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

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\(^1\) COMESA (19): Djibouti, Eritrea, Ethiopia, Sudan, Kenya, Uganda, Burundi, Rwanda, DRC, Malawi, Madagascar, Mauritius, Zambia, Zimbabwe, Comoros, Egypt, Libya, Seychelles, and Swaziland.


diversification. 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 (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. 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

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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.

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