

Structural transformation through trade agreements*

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* 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

Does trade opening lead to growth?

Empirical Evidences

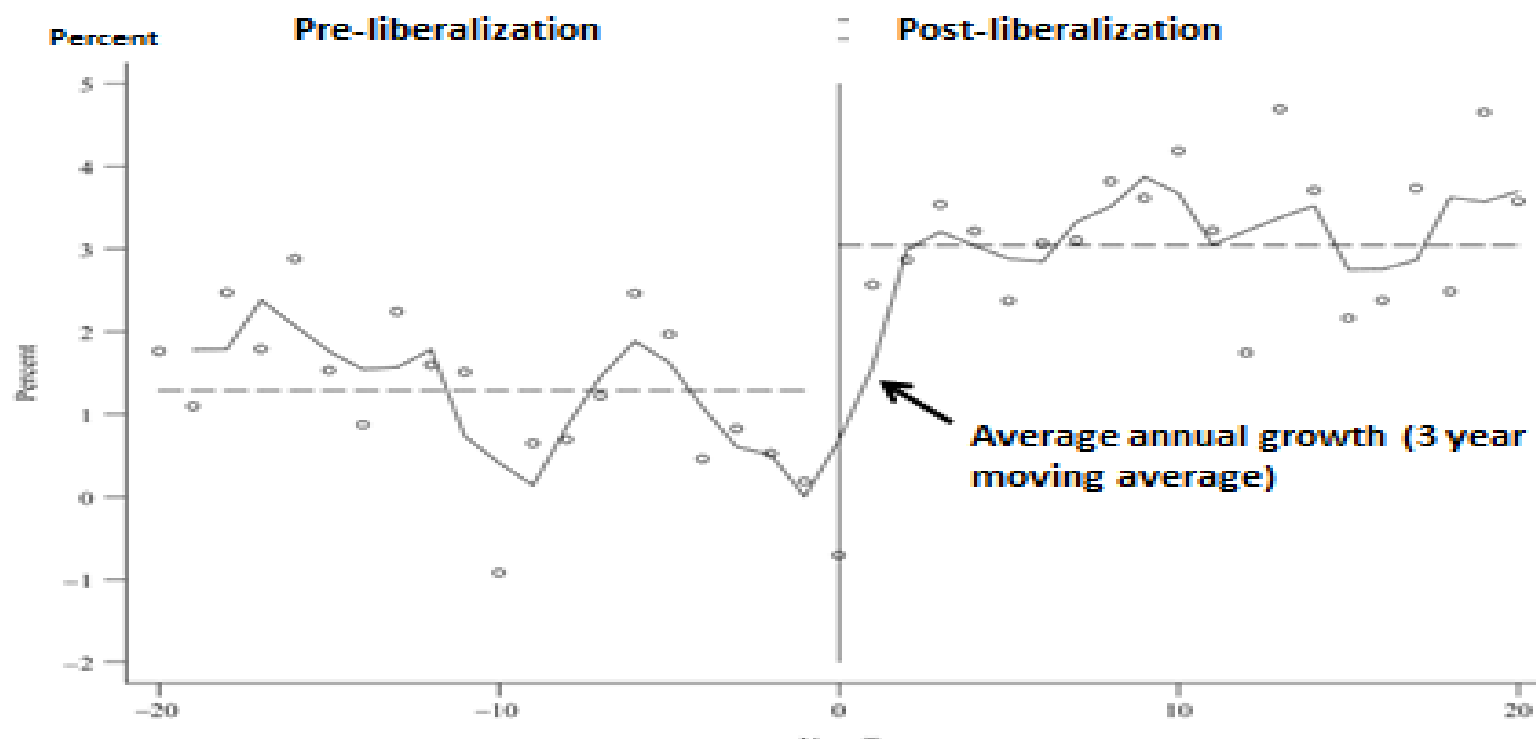
See Baldwin (2003) for an overview of the openness and growth debate. Main contributions to this literature are Dollar (1992), Harrison (1996), Rodriguez and Rodrik (2001) and Sachs and Warner (1995) and more recently: Dollar and Kraay (2004), Loayaza, Fajnzylber and Calderón (2005) and Wacziarg and Welch (2003) and Irwin (2019)

.... 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

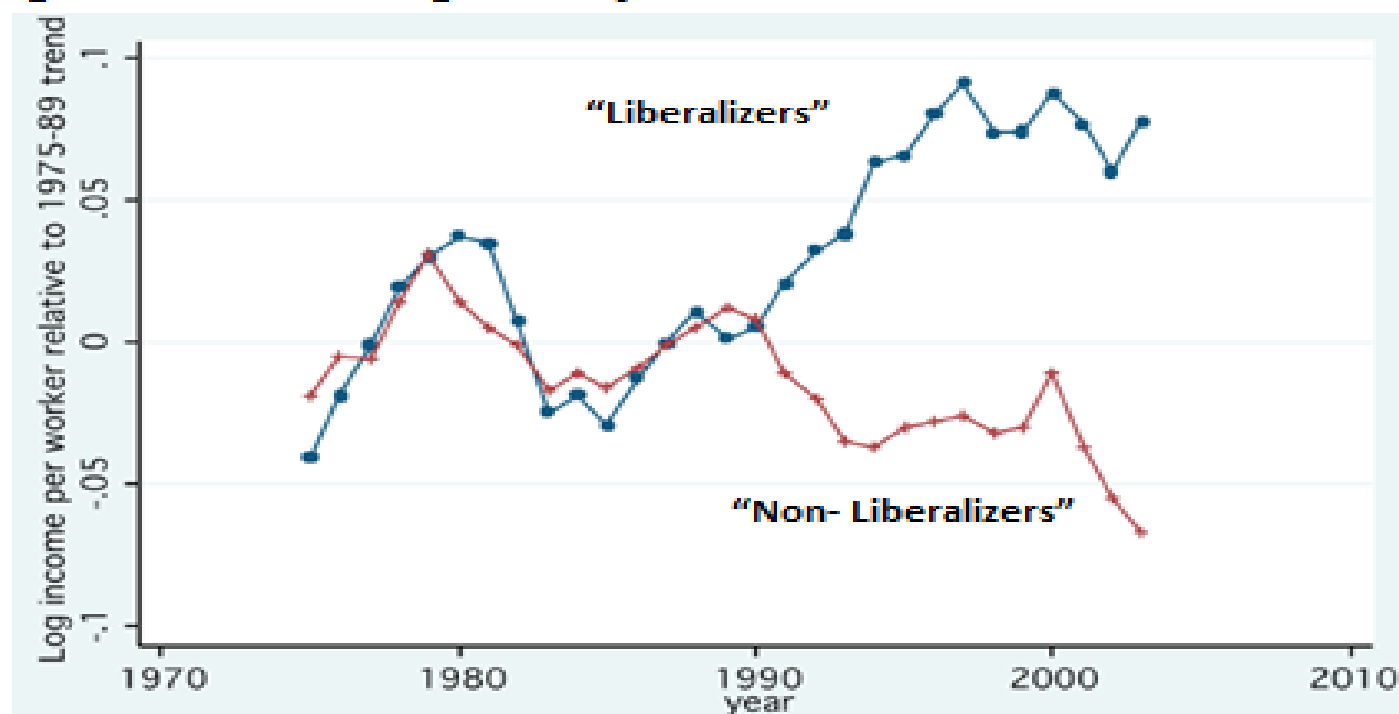
Figure 2. Economic growth after liberalization tends to be more rapid



Source: Wacziarg and Welch (2008)

Trade and growth: Empirical evidences

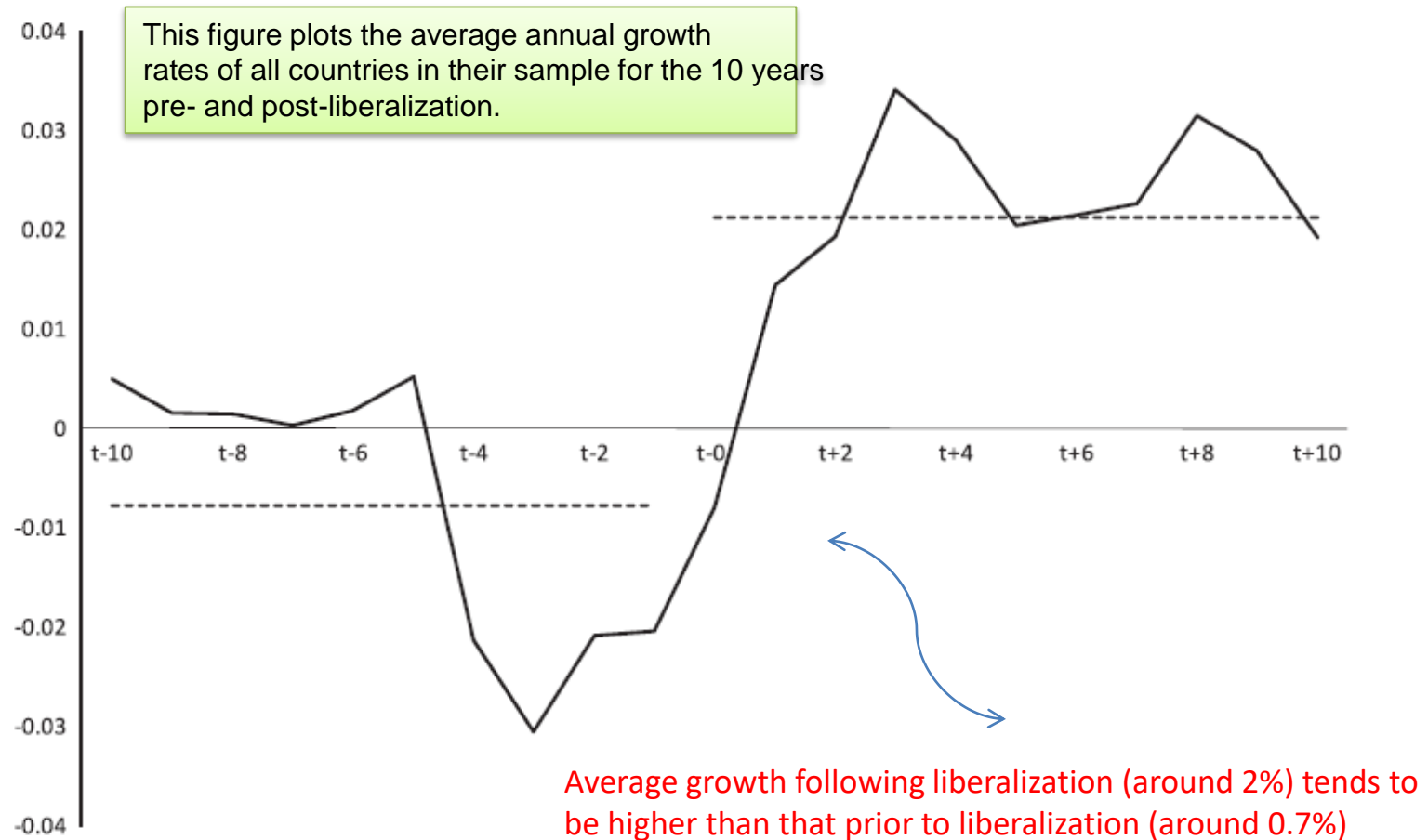
Figure 3. Economic growth after liberalization tends to be more rapid



Source: Estevadeordal and Taylor (2008)

Recently confirmed....

Average growth before and after trade liberalisation

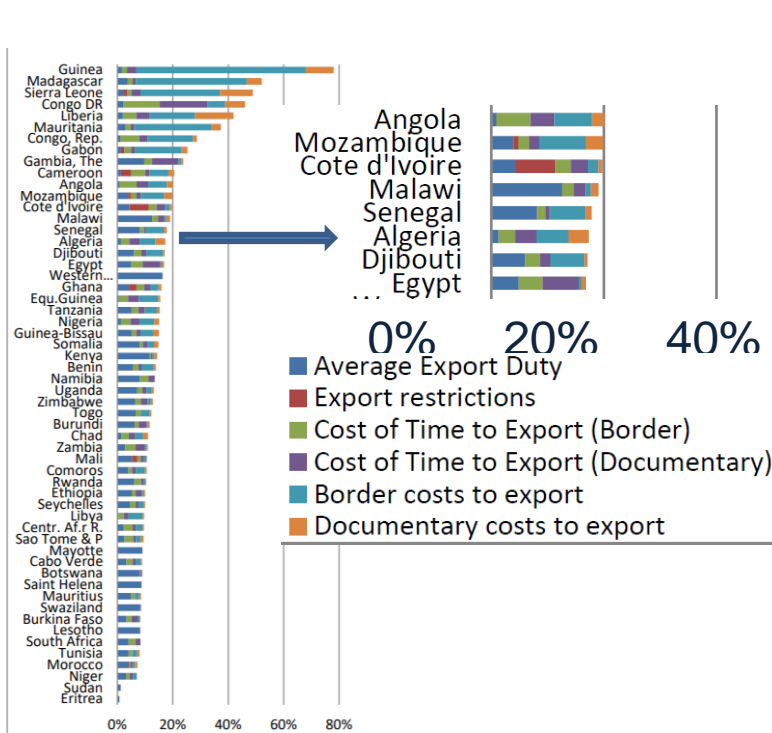


But...Trade costs remain high

Trade costs “include all costs incurred in getting a good to a final user other than the marginal cost of producing the good itself”

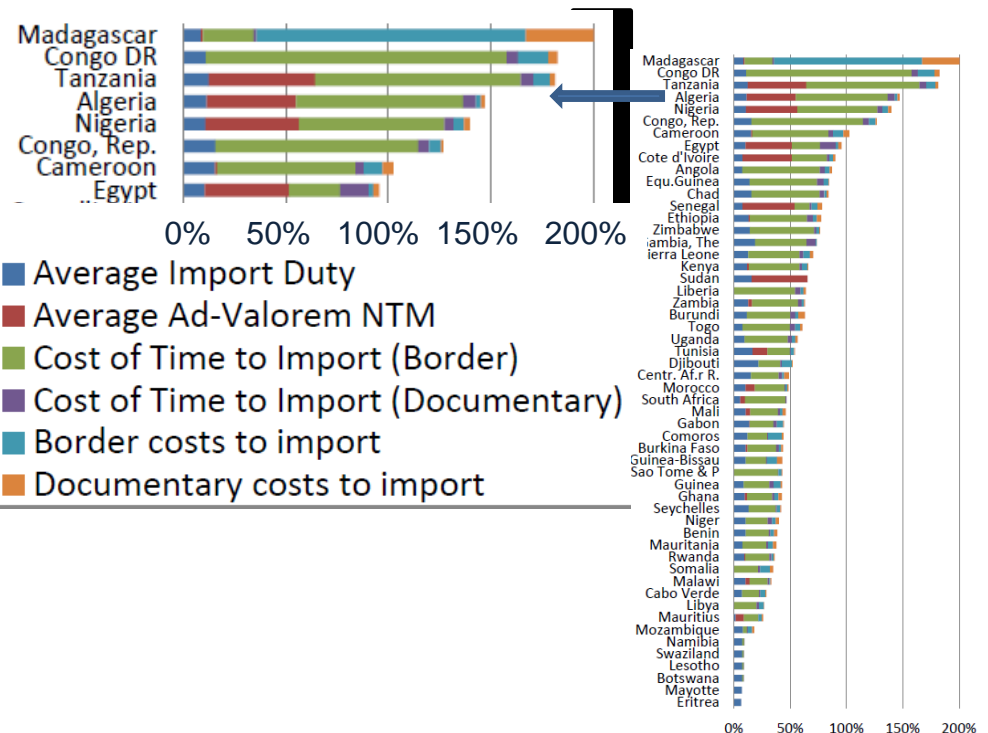
- 170% ad valorem tariff equivalent for a “representative rich country”
- 219% ad valorem tariff equivalent for developing countries (WTO, 2015)

Trade costs: beyond the borders



Costs for exporters

Source: Bouet, Cosnard and Laborde, 2017

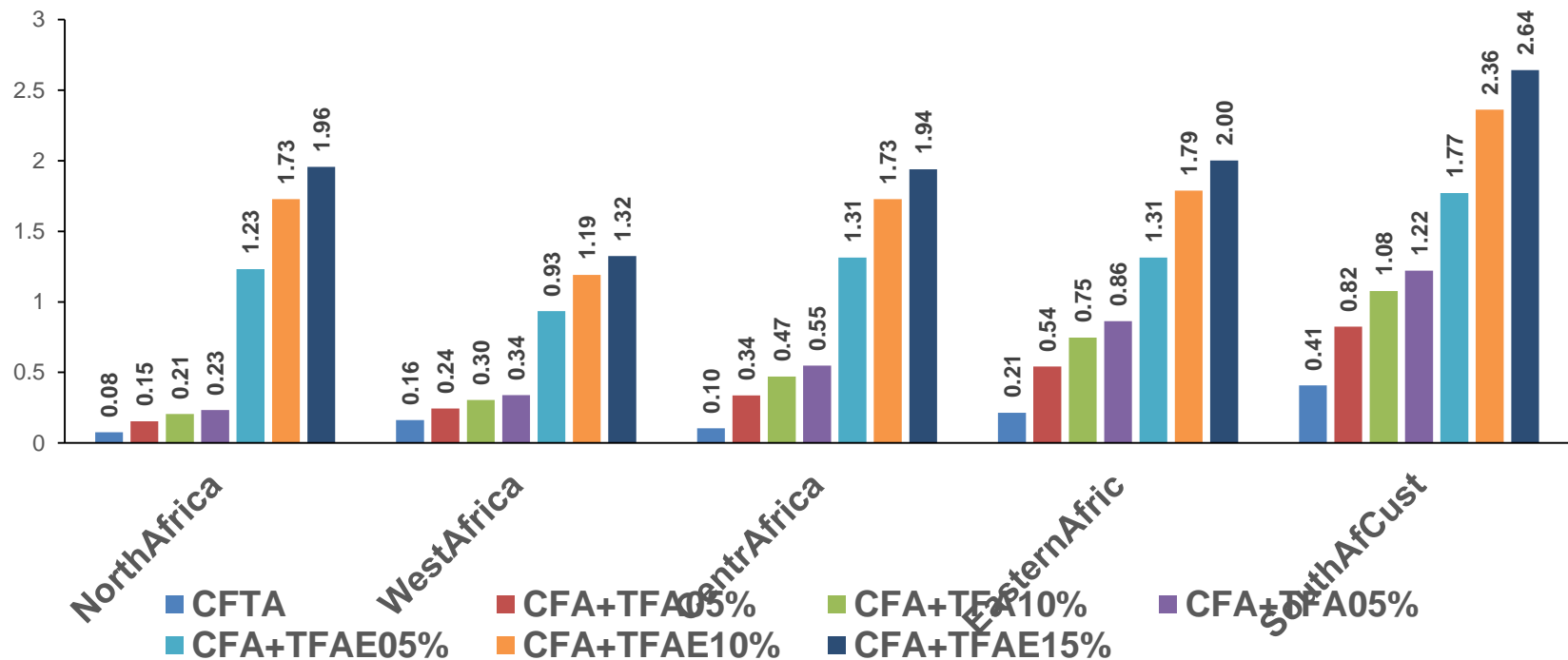


Cost for importers

New empirical evidences from the AfCFTA and WTO agreements

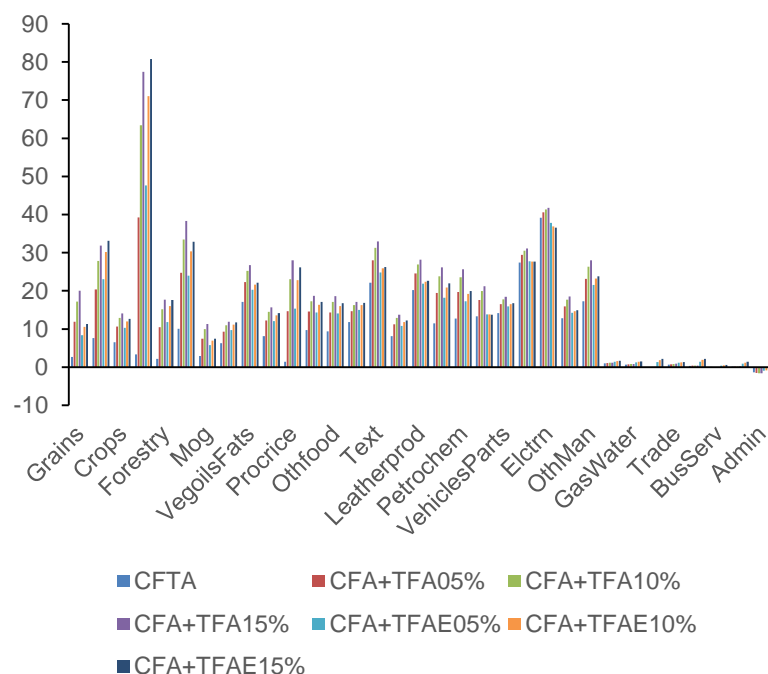
- AfCFTA impacts significantly bilateral trade: all things being equal, the fact that two countries are signatories of the AfCFTA agreement increases their trade flow by $\exp(1,70) - 1 = 4.50 = 450\%$ (OLS regression with all dummies)
- From the reference group used, trade flows are multiplied between 3,6 and 4.5!
(UNECA/IDEP, 2019)

Change in African regions Real GDPs (%)- 2030

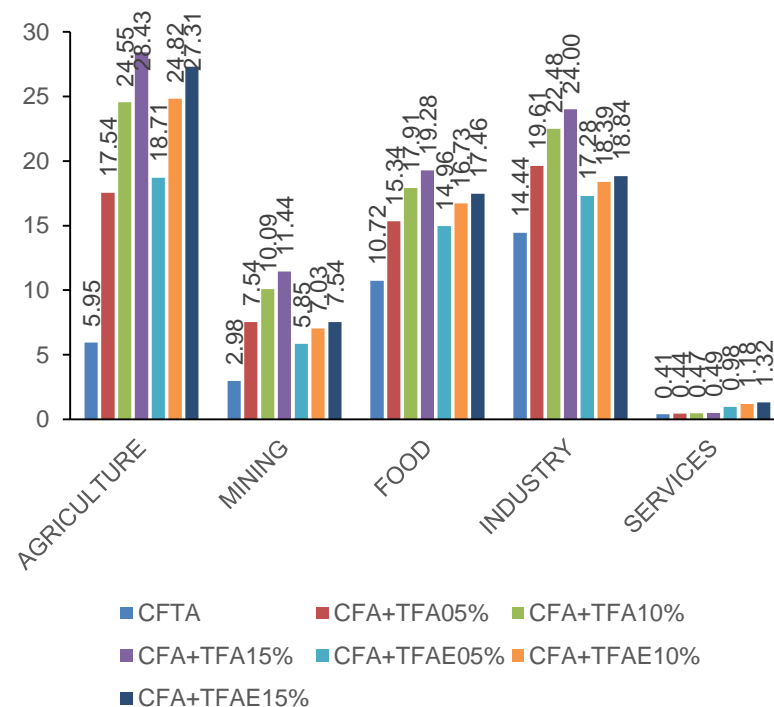


Change in Africa's exports to Africa (%) - 2030

Disaggregated sectors



Main sectors

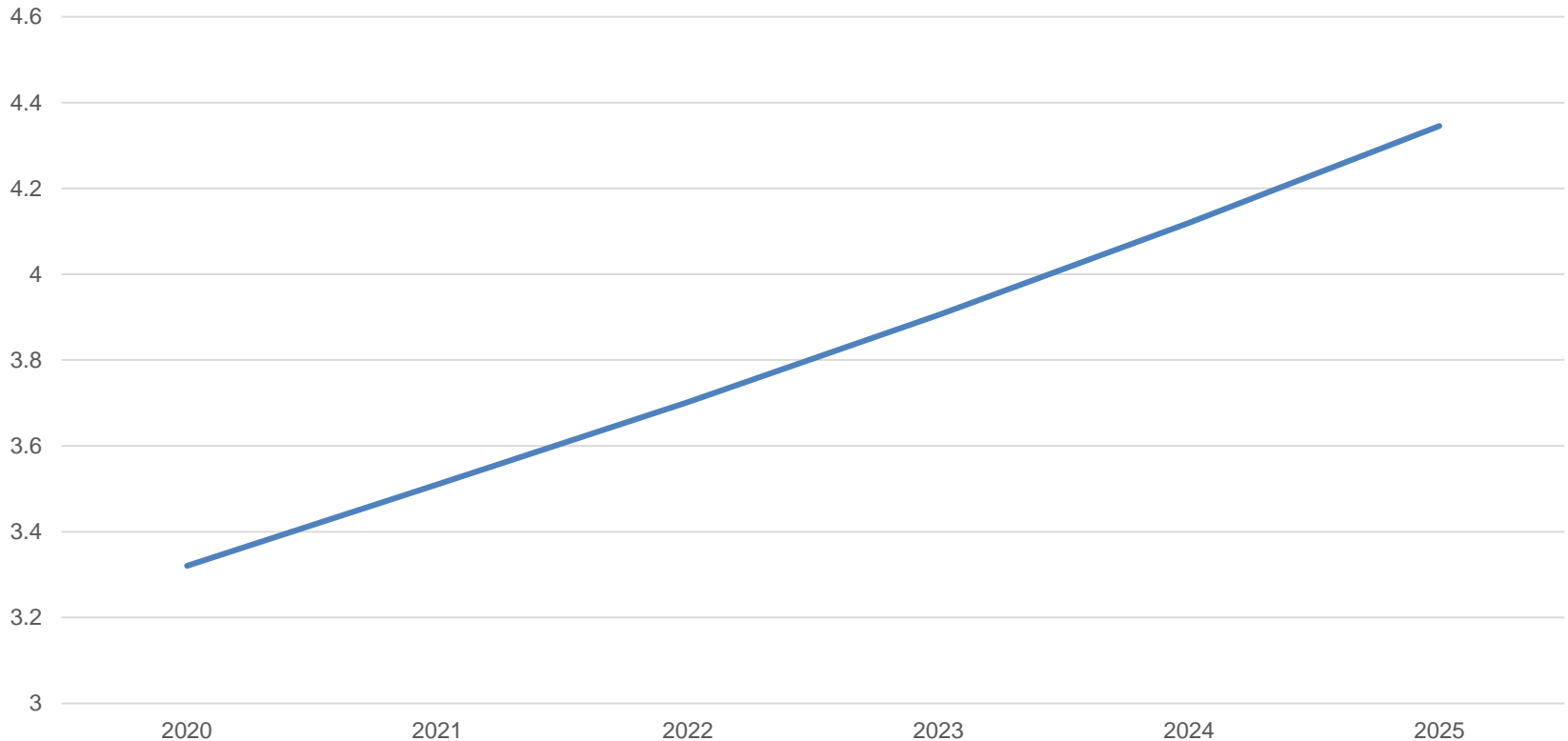


Source: ECA/IDEP, 2019 through modified version of PEP-w-t

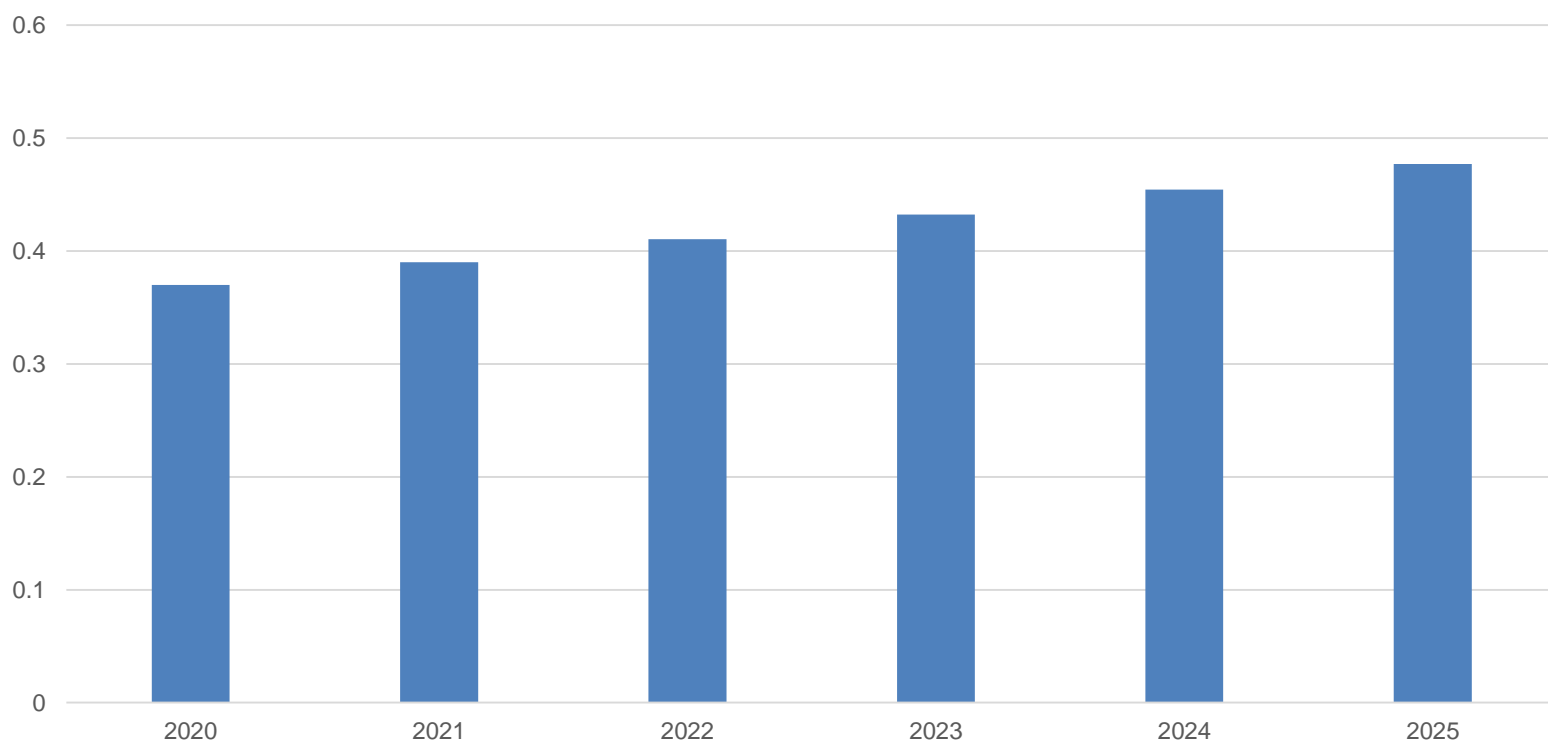
Other benefits of WTO TFA and AfCFTA implementation

- 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



Total intermediate demand of commodity- Ethiopia WTO Scenario



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)
Performance of Article XII countries**
- 3. 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**