POLICY BRIEF

WTO Trade Facilitation Measures and the Extensive Margin of Exports in the Tripartite: COMESA – EAC – SADC

Leudjou Njiteu Rostant Roland

August 2021 / No.767

Abstract

This study uses a gravity model for the year 2015 to analyze the impact of the World Trade Organization's (WTO) Trade Facilitation Agreement (TFA) on extensive margin of exports (export diversification proxied by the number of products exported) by the Tripartite (COMESA, EAC and SADC) country members. It appears that all trade facilitation measures (except "fees and charges") have a positive and significant effect on export diversification irrespective of the type of product or trading partner. "Appeal procedures" (the rights to traders to obtain review and correction of decisions made by Customs officials in an

administrative and/or judicial proceeding) measures have the most critical effect. Exports within the Tripartite are more impacted than exports with partners outside the region. The increase in number of exported products is higher for commodities than for manufactured goods with intra-tripartite exports, whereas the opposite is observed with exports to partners in the rest of the world. Counterfactual analysis shows that if the Tripartite countries comply with regional best practice (or the WTO requirement) in trade facilitation, "advance rulings" (binding information about customs treatment of goods before imports) and "appeal procedures" measures would have the greatest effect on exports diversification respectively within the Tripartite, and with the rest of the world. SADC trade facilitation policies perform better than the EAC's and COMESA's, regardless of the type of product, partner, or trade facilitation measure (except for "fees and charges"). The EAC performs better than COMESA. This study recommends implementing the WTO TFA which could increase export diversification both within the Tripartite Free Trade Area and with rest of world partners.

Introduction

June 10, 2015, is a historic date in the process of economic integration of the African continent. The 26 member countries[1] of the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC) and the Southern African Development Community (SADC) decided to merge and launch a Tripartite, which is the biggest-ever Free Trade Area (FTA) in Africa. It covers about 80% of the African continent, from the Cape (South Africa) to Cairo (Egypt). This "Grand FTA" forms an important economic bloc of $1,087 billion in gross domestic product (GDP), or about 84% of sub-Saharan Africa's (SSAs) GDP (57% of African GDP). One of the Tripartite FTA objectives, as mentioned in the final report (paragraph 40) of the first Tripartite Summit of Heads of State and Government held in Kampala (Uganda) in October 2008, is to provide "...a wider choice..." of goods and services to its 600 million potential customers.

The Tripartite FTA has experienced an upward trend in the value of its total exports since the early 2000s. The contrasting trade outcome is the downward trend of the number of exported products, also called the extensive margin of exports (Dennis and Shepherd, 2007; Persson, 2013; Persson and Wilhelmsson, 2016; Beverelli, Neumüller and Teh, 2015). This drop in the number of exported products means a lack of export

1 COMESA (19): Djibouti, Eritrea, Ethiopia, Sudan, Kenya, Uganda, Burundi, Rwanda, DRC, Malawi, Madagascar, Mauritius, Zambia, Zimbabwe, Comoros, Egypt, Libya, Seychelles, and Swaziland. EAC (5): Kenya, Uganda, Burundi, Rwanda, and Tanzania. SADC (15): DRC, Madagascar, Malawi, Mauritius, Zambia, Zimbabwe, Tanzania, Angola, Mozambique, Swaziland, Seychelles, Botswana, Lesotho, Namibia, and South Africa.

diversification.[2] Thus, export growth in the Tripartite FTA, as confirmed in a large body of studies in developing countries (e.g., see Amurgo-Pacheco and Pierola, 2008; Helpman, Melitz and Rubinstein, 2008; Besedes and Prusa, 2011), is mainly driven by the increase in the trade volume (quantity of the same products basket), also called the intensive margin of exports.

According to Melitz's (2003) seminal study on the heterogeneity of firms, the lack of trade diversification by the Tripartite FTA can be explained by the presence of trade costs that the region's traders face (see Pearson, 2011). Melitz (2003) theoretically gives a microeconomic explanation for the decision of firms to export after a trade cost reform. The main conclusions of Melitz's model predict that any reduction in trade cost would increase the productivity level of each firm and would enable the most productive firms (above a productivity threshold) to benefit from exports because their revenues allow them to cover fixed costs. Firms that exported before the reform would continue to export larger volumes (intensive margin), whereas those who operated within the country but did not export before the reform would enter export markets, and consequently supply new products in the international market[3] (extensive margin).

The Tripartite FTA strategy comprises a comprehensive trade facilitation programme that intends to reduce trade costs within the region. This regional programme is largely consistent with the multilateral one concluded in the framework of the World Trade Organization (WTO)'s Trade Facilitation Agreement (TFA) (UNECA, 2011; Pearson, 2011) that has so far been ratified by 15 of the 26 Tripartite member countries.[4] The WTO defines trade facilitation as any activity that aims at the "simplification and harmonization of international trade procedures" (WTO, 2015). Trade procedures included here are: "…activities, practices and formalities of collect, presentation, communication, and transmission of data, and other information required for the mobility of goods in international trade".

So far, the level of compliance by the Tripartite FTA with the WTO's TFA legal provisions is still far below the WTO requirements. According to the Organisation for Economic Co-operation and Development's (OECD's) Trade Facilitation Indicators (TFI), which

2 In 2015, intra-tripartite exports were 81.34% (86.46% in 2000) for primary commodities and 83.98% (87% in 2000) for manufactured goods. As for exports with the rest of the world, it was 79.62% (86.32% in 2000) for primary commodities and 80.65% (86.24% in 2000) for manufactured goods. This suggests a relative lack of structural transformation in the Tripartite between 2000 and 2015.

3 The monopolistic competition hypothesis states: each firm produces a good that has a particular characteristic, but the good is not different in terms of its utility compared to other firm goods.

4 TFA Facility: http://www.tfafacility.org/

follow a scoring system where a score of two (2) corresponds to best practice (WTO requirements), an average of 0.9403723 in 2015 at the regional level shows that much still needs to be done by many Tripartite country members to comply with the WTO requirements.

The WTO's TFA entered into force on 22 February 2017; it applied to each of the 20 Tripartite member countries that are WTO members[5], whether it has ratified it or not. It might therefore impact the Tripartite FTA's whole economy. It can be expected that the implementation of the WTO's TFA would reduce certain trade costs[6] and positively increase export diversification (Melitz 2003).

As far as known, no study has looked at whether the low number of exported products by the Tripartite FTA could be explained to some extent by the low level of the WTO's TFA measures implemented by its member countries so far. The export growth of Tripartite country members does not augur well for the Tripartite FTA economy in the sense that manufactured goods exports still account for a small share of total exports: only 30.20% in 2015 compared to a few primary commodities that constitute 60.9% (notably mineral fuel/lubricants, the largest share of total exports in 2015 at 33.82%).[7] It would be very important for the Tripartite member countries to have a strong export performance that, according to Blanke et al. (2011), does not necessarily mean high export growth but also an increased export diversification from low value-added activities (primary commodities) to higher value-added ones (manufactured goods). By diversifying, Tripartite member countries are better able to lower the volatility of growth through a reduced vulnerability of exports to external shocks (Fundari, 2013), notably due to primary commodity prices' volatility on the international markets. So, what would the export diversification effect be for the Tripartite FTA if the legal provisions concluded in the framework of the WTO's TFA are implemented (WTO requirement)?

The main objective of this study was to determine the impact of the implementation of the WTO's TFA measures on the extensive margin of exports in the Tripartite FTA. Specifically, answers were sought to the following questions: What are the export diversification effects of each WTO TFA measure, and which one has the most impact?; Which type of product (primary commodities or manufactured products) is the most

5 Eritrea, Ethiopia, Sudan, Comoros, Libya, and Swaziland are not WTO members.

6 See table for the correspondence between each TFA measure and trade cost reduction.

7 Shares computed by the author from data collected from the World Integrated Trade Solution (WITS) (World Bank). Primary commodities (SITC 0 + 1 + 2 +3 + 4 + 68) and manufactured goods (SITC 5 to 8 less 667 and 68) are considered in the Standard International Trade Classification: http://unctadstat.unctad.org/EN/Classifications/DimSitcRev3Products_DsibSpecialGroupings_Hierarchy.pdf

affected, and by which of the WTO's TFA measures?; What is the export diversification effect if all Tripartite countries move up to best-performing country level (similar to Mauritius)?; Does the WTO's TFA implementation most affect export diversification within the Tripartite, or with other partners? Which economic bloc, the EAC, COMESA or SADC, has the most important diversification effect, and through which type of product?

The results of this study could encourage the implementation of WTO's TFA measures and guide the position of policy makers and trade negotiators in negotiating the SADC/EAC-EPA (Economic Partnership Agreement) with the EU, the Tripartite FTA, and the African Continental Free Trade Agreement (AfCFTA), as well as other trade discussions. It could also help the design of aid-for-trade strategies at the national/regional level through the selection of projects that should benefit from technical and financial assistance in terms of the WTO's TFA compliance.

Conclusion and policy implications

The 26 Tripartite member countries that are WTO members are bound to implement at different rates the WTO's TFA that entered into force in February 2017. Compliance with these provisions is likely to have a positive impact on export diversification for the Tripartite. The results of this study that estimates the effect of each WTO TFA measure on the number of exported products (primary products and manufactured products) within the Tripartite and with the rest of the world could be very helpful for policy makers and negotiators in the region.

The results of this study show that the WTO's TFA has a positive effect on the diversification of Tripartite exports irrespective of the type of product, the trading partner, or the trade facilitation measure. The most important effect on manufactured goods is observed with rest-of-the world partners, whereas with other Tripartite partners the TFA mostly affects primary commodities.

This study recommends implementing the WTO TFA if policy makers want to increase export diversification both within the Tripartite and with external partners. Special attention should be paid to "appeal procedures" measures to increase the number of export products both within and outside the Tripartite Free Trade Area. Tripartite member countries should rely on "appeal procedures" and "advance rulings" for helping them to export the greatest number of products in the region. This would help them attain best regional practice and compliance with the WTO requirement. SADC, and the EAC to a lesser extent, should be the main leading economic blocs to address the challenges of facilitating trade for the economic transformation for Tripartite member countries.

Although many studies have shown that the WTO's TFA would be positive for export diversification, many countries have proven to be reluctant to ratify this agreement. TF measures raise some concerns and have failed to win unanimous support at the WTO; notably for developing countries (South Centre, 2011; ICTSD, 2012). Many of these countries believe that the agreement on TF will only open their markets to imports from developed countries, which will weaken the local industry while strengthening the deficits of trade balance. Further research should tackle this by investigating the impact of the WTO's TFA on imports, deindustrialization, and the balance of payments.

References

Amurgo-Pacheco, A. and M. Pierola. 2008. "Patterns of export diversification in developing countries". Policy Research Working Paper No. 4473. World Bank, Washington, D.C.

Berthou, A. and L. Fontagné. 2008. "The euro effects on the firm and product-level trade margins: Evidence from France". CEPII Working Paper No. 2008-21. (I am unable to make an in-line comment so will add comments next to items.) Please add name of institution and place of publication.

Besedes, T. and T. Prusa. 2011. "The role of extensive and intensive margins and export growth". Journal of Development Economics, 96(2): 371–9.

Beverelli, C., S. Neumüller and R. Teh. 2014. "A new look at the extensive trade margin effects of trade facilitation". WTO Staff Working Paper No. ERSD-2014-16. World Trade Organization, Geneva.

Beverelli, C., S. Neumüller and R. Teh. 2015. "Export diversification effects of the WTO Trade Facilitation Agreement". World Development, 76: 293–310.

Blanke, J., Z. Brixiova, U. Dadush, T. Gurcanlar and G. Iarossi. 2011. Exports, FDI, and Competitiveness in Africa. The African Competitiveness Report 2011. Geneva: The World Economic Forum.

Cadot, O., C. Carrère and V. Strauss-Kahn. 2011. "Trade diversification: Drivers and impacts". Mimeo. International Labour Organization, Genève.

Cheng, I.-H. and H. Wall. 2005. "Controlling for heterogeneity in gravity models of trade and integration". Federal Reserve Bank of St. Louis Review, 49–63.

De Sá Porto, P., O. Canuto and C. Morini. 2015. "The impacts of trade facilitation measures on international trade flows". Policy Research Working Paper No. 7367. The World Bank, Washington, D.C.

Dennis, A. and B. Shepherd. 2007. "Trade costs, barriers to entry, and export diversification in developing countries". Policy Research Working Paper No. 4368. The World Bank, Washington, D.C.

Eaton, J., S. Kortum and F. Kramarz. 2004. "Dissecting trade: Firms, industries, and export destinations". American Economic Review, 94: 150–4.

Eichengreen, B. and D. Irwin. 1998. "The role of history in bilateral trade flows". In J.A. Frankel, ed., The Regionalization of the World Economy. Chicago: The University of Chicago Press.

Feenstra, R., R. Lipsey and H. Bowen. 1997. "World trade flows, 1970–1992, with production and tariff data". NBER Working Paper No. 5910. National Bureau of Economic Research, Cambride, Massachusetts.

Fontagné, L., G. Orefice and R. Piermartini. 2016. "Making (small) firms happy: The heterogeneous effect of trade facilitation measures". WTO Staff Working Papers No. ERSD-2016-03. World Trade Organization, Economic Research and Statistics Division, Genève.

Fundari, T. 2013. "An analysis of Africa's export performance and export similarity for select countries within the Tripartite Free Trade Area market". Tralac Trade brief No.S13TB03/2013. Tralac, Stellenbosch.Please supply more information. What tye of publication is this? Putting the details provided into a browser did not yield any results.

Helble, M., C. Mann and J. Wilson. 2009. "Aid for trade facilitation". Policy Research Working Paper No. WPS 5064. The World Bank, Washington, D.C.

Helpman, E., M. Melitz and Y. Rubinstein. 2008. "Estimating trade flows: Trading partners and trading volumes". Quarterly Journal of Economics, 123: 441–87.

Hillberry, R. and D. Hummels. 2008. "Trade responses to geographic frictions: A decomposition using micro-data". European Economic Review, 52: 527–50.

Hoekstra, R. 2013. "Boosting manufacturing firms' exports? The role of trade facilitation in Africa". IEE Working Paper No. 197. ISBN 978-3-927276-83-3, RuhrUniversität Bochum, Institut für Entwicklungsforschung und Entwicklungspolitik (IEE), Bochum Please add place of publication

Hummels, D. and P. Klenow. 2005. "The variety and quality of a nation's exports". American Economic Review, 95: 704–23.

ICTSD. (2012). "Signs of momentum in WTO Doha round talks, Lamy says". Bridges Weekly Trade News Digest, 16(33), 3 October.

Inmaculada, M.-Z. and L. Márquez-Ramo. 2008. "The Effect of Trade Facilitation on Sectoral Trade". The B.E. Journal of Economic Analysis & Policy, De Gruyter, 8(1):1-46 . Please add place of publication

Lee, H.-y. and C-S. Kim. 2012. "The impact of trade facilitation on the extensive and intensive margins of trade: An application for developing countries". Journal of East Asian Economic Integration, 16(1): 67–96.

Melitz, M. 2003. "The impact of trade on intra-industry reallocations and aggregate industry productivity". Econometrica, 71(6): 1695–725.

Moïsé, E. and S. Sorescu. 2013. "Trade Facilitation Indicators: The Potential Impact of Trade Facilitation on Developing Countries' Trade". OECD Trade Policy Paper No. 144. OECD Publishing. Paris.Please add place of publication

Moïsé, E., T. Orliac and P. Minor. 2011. "Trade facilitation indicators: The impact on trade costs". OECD Trade Policy Working Paper No. 118. OECD Publishing. Paris. Please add place of publication

Njinkeu, D., J.S. Wilson and B. Fosso. 2008. "Expanding trade within Africa: The impact of trade facilitation". Policy Research Working Paper No. WPS 4790. The World Bank, Washington, D.C.

Organisation for Economic Co-operation and Development (OECD) Trade Facilitation Indicators Database. OECD. Paris. Available at http://sim.oecd.org/Default.ashx?lang=En&ds=TFI.

Pearson, M. 2011. "Trade facilitation in the COMESA-EAC-SADC Tripartite free trade area". Tralac Working Paper No. S11WP11/2011. Tralac, Stellenbosch.Please add place of publication

Persson, M. 2008. "Trade facilitation and the EU-ACP economic partnership agreements". Journal of Economic Integration, 23(3): 518–546.

Persson, M. 2013. "Trade facilitation and the extensive margin". The Journal of International Trade & Economic Development, 22(5): 658–693.

Persson, M. and F. Wilhelmsson. 2016. "EU trade preferences and export diversification". World Economy, 39(1):16-53. Please supply page numbers

Portugal-Perez, A. and J. Wilson. 2008. "Why trade facilitation matters to Africa?" World Bank Policy Research Working Paper Series No. 4719. The World Bank, Washington, D.C.

Seck, A. 2017. "How facilitating trade would benefit trade in sub-Saharan Africa". Journal of African Development, 19(1): 1–26.

South Centre. 2011. "Trade Facilitation State of Play and Implications of an 'Early Harvest' for Developing Countries". Geneva: South Centre, May.

Turkson, F. 2011. "Logistics and Bilateral Exports in Developing Countries: A Multiplicative Form Estimation of the Logistics Augmented Gravity Equation". Discussion Paper No. 11/06, University of Nottingham, Nottingham, CREDIT.

UNECA. 2011. "Study on the establishment of inter-RECs' free trade areas in Africa: Drawing on lessons from the COMESA-SADC-EAC FTA experience". Final Report, United Nations Economic Commission for Africa. Addis Ababa, Ethiopia.

Wilson, J., C. Mann, C. and T. Otsuki. 2004. "Assessing the potential benefit of trade facilitation: A global perspective ". Policy Research Working Paper No. 3224. The World Bank, Washington, D.C.

World Integrated Trade Solution (WITS) Database. World Bank Group. Washington, D.C. Available at https://wits.worldbank.org/

WTO. 2015. "World Trade Report 2015. Speeding up trade: Benefits and Challenges of Implementing the WTO Trade Facilitation Agreement". World Trade Organization, Geneva.

Yotov, Y., R. Piermartini, J.-A. Monteiro and M. Larch. 2016. "An Advanced Guide to Trade Policy Analysis: The Structural Gravity Model". Geneva: World Trade Organization Publications.

Mission

To strengthen local capacity for conducting independent, rigorous inquiry into the problems facing the management of economies in sub-Saharan Africa.

The mission rests on two basic premises: that development is more likely to occur where there is sustained sound management of the economy, and that such management is more likely to happen where there is an active, well-informed group of locally based professional economists to conduct policy-relevant research.

www.aercafrica.org

Learn More

www.facebook.com/aercafrica

www.instagram.com/aercafrica_official/

twitter.com/aercafrica

www.linkedin.com/school/aercafrica/

Contact Us
African Economic Research Consortium
Consortium pour la Recherche Economique en Afrique
Middle East Bank Towers,
3rd Floor, Jakaya Kikwete Road
Nairobi 00200, Kenya
Tel: +254 (0) 20 273 4150
communications@aercafrica.org