sub-Saharan countries that qualified. The act was found to be directly responsible for a "surprisingly large" 28 per cent increase in imports in key product categories, the study by U of T economists Garth Frazer and Johannes Van Biesebroeck shows. Apparel saw the biggest boost, with a four-fold increase in imports of products in one of the highest duty categories. The AGOA also brought more foreign investment to eligible sectors.

The gains were sustained and even increased after the expiry in 2005 of the Multi-Fibre Arrangement (MFA), an export quota system for developing countries. It was expected Chinese apparel imports would replace African imports as a result, but the biggest impact on U.S. imports from AGOA countries occurred in the two years after the MFA expired.

The findings suggest that previous studies about barriers to African trade have overlooked the negative effect of tariff restrictions, blaming low exports on internal problems instead of external obstacles. While the U.S. is a single importer of African products, it is a large importer, so the authors find this single U.S. policy had the impact of increasing

overall African non-oil exports by 6.6 per cent. They also find that this was not the result of either a decrease in African exports to Europe or a significant decrease in imports from non-AGOA countries into the U.S.

The impact of AGOA was felt even though the tariff changes were modest in several categories, especially agriculture. "It signals that when African countries are given the benefit of lowered barriers to the U.S. market, they are able to take advantage of it," said Frazer of the Rotman School of Management, who teaches international trade and development economics. "Were there continued trade liberalization with African countries, they should be able to benefit further."

The complete study is available at:

www.rotman.utoronto.ca/newthinking/africatrade.pdf

Provided by University of Toronto

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