

How regional agreements tend to restrain Southern countries' exports

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Recent years have seen a surge in regional trade agreements, many of which including provisions on non-tariff measures. This research investigates whether the technical requirements contained in North-South Agreements affect international trade. More precisely, the authors assess to what extent North-South harmonization of technical barriers creates or reinforces a hub-and-spoke trade structure potentially detrimental to the integration of Southern countries in the world economy. Empirical results provide strong support to this conjecture.

THE PUZZLING EFFECTS OF DEMANDING STANDARDS

Drawing on a complex array of trade data, this recent research shows that many regional trade agreements between developed and developing countries actually hamper developing countries' ability to export. In particular, it provides evidence that technical standards imposed by the developed 'North' on imports from partner countries in the developing 'South' can **hamper these countries' ability to export their goods to other developing countries**, increasing their dependence on trade with the North. It also reveals the negative impact of trade agreements that oblige Southern exporters to conform to stringent regional norms such as those imposed by the European Union, rather than less demanding standards accepted at a wider international level. The increase in production costs required to meet **these stricter standards can price Southern exporters out of Northern markets**.

In this study, the authors stress out that "*in the worst cases, some regional trade agreements have the perverse effect of reducing both South-South exports and South-North exports. That is particularly the case for some agreements between developing countries and the EU*".

The findings of Anne-Celia Disdier, Lionel Fontagné and Olivier Cadot come at a time when regulators in developing countries face difficult choices over standards. Complying with more stringent norms raises the quality of products, they note. But it also leads to extra costs, potentially pricing producers out of markets.

SOME REPRESENTATIVE EXAMPLES

In one textbook case, **the government of Mauritius** has been considering restricting the use of toxic chemicals in paints in line with EU norms in order to allow Mauritius paint manufacturers to sell their products in EU markets, including the nearby French overseas département of Réunion. Stricter regulations would raise production costs, however, potentially pricing Mauritius firms out of African markets where such controls do not apply.

In another case, moves by **East African countries** to harmonize their technical regulations for trade in dairy products with more restrictive international standards have provoked controversy. Only a few large producers in the region are expected to benefit from improved export opportunities, while the more demanding standards that have been imposed are deemed by many to be superfluous in the region's domestic market.



Common to all such debates are concerns that the higher production costs associated with raising standards to developed-country levels will have **damaging effects for developing countries in terms of reduced competitiveness and lost export potential**. This research sets out to establish whether another effect of North-South regional trade agreements is to create or strengthen a 'hub-and-spoke' structure linking developing and developed countries in a trade-dependency relationship that is detrimental to South-South trade. Based on their analysis, the authors conclude that this is indeed the case.

A SIMPLE ANALYSIS THAT SHOWS STRIKING RESULTS

In their study, the researchers examined the impact of North-South regional trade agreements signed between one or more developed countries and one or more developing countries between 1990 and 2006. In 1990, they identified only four such North-South regional trade agreements, covering a mere **0.4% of developed countries' imports** from developing countries. None called for the harmonization of technical regulations and standards. By 2006, however, they identified 43 North-South regional trade agreements covering **19.5% of Northern imports from the South**. Of these, 12 agreements covering 11.8% of Northern imports from the South called for alignment with international standards. Six agreements covering 3.8% of Northern imports from the South promoted stricter regional standards only.

Using North-South and South-South trade data from France's Centre d'Etudes Prospectives et d'Informations Internationales (CEPII), the researchers constructed a gravity model of trade (roughly based on Isaac Newton's law of gravity) to predict "normal" bilateral trade patterns according to the economic weight of countries and the distance between them. Factoring in such elements as the existence of a common border, use of a common language and past colonial relationships, they then scrutinised actual trade data for deviations from the norms in cases where countries had signed regional trade agreements.

The results that they came up with are striking. Where a North-South regional trade agreement requires harmonization of standards to international or regional levels, they conclude, the potential for South-South exports (i.e. exports of participating developing countries to other developing countries) is curtailed by 16%. Higher exports to Northern countries can help make up for this, but only as long as harmonization does not go beyond generally applicable international norms. When an agreement imposes stricter regional standards, the researchers discovered, the potential for South-North exports is also reduced -- by a dramatic 23%, according to their calculations.

THE ROAD TO HELL IS PAVED WITH GOOD INTENTIONS...

Such an outcome is certainly not what was intended by the promoters of regional trade agreements. Amid a recession that is taking its toll in terms of rising unemployment and weakening trade volumes, **these conclusions will fuel controversy about the fairness and utility of regional trade pacts in developing countries**. In a world in which successive multilateral trade negotiations have lowered tariffs on most imports to an average of below 5%, increasing attention is now focused technical standards and other less transparent factors such as administrative procedures and sanitary and phytosanitary requirements that limit access to trade.

Under World Trade Organization agreements, developed countries are supposed to be helping developing countries overcome the obstacles posed by such norms, particularly those involving technical standards. But their assistance is arguably not enough. Regional standards set by the European Union are particularly problematic because they are tougher than more widely accepted international norms and developing-country exporters mostly cannot afford to restructure production systems to cater for such variations.

Taking their two main findings together - that harmonization on the basis of regional standards in North-South trade agreements impacts negatively on the exports of developing countries to the North and that the existence of North-South trade agreements also hurts South-South trade - the researchers conclude that **standard harmonization provisions in North-South regional trade agreements "miss their target and tend to marginalize Southern countries from the world economy"**.

For these economists, all this adds up to a serious warning to the South. *"Developing countries have to be careful not to get trapped into a trade agreement that limits their trade with other countries in their region. If on top of that there is a recession in the North, they can be seriously hard hit".*



Références

Disdier, A-C., Fontagné, L. and Cadot, O. (2012)

"North-South Standards Harmonization and International Trade", G-MonD working paper n°26