Structural transformation through trade agreements*

Mustapha Sadni Jallab
UNECA/IDEP

Third regional Dialogue on WTO Accession for Africa

Addis Ababa, 12 February 2020

* This presentation includes empirical results that are work in progress.
Overview

• Trade policy’s reform: Openness and growth

• Examples of trade policy reform through AfCFTA and WTO agreements

• Coherence between trade reform and other reforms
Empirical Evidences


.... appears to be agreement that increased openness has the potential to enhance growth. Also, there are no examples of countries that remained closed and experienced sustained growth.

Irwin, (NBER, 2019), consistent finding is that “trade reforms have a positive impact on economic growth, on average, although the effect is heterogeneous across countries.”
Trade and growth: Empirical evidences

Figure 2. Economic growth after liberalization tends to be more rapid

Trade and growth: Empirical evidences

Figure 3. Economic growth after liberalization tends to be more rapid

Source: Estevadeordal and Taylor (2008)
Recently confirmed….

Average growth before and after trade liberalisation

Average growth following liberalization (around 2%) tends to be higher than that prior to liberalization (around 0.7%)

Source: Falvey and all, World Development, 2012
But…Trade costs remain high

Trade costs “include all costs incurred in getting a good to a final user other than the marginal cost of producing the good itself”
- 170% ad valorem tariff equivalent for a “representative rich country”
- 219% ad valorem tariff equivalent for developing countries (WTO, 2015)
Trade costs: beyond the borders

Source: Bouet, Cosnard and Laborde, 2017
New empirical evidences from the AfCFTA and WTO agreements

• AfCFTA impacts significantly bilateral trade: all things being equal, the fact that two countries are signatories of the AfCFTA agreement increases their trade flow by $\exp(1.70) - 1 = 4.50 = 450\%$ (OLS regression with all dummies)

• From the reference group used, trade flows are multiplied between 3.6 and 4.5! (UNECA/IDEP, 2019)
Change in African regions
Real GDPs (%) - 2030

Source: ECA/IDEP, 2019 through modified version of PEP-w-t
Change in Africa's exports to Africa (%) - 2030

Disaggregated sectors

Main sectors

Source: ECA/IDEP, 2019 through modified version of PEP-w-t
Other benefits of WTO TFA and AfCFTA implementation

- Economic transformation and export diversification
- Greater customs collection and mitigate the impact of tariffs revenues shortfalls
- Enhanced participation of implementing countries in regional and global VCs
- Increased participation of SMEs in international trade
- More FDI especially in the productive sector
Ethiopia trade exports- WTO scenario prospects

Source: ECA/IDEP, 2020 through modified version of PEP-w-t, work in progress
Total intermediate demand of commodity - Ethiopia WTO Scenario

Source: ECA/IDEP, 2020 through modified version of PEP-w-t, work in progress
Coherence to make trade work for growth and structural transformation

➢ How to overcome the constraints faced by developing and African countries? (See Jansen and Ali, 2014)

➢ How to help African acceding countries maximise the benefits from the multilateral trading system?

➢ Steps would need to be taken:
  ➢ Institutionally
  ➢ By the Trading Partners
  ➢ Domestically
Concluding remarks

1. Trade agreements and multilateral environment can lead to increased trading opportunities; especially through intermediate goods which are key for industrialisation and structural transformation.

2. WTO accession has favourable effects on growth by committing countries to policy reform. (Tang and Wei, 2006)

3. Performance of Article XII countries

4. Success of trade policy reform depends as well on policies in other areas, such as infrastructure, functioning of domestic markets, macroeconomic conditions and quality of institutions and education.

4. Contribute to help overcoming supply side constraints and build productive and trading capacity.