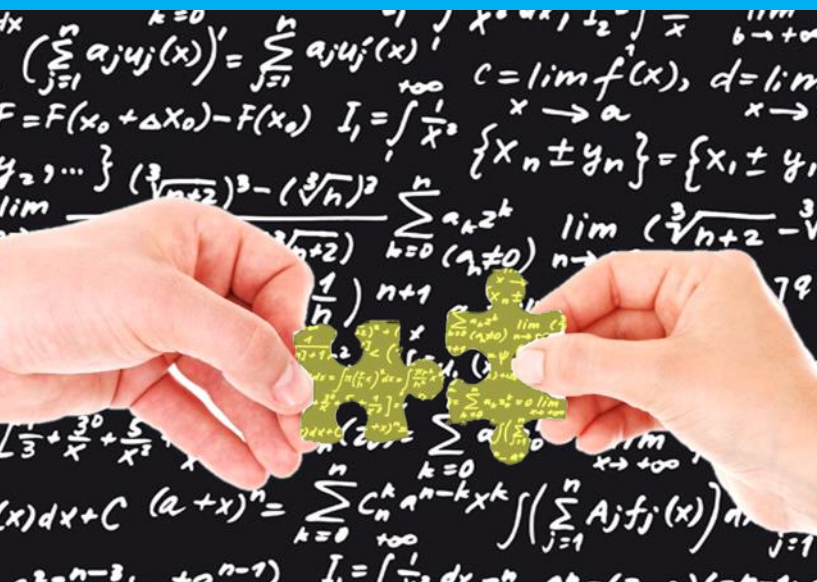




Regional trade agreements and cross-border trade costs:

The case of Pacific Island Countries



Jean Bertrand Azapmo

ASIA-PACIFIC RESEARCH AND TRAINING NETWORK ON TRADE

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WORKING PAPER

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Abstract

Trade costs matter, in particular for small island developing countries, such as Pacific island Countries (PICs), given their economic size and remoteness from the world markets. This paper examines whether PICs' performance in cross-border trade costs is informed by the extent of their participation in regional trade agreements (RTAs). The paper begins by analyzing PICs' membership in five RTAs, focusing on trade facilitation-related provisions committed through those agreements, which have the potential to reduce cross-border trade costs. Applying a New Institutional Economics approach, we can categorize PICs in light of their membership in RTAs; with Tier 1 comprising PICs that are parties to all or four of the five RTAs examined in this paper, followed by Tier 2, and finally Tier 3 with PICs that are parties to less than three RTAs. Next, the paper assesses PICs' performance in cross-border trade costs using three main indicators (cost, time, and number of documents to export and to import) and data from World Bank Doing Business for 2013-2017. We find that, PICs that are in Tier 1 (except Fiji) do not systematically have lower cross-border trade costs than other PICs. We conclude that whilst RTAs provide a legal framework for improving cross-border trade costs, other factors, such as the nature and scope of trade facilitation-related commitments made by PICs through RTAs and their capacity to implement those commitments, are crucial. Based on these findings, we recommend to review and strengthen trade facilitation-related provisions in existing and future RTAs, to strengthen PICs' capacity to implement trade facilitation-related measures contained in RTAs, and finally, for PICs to make trade facilitation-related reforms a center element of their national trade policy as well as overall national economic development plan and strategy.

Key words: cross-border trade costs, Pacific island Countries, trade facilitation, regional trade agreements.

JEL codes: F13, F53, O10, O19, K33

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1. Introduction

Trade costs are among the main obstacles to international trade (cf. Arvis et al., 2012) and affect not only exports (Khan and Kalirajan, 2011; Hoekman and Nicita 2011), but also the flow of foreign direct investment (Mukherjee and Suetrong, 2008; Duval and Uthokam, 2014). In this regard, the conclusion of the World Trade Organization Trade Facilitation Agreement (WTO TFA) in 2013, which focuses mainly on expediting the movement, release and clearance of goods, including goods in transit through a number of trade facilitation measures, signals the resolve by the members of the multilateral trading system to tackle trade costs. More recently, Hoekman (2014, p.4) recommended “a global commitment to a specific, numerical trade cost reduction” to be part of the post 2015-Sustainable Development Goals.

Whilst there is a myriad of definitions of trade costs, Anderson and van Wincoop (2004, pp. 691-692) provide one of the most comprehensive and most cited. They refer to trade costs broadly as “costs incurred in getting a good to a final user other than the marginal cost of producing that good itself: transportation costs (freight cost and time cost), policy barriers (tariffs and non-tariffs measures), information costs, contract enforcement costs, costs associated with the use of different currencies, legal and regulatory costs, and local distribution costs.”

One of the main issues with trade costs is to determine their sources and magnitude. With respect to their sources it is admitted that bilateral trade costs result from exogenous and endogenous factors Arvis et al. (2012). Exogenous factors on one hand relate to factors of separation between the exporter and the importer: geographical distance, transportation costs or the lead time associated with transportation, common features between trading partners, such as language, common history, sharing a border, or participation in the same economic community. Endogenous factors on the other hand are specific to the origin or destination, and represent the “thickness” of their borders: logistics performance (cost, delay, and reliability) and trade facilitation

bottlenecks (such as border control and transit systems with third countries), international connectivity (such as the existence of regular maritime, air or terrestrial services), tariffs, and non-tariff measures.

The increased focus on trade facilitation worldwide has also coincided with the surge in the number of regional trade agreements (RTAs) concluded worldwide, with most of them including trade facilitation provisions which have become one of the common features of RTAs (WTO, 2015 and Neufeld, 2014). Neufeld (2014, 5) found that 95% of RTAs concluded after 2000 contain a trade facilitation component, which aims to promote trade and the removal of trade distortions. It is therefore expected that those RTAs will result in lowering trade costs not just between the Parties but also with all their trading partners given that trade facilitation are non-discriminatory in their design and implementation. Whilst several empirical studies tend to support this idea (cf. Chauffour and Maur, 2011; and Pomfret and Sourdin, 2009), recent studies in this area have shed new light on the relationship between trade agreements and trade costs (Mirodout and Shepherd, 2015; and Duval et al., 2016).

The purpose of this paper, which builds on previous studies, is to examine the extent to which PICs' performance in cross-border trade costs is informed by their participation in RTAs. The contribution of this research is twofold: firstly, it adds to the literature on the relationship between trade agreements and trade costs, by focusing exclusively on PICs. Unlike previous studies which are broad in scope and discussed PICs only incidentally, this paper aims to enhance understanding of PICs' performance in cross-border trade costs relative to their participation in RTAs. Secondly, we aim through

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