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Title

Trade Agreements and Sanitary and Phytosanitary Standards in the Beverage Sector

I want to submit an abstract for:

Conference Presentation

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Keywords

Wine trade; Non-tariff measure; Regional trade agreement; Regression discontinuity design; difference-in-difference approach; Policy.

Research Question

Investigate how the effects of SPSs on wine trade vary within and without RTAs, with emphasis on the effects induced by the entry into force of RTAs.

Methods

A structural gravity model is estimated on a panel of 38 countries, using two empirical procedures: the difference-in-difference approach and the regression discontinuity design.

Results

RTAs favour the increase of trade and the reduction of SPSs among members, although marked inequalities exist across RTAs.

Abstract

Over the last decades, the global agri-food trade has increased and has been interested by a re-shaping of trade patterns. The economic globalisation and the reduction of tariffs has impacted the development of the global supply chain that is becoming more and more economically integrated. A majority of agri-food sectors, however, are still subject to numerous non-tariff measures (NTMs). A remarkable example is the wine sector where governments, seeking additional revenues, establish multilateral and country-specific NTMs: as a result, the sector has been steadily overregulated.

Apart from the substantial regulation in terms of multilateral measures, several countries have opted for country-specific NTMs and trade agreements. Since the stalling of the Doha multilateral negotiations, exporting countries started to negotiate trade agreements to gain preferential access in emerging markets. Several agreements have been signed among the main competitors in the wine trade market (e.g. the European Union, Latin American countries, Australia, New Zealand) as well as among traditional (e.g. the United States, Canada, Japan) and

emerging markets (e.g. China, Hong Kong).

The agreements may have twofold effects on trade: while favour the creation of intra-bloc trade, may also divert trade toward extra-bloc countries. By inducing a versatile framework, trade agreements allow signing countries to negotiate country-specific NTMs and favour a mutually beneficial trade liberalisation. In particular, trade liberalisation among members of the agreements may occur by lowering or harmonising trade regulations. Trade regulations and standards harmonisation among members are relevant issues constantly present in the negotiation agenda. Unfortunately the empirical literature on trade and NTMs does not allow to conclude on the effects of NTMs on trade: the evidence for the wine sector are not different, indeed there is mixture of evidence on negative and positive trade effects of NTMs. A limitation of these analyses rely on their inability to take into account the different effects on trade that may exist for measures established within regional trade agreements (RTAs). While several authors invite to deepen on the new paths of trade liberalisation process and the role of RTAs, the academic debate has still given limited attention to the role of NTMs within RTAs. In addition, the majority of studies on this topic are not focused on the wine sector.

Based on these premises, in order to build on existing knowledge and explore underinvestigated issues, we quantify the trade effects of SPSs within and without RTAs, with emphasis on the effects induced by the entry into force of RTAs. Following a standard gravity approach, in which bilateral trade flows are directly related to the economic masses, and inversely related to the economic distance among countries, we quantify the effects of SPSs and RTAs. We use a structural gravity model: the economic masses of origin and destination countries and the economic distance are modelled as fixed effects. Time-varying reporter and time-varying partner fixed effects proxy multilateral resistance. We also control for country-pair fixed effects to account for potential unobserved factors of bilateral proximity.

Two empirical procedures, the difference-in-difference (DiD) approach and the regression discontinuity design, allow us to disentangle the effects of SPSs for countries that share or not RTAs, and to conclude on the impacts of SPSs prior and after the entry into force of RTAs. Our dataset includes data from 1990 to 2017 for the majority of developed and developing countries (38 countries) that share trade agreements: Argentina, Australia, Bolivia, Brazil, Brunei, Canada, Chile, China, Columbia, Costa Rica, Ecuador, El Salvador, Egypt, European Union, Guatemala, Honduras, Hong Kong, Iceland, Japan, Kenya, Korea, Mexico, Morocco, New Zealand, Nicaragua, Norway, Paraguay, Peru, Singapore, South Africa, Switzerland, Tanzania, Thailand, Turkey, Uganda, United States, Uruguay, Venezuela. Our set of countries allows to account for 99.8% of global exports and 96.6% of global imports of wine.

In order to provide a wider picture, we focus on the product category 'beverages, spirits and vinegar', at the two-digit level of the Harmonised System classification (HS 2-digit), so avoiding potential endogeneity bias implied by measures implemented for protectionist purposes or to control imports in the absence of sizeable tariffs. We also compare the effects on the most overregulated agri-food sectors (i.e. beverages, spirits and vinegar) and other sensitive agri-food sectors (i.e. meat, fish, fruit and vegetables).

We gather information on RTAs (e.g. coverage, type of agreement, entry into force and end date, signatory countries) from the Regional Trade Agreements Information System (RTA-IS). The country-pair specific trade data are collected from the UN Comtrade database and those related to the SPSs are from the UNCTAD's Global Database on Non-Tariff Measures.

Preparatory analyses reveal that RTAs favour the increase of trade and the reduction of SPSs among members, although marked inequalities exist across RTAs. In particular, trade increases by 15.2% and the SPSs decrease by 0.1% as fast after the approval of the agreements. However, after the approval of RTAs, the existence and the importance of SPSs become relevant among developing countries, whereas the pervasiveness of SPSs becomes less stringent between countries with different levels of economic development (developed-developing countries). In addition, we find that the trade effects of RTAs and SPSs vary across agri-food sectors: the higher trade increase after the approval of RTAs depends on the more rapid increase in trade of cereals (+29.7%) and fruit (+13.1%). Due to the twofold effects of SPSs (trade-impeding or trade-enhancing), their interaction with RTAs has to be clarified: the implications of our analysis would help evaluating, and planning, trade policies.

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