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Preferential trade, economic growth and poverty reduction in sub-Saharan Africa

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Abstract

The number of preferential trade agreements has more than doubled over the past decades. This has been enabled by the protracted Doha Round of negotiations, rising regional integration, and global production networks. Sub-Saharan Africa (SSA) has received a considerable number of preferential trade agreements, among them the African Growth and Opportunity Act (AGOA) from the United State of America and the Everything But Arms from the European Union. Despite these preferential trade agreements, SSA continues to be the world's region with the lowest share of international trade flow and the highest level of poverty. However, most studies on the effect of preferential trade agreements in SSA tend to focus on trade flow with less emphasis on economic growth and poverty reduction. This study assessed the effects of agricultural trade flow on economic growth and poverty reduction in SSA with a specific focus on the African Growth and Opportunity Act. The analysis made use of data on poverty rate, inflation, agricultural trade flow, GDP per capita, remittance flow, inequalities, and investment rate for the period 2000–2022 for twenty-two SSA countries. The data were sourced from the World Development Indicators and the World Integrated Trade Solution. The study employed a dynamic panel generalised method of moment and a fixed effect panel model. The findings revealed that agricultural trade flow has a positive and significant effect on economic growth and a negative and non-significant effect on poverty rates in SSA. Moreover, the analysis shows that remittance flows have a positive and significant effect on economic growth and a negative effect on poverty rate in SSA. The findings of this study recommend trade facilitation with SSA as an engine for economic growth and poverty reduction. This study provides important insights on how trade can promote economic growth and poverty reduction in SSA.

Keywords: Agricultural trade flow, dynamic panel generalised method, economic growth, fixed panel model, poverty reduction, preferential trade, sub-Saharan Africa

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