Note #3 – Where has trade growth come from in São Tomé and Príncipe?

Jose E. Signoret *

I. Introduction

1. This note examines the competitiveness of the export sector in São Tomé and Príncipe. It relies on the framework developed by Reis and Farole (2012) and examines the export competitiveness along four complementary dimensions: export growth and market shares, diversification in terms of product and destinations, quality of exports, and the survival or persistence of export flows. It uses export product-level data for the period 2000–2017, as available, from international trade databases that help in benchmarking the performance of São Tomé and Príncipe with that of peer countries. Peer countries include, as data is available, Belize, Cabo Verde, Comoros, Dominica, Fiji, Mauritius, Maldives, Seychelles, St. Lucia and Vanuatu. While this note focuses on export outcomes, it also provides a brief picture on imports into São Tomé and Príncipe.

2. The main findings of this note are as follows: Trade remains important for São Tomé and Príncipe, especially imports to satisfy local demand. Total exports have been increasing, both for goods and services. Goods exports, however, remain highly concentrated in cocoa exports to the EU market. Export trends for goods have tended to sustain this dependence, with very little expansion in the extensive margin, and thus with limited diversification of goods exports. This is despite relative comparative advantages in other agricultural products, such as coconuts, dried fruits, and seafood and preferential duty-free and quota-free access into the EU and other developed countries’ markets. Meanwhile, exports of services have increased rapidly, led by travel services. São Tomé and Príncipe exports more services than goods and it has become a net exporter of services. Creating strong (backward) linkages between the tourist industry and the rest of the economy could sustain growth in other industries that, in turn, can support export diversification.

II. STP’s exports are smaller and more concentrated than its peers, but they have gone up in quantity and price

3. São Tomé and Príncipe is a small open economy, with a ratio of trade to GDP close to 100 percent, above what would be expected based on its income per capita alone. Trade openness tends to be high for island economies, which rely on international trade to reach larger markets abroad, as well as to satisfy demand for goods not produced domestically. Indeed, most peer countries, which are all island

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economies, tend to have very high indices of openness, with the highest being the Seychelles at close to 200 percent. Nonetheless, STP’s trade openness close to 100 percent of GDP is 20 to 30 percentage points higher than its income level would imply (See figure 1).

4. **Over half of total trade values in São Tomé and Príncipe relates to trade in goods.** In 2017, merchandise trade represented 42 percent of GDP, while trade in services was about 36 percent. In this respect, the experience is mixed among the comparators. Specifically, for Dominica, Cabo Verde, Maldives, Seychelles, and St. Lucia, trade in services tends to dominate merchandise trade. Meanwhile, in Belize, Comoros, Fiji, and Mauritius, goods trade is relatively larger. For São Tomé and Príncipe, this gap between goods and services trade has been narrowing over time, especially after 2010. The increase in services trade for São Tomé and Príncipe is discussed later in this note.

5. **São Tomé and Príncipe significantly imports more goods than what it exports (See Figure 2).** The country has run a consistent trade deficit over the years. The merchandise trade deficit amounted to USD 136 million, or about 35 percent of GDP, in 2017, and it was as high as USD 159 million in 2014 (45 percent of GDP). In 2017, the value of imported goods in São Tomé and Príncipe were 14 times larger than the value of its good exports. While both exports and imports have increased during the 2000–2017 period, the trade deficit has deteriorated because of an increase in imports that has outpaced the increase in exports, with a compound annual growth rate of 10 versus 8 percent for imports and exports, respectively.

6. **Among comparators, the asymmetries between imports and exports of goods is the largest in proportion for São Tomé and Príncipe.** Although all comparator countries run merchandise trade deficits, the imports-to-exports ratio for São Tomé and Príncipe was the largest in 2015, where goods imports in the country were about 15 times larger than its exports (See Figure 3). Meanwhile, this ratio was the lowest for Mauritius at around 2.5. The trade deficit on goods relative to the size of the economy is also high in São Tomé and Príncipe (around 42 percent of GDP in 2015), higher than in 7 out of the 10 comparators, but lower as share of GDP than in Seychelles, Maldives, and Vanuatu.

7. **In particular, merchandise exports in São Tomé and Príncipe are the lowest among all peers.** In terms of scale, among comparators, the share of GDP attributed to goods exports is the lowest at close to 3 percent (See Figure 4). Other comparators show shares as high as 24 percent for Seychelles and 15 percent for Belize and Mauritius. Export values per capita are also the lowest in São Tomé and Príncipe at
USD 47, compared to much higher values in Comoros, Seychelles, and Mauritius (all well above USD 1,000 per capita).

8. In terms of scope, the majority of goods exports from São Tomé and Príncipe concerns cocoa products. In fact, the share of merchandise trade related to cocoa (under subheadings 18.01–18.06) has hovered consistently between 80 and 90 percent over the period 2000-2017 (See Figure 5). Among these products, exports are overwhelming concentrated in cocoa beans (18.01). Cocoa preparation (18.06) are showing more prominence, especially in more recent years, but these products amount to about 3 percent of export or less, depending on the year (See Figure 6). Other top products include coconuts, coconut oil, and soybean oil, accounting each for less than 4 percent of exports, depending on the year (See Table 1). Motor vehicles and electronics such as video cameras also show as top exports, although these are re-exports of such equipment and capital goods not produced in the country.

9. Since exports are concentrated in agricultural products, export growth for São Tomé and Príncipe shows substantial variability. The export growth for São Tomé and Príncipe varied annually from very high annual growth rates of 51 percent to annual contraction of 12 percent over the decade of 2005 to 2015 (See Figure 7). These types of products are typically subject to factors related to favorable and unfavorable yields, such as climate and phytosanitary conditions, which can vary year by year. Despite variability, overall export values of cocoa exports have increased over the period 2005 to 2015 by a compound annual growth rate of 10 percent. Additionally, fluctuations in agricultural prices tend to be higher than for other goods, adding variability in export values. Looking at quantities of cocoa exports from São Tomé and Príncipe shows that export volumes has increased moderately (figure 8), while prices per ton has increased more rapidly, likely reflecting higher global demand for cocoa beans.

Figure 3 – Goods Imports-to-export ratios and trade deficit over GDP in São Tomé and Príncipe and comparators: 2015

Figure 4 – Goods exports as share of GDP and good exports per capita in STP and comparators: 2015

Source: Staff elaborations from Comtrade data. Source: Staff elaborations from Comtrade and WDI data.
Table 1 – Top 5 exported products from São Tomé and Príncipe: 2005, 2010, and 2015

<table>
<thead>
<tr>
<th></th>
<th>2005 (%)</th>
<th>2010 (%)</th>
<th>2015 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cocoa beans</td>
<td>88.8</td>
<td>84.6</td>
<td>86.7</td>
</tr>
<tr>
<td>Coconuts</td>
<td>2.8</td>
<td>3.6</td>
<td>Video cameras</td>
</tr>
<tr>
<td>Motor vehicles</td>
<td>1.9</td>
<td>Cocoa preparations</td>
<td>3.3</td>
</tr>
<tr>
<td>Coconut oil</td>
<td>1.0</td>
<td>Coconuts</td>
<td>1.3</td>
</tr>
<tr>
<td>Soybean oil</td>
<td>0.8</td>
<td>Motor vehicles</td>
<td>0.8</td>
</tr>
</tbody>
</table>

Source: Staff elaborations from Comtrade data.
III. São Tomé and Príncipe’s exports are concentrated on few products (cocoa) to a higher degree than its peers, despite comparative advantages in other products.

10. São Tomé and Príncipe’s exports are concentrated on agricultural products in a remarkably higher level than its peers. Agricultural exports were very important—above 80 percent of total in 2015—for Maldives (97 percent), São Tomé and Príncipe (93 percent), and Cabo Verde (86 percent). Cocoa is not a significant export for any of the comparators (See Figure 9). Major agricultural exports for both Maldives and Cabo Verde are fish and prepared fish products. For Mauritius, less than a third of exports by value relates to agriculture. Principal agricultural products for Mauritius also include fish and prepared fish products, along with sugar.

11. São Tomé and Príncipe’s exports are the least diversified among peers. In 2015, the country exported less than a dozen products (defined as HS subheadings), above a threshold of USD 10,000 (See Figure 10). St. Lucia was the second lowest, with over three times that number of products. Among comparators, Mauritius exhibited the largest number of exported products. A measure of concentration (the Herfindahl-Hirschman index, or HH index) also shows the highest value for São Tomé and Príncipe at close to 0.8. In general, an index above 0.3 suggests significant concentration. Seychelles is the other country with concentration of exports, with an index of 0.4. The high number for São Tomé and Príncipe is clearly driven by cocoa bean exports. The concentration of exports for Seychelles reflects the importance of export products related to tuna and oil.

12. São Tomé and Príncipe’s exports have become more concentrated, despite recent growth trends. Cocoa has been growing fast, with cocoa preparation the fastest (See Figure 11), although from a small base. Given the large exports of cocoa beans, continued increases at the average rate of about 9 percent will maintain this product as the dominant export. Exports of cocoa beans in São Tomé and Príncipe has also increased faster than global exports of cocoa beans (above the 45-degree line in Figure 11). Thus, during the period 2005–2015, São Tomé and Príncipe has gained market share in the global exports of cocoa beans, although it remains as a small supplier worldwide. Exports of coconut oil, on the other hand, have been contracting in São Tomé and Príncipe, despite growing demand, resulting in São Tomé and Príncipe losing market share in the global market for this product.

13. São Tomé and Príncipe has a revealed comparative advantage in certain agriculture and fishery products, beyond cocoa beans. The country exhibits strong comparative advantage in cocoa beans, with Revealed Comparative Advantage (RCA) indices for 2005 and 2015 above 1,800 (an index value of 1 or above is interpreted as indicative of comparative advantage in that good). However, looking beyond cocoa beans, data shows that the country has a comparative advantage in a few other goods (See Figure 12). São Tomé and Príncipe has shown a comparative advantage in 2005 and 2015 for coconuts, dried fruits, cocoa preparations, and coffee. Coconut oil is a case where the country has lost comparative advantage between these years. Meanwhile, pepper is a relatively recent export product of the country, with significant sales to France to show specialization. Also, exports of molluscs have gained prominence, yielding a revealed comparative advantage in those products (such as scallops and octopus).

14. Of the products that São Tomé and Príncipe export, most are far away from a path of significant economic diversification. Using a product space analysis, it is possible to measure the current position of
a country in terms of its current exportable goods and the proximity to other export goods, in general. A close proximity to other goods in the product space mapping could indicate existing capabilities closely associated with the production and exportation of such goods. In this sense, a country is more likely to develop specialization in activities that are relatively closer to export activities, in which it shows current revealed comparative advantages. Export activities associated with capabilities to produce a wide range of other products would show close proximity to many goods and thus clustering. São Tomé and Príncipe has a huge comparative advantage in cocoa beans exports, which exhibit a “long” jump in capabilities to perform alternative activities. Other exports with comparative advantages, such as coffee, pepper, and seafood are also relatively far from clustered areas of the product space (See Figure 13).

15. **Best prospects for diversification, from a product-space perspective, are for cocoa preparations (chocolate), which represent a small portion of exports from São Tomé and Príncipe.** Based on international data, the preparation of cocoa into chocolate can be associated with capabilities to export a wide range of other products. The proximity to many products in this case refers to similar capabilities required to produce, and export goods related to food processing, primarily dairy products and animal products, as well as associated industries related to food packaging, such as paper and plastic grapping, etcetera. This, however, may be heavily driven by the high concentration of chocolate confectionary in Europe and North America. The product-space for cocoa beans, on the other hand, has associated capabilities with cocoa butter, coconuts, and rubber (the last with no clear relevance for the case of São Tomé and Principe). From cocoa beans, there is a primary relationship with coconuts (See Figure 14), for which São Tomé and Principe has a comparative advantage, and a secondary relationship with basketware, in which there is no current pattern of exports. From basketware, similar know-how may be used to produce wood ornaments and a diversified cluster of products related to apparel. However, it is not clear that an apparel industry is viable for São Tomé and Principe, as it tends to be labor intensive. Coffee and pepper are other goods with revealed comparative advantages and relatively distant from other clustered activities (See Figure 12).

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**Figure 9 – Share of exports products for São Tomé and Príncipe and comparators: 2015**

**Figure 10– Exported products and concentration index for São Tomé and Príncipe and comparators: 2015**

Source: Staff elaborations from Comtrade data.
IV. São Tomé and Príncipe’s exports are concentrated in European markets, albeit to a less
degree than product concentration.

16. Exports from São Tomé and Príncipe are destined primarily to Europe. All top eight export
market destinations are European Union (EU) countries and account for 92 percent of exports in 2017
(See Figure 15). Angola is the only regional market among the top 10 destinations for exports from São
Tomé and Príncipe, accounting for only 2 percent of exports, with most of these exports reflecting sale of
coconuts.

17. The EU purchases most exports of cocoa beans from São Tomé and Príncipe, but São Tomé and
Príncipe still remains a small supplier in this market. About 98 percent of cocoa exports from São Tomé
and Príncipe were sold in the EU in 2017, leaving 2 percent that is sold outside the EU, mainly to
Switzerland and the United States. While most exports of cocoa beans from São Tomé and Príncipe go to the EU, this represents a very small share of EU imports of cocoa bean (0.2 percent). Big suppliers of cocoa beans into the EU, include other West and Central African countries like Côte d’Ivoire, Ghana, Nigeria, and Cameroon (See Figure 16), together accounting for 85 percent of cocoa bean imports. Other more remote countries in Latin America, such as Ecuador, Peru, and the Dominican Republic have tended to supply larger quantities of cocoa to the EU.

18. Although São Tomé and Príncipe’s exports are more diversified in terms of markets than in terms of products, market concentration is also high. Among comparators, São Tomé and Príncipe served the least number of markets with exports above a threshold of USD 10,000 (See Figure 17). In 2015, it served about 13 markets, which is larger than the number of products exported. Further, exports tend to be less concentrated in markets. Looking at the HH index shows that, while São Tomé and Príncipe is the most concentrated exporter in terms of product, when it comes to markets, it is more in the middle of the pack relative to comparators. The index of market concentration for São Tomé and Príncipe was 0.2 (compared to 0.8 for product concentration). Mauritius is the most diversified exporter in terms of export markets based on both the number of market served and the lowest concentration of exports in these markets.

19. São Tomé and Príncipe has been gaining market shares in principal markets in Europe, while not in all. In particular, the county has been losing market shares in Portugal (See Figure 18). However, it has experienced very rapid export growth to Germany and France. This is concentrated in cocoa and based on small shares to start with. Yet, unit values have been typically higher in these market, consistent with volumes been diverted to higher paying markets.

20. São Tomé and Príncipe’s exports to regional market in Africa are low and losing market shares. For Angola, its most important regional partner, São Tomé and Príncipe has been increasing exports at a slower pace than the growth of global exports into that country (2.9 percent versus 7.3, respectively), resulting in lower market share in neighboring Angola over time.

Figure 15– Principal export markets for São Tomé and Príncipe: 2017

<table>
<thead>
<tr>
<th>Country</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Netherlands</td>
<td>35</td>
</tr>
<tr>
<td>Spain</td>
<td>25</td>
</tr>
<tr>
<td>France</td>
<td>15</td>
</tr>
<tr>
<td>Belgium</td>
<td>10</td>
</tr>
<tr>
<td>Germany</td>
<td>5</td>
</tr>
<tr>
<td>Portugal</td>
<td>10</td>
</tr>
<tr>
<td>Italy</td>
<td>5</td>
</tr>
<tr>
<td>Austria</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: Staff elaborations from Comtrade data.

Figure 16 – Principal suppliers of cocoa beans into the EU: 2017

Source: Staff elaborations from Comtrade data.
V. Export growth comes from selling more of the same products to the same markets making for high survival rate of trade relationships

21. The majority of the export growth in São Tomé and Príncipe comes from selling more of the same product to the same markets. Export relationships comprise both the product and the market dimension. A country can expand trade by expanding either its product and market scope, or by intensifying trade in existing product or markets or both. A useful decomposition is to understand how much of a country’s export growth is due to reaching new markets or coming up with new products (the extensive margin), versus growth related to the deepening of existing product-market relationships (intensive margin of growth). As Figure 19 shows, about 60 percent of growth between 2005–2015 for São Tomé and Príncipe was due to surviving relationships (i.e., product and market combinations served in both periods, e.g., cocoa beans to the Netherlands).

22. The second largest component of growth seems to be related to exporting existing products in new markets. This likely reflect the expansion in the number of markets, although still mostly within Europe. This also needs to be taken with a grain of salt as it can include markets that are not “new” but that purchase exports from São Tomé and Príncipe in alternating years.

23. Very little growth in exports in São Tomé and Príncipe comes from selling new products to new markets. When this occurs, however, it is more common because of the introduction of an existing export product into a new export market, than the introduction of a new product in a new market. For example, selling cocoa preparations in a market where São Tomé and Príncipe had only exported cocoa beans before.

24. Well-established export markets and well-established products make São Tomé and Príncipe perform relatively well in terms of the survival of export relationships. São Tomé and Príncipe falls in the middle of the range for the survival of trade relationships, when compared to other peers (see Figure 20). In this respect, among the economies compared, São Tomé and Príncipe outperforms countries like Mauritius, Belize, Seychelles, and St. Lucia, with higher probability of sustaining a product-market

Source: Staff elaborations from Comtrade data.
relationship five years later. This ability to maintain product-market relationships is clearly driven by its trade of cocoa to principal European buyer. While this maturity of export relationships is good, without progress in the extensive margin, the export diversification of the of the country will remained limited.

Figure 19 – Export growth in São Tomé and Príncipe by margin of trade: 2005 to 2015

Figure 20 – Five-year survival rate of export relationships for São Tomé and Príncipe and comparators: 2010–2015

Source: Staff elaborations from Comtrade data.

VI. São Tomé and Príncipe’s exports are not of technology products

25. São Tomé and Príncipe has no significant exports of technology products. This is not surprising, given the high concentration of exports in cocoa in the export basket for the country. Most exports from São Tomé and Príncipe relate to primary products. This has been consistently being the case in recent years (2015), as well as in the past (2005), with little change over the last decade (See Figure 21 and Figure 22).

Figure 21 – Share of exports by technological classification in São Tomé and Príncipe and comparators: 2005

Figure 22 – Share of exports by technological classification in STP and comparators: 2015

Source: Staff elaborations from Comtrade data.

26. Among peers, the country with the most sophisticated exports, in terms of the highest share of technology goods, is Mauritius.¹ However, even for this country, the largest share of exports relates to

¹ This is based on a breakdown of countries’ exports into five categories (resource-based, primary, low-technology, medium-technology, and high-technology products) following the classifications by Lall (2000). In this classification, industries (at the SITC 3-digit level) are assigned to the five categories based on available indicators of technological activity. Examples include textile (low-tech), automotive (medium-tech), and electronic (high-tech) products.
low-technology goods. Combined, technological products for Mauritius (low-, medium-, or high-tech) amounted to more than half of exports for Mauritius in 2015. The second comparator with more technology goods in 2015 would be St. Lucia, with about 45 percent of export. For all other comparators, including São Tomé and Príncipe, export tend to be either primary or resource-based products. Export from Seychelles, in particular, are heavily concentrated on resource-based goods.

VII. Services exports, especially tourism, are the main export of São Tomé and Príncipe

27. Beyond goods, São Tomé and Príncipe is an exporter of services, primarily related to tourism. In 2015, it exported travel services in the amount of USD 62.1 million (see Table 2), several times higher than the total of merchandise exports for that year of USD 9.2 million. These exports in travel services accounted for the majority of services exports (about 79 percent). This is also the services segment that has been growing the fastest in terms of exports, with an annualized growth rate of close to 24 percent between 2005 and 2015. In terms of shares of services exports, preliminary data for 2017 shows that travel services are raising its importance to at much of 85 percent of all services export for the country.

28. The rapid increase of travel services has turned the country from a net importer of services to a net exporter of services. In 2005 and 2010, the country ran a deficit in terms of services trade (See Figure 23). This turned around in 2015, when the country ran a services trade surplus of about USD 10 million. Early data for 2017 shows that this surplus continues, mostly driven by exports in travel services. Despite the surplus in services trade, the overall trade balance (for goods and services) for the country has consistently remained in deficit over time, but the rapid development of the tourism sector has certainly been a positive contributor in closing the current account gap for the country in recent years.

Table 2 – Export of commercial services of STP and revealed comparative advantage: 2005 and 2015

<table>
<thead>
<tr>
<th>Services</th>
<th>2005</th>
<th></th>
<th>2015</th>
<th></th>
<th>RCA index</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Value (USD million)</td>
<td>Share (%)</td>
<td>Value (USD million)</td>
<td>Share (%)</td>
<td></td>
</tr>
<tr>
<td>Good-related, transport</td>
<td>0.142</td>
<td>1.5</td>
<td>0.37</td>
<td>0.5</td>
<td>0.0</td>
</tr>
<tr>
<td>Travel</td>
<td>7.323</td>
<td>78.6</td>
<td>62.11</td>
<td>78.9</td>
<td>3.3</td>
</tr>
<tr>
<td>Construction</td>
<td>0.000</td>
<td>0.0</td>
<td>1.56</td>
<td>2.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Financial services</td>
<td>0.323</td>
<td>3.5</td>
<td>0.01</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Telecom</td>
<td>0.915</td>
<td>9.8</td>
<td>1.84</td>
<td>2.3</td>
<td>0.2</td>
</tr>
<tr>
<td>Other business services</td>
<td>0.316</td>
<td>3.4</td>
<td>11.40</td>
<td>14.5</td>
<td>0.5</td>
</tr>
<tr>
<td>Recreational</td>
<td>0.000</td>
<td>0.0</td>
<td>0.16</td>
<td>0.2</td>
<td>0.2</td>
</tr>
</tbody>
</table>

Source: Staff elaborations from UNCTAD data.

29. São Tomé and Príncipe has a comparative advantage in services exports related to tourism. In 2015, São Tomé and Príncipe showed an RCA index for travel services (based on total services) of 3.3, suggesting a comparative advantage for the country relative to the global economy. Among comparators, São Tomé and Príncipe shows higher comparative advantage with respect to Belize, Cabo Verde, Comoros, etc.

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2 This refers to services category “travel” in trade statistics, which include goods and services acquired by non-residents during visits to the country. Some countries, while not all, may report travel for business or personal reasons separately. Most travel services exports in São Tomé and Príncipe relate to personal travel.
Fiji, Mauritius, and Seychelles (See Figure 24). On the other hand, Dominica, Maldives, St. Lucia, and Vanuatu show higher comparative advantage on travel services. Importantly, all of these economies show comparative advantages in travel services, as most of them are island economies.

Figure 23 – Trade balance in services trade in São Tomé and Príncipe: 2005-2017

Figure 24 – Travel services vs. other services, and RCA indices for travel services, for STP and comparators: 2015

Source: Staff elaborations from UNCTAD data.

VIII. Imports are the largest trade flow, are diversified in product terms, but concentrated on sources

30. Imports of goods represent the most important trade flow for São Tomé and Príncipe. The country imported close to USD 142 million of good trade in 2015 (See Table 3). This is significantly bigger than its exports of either goods or services combined.

31. Imports are much more diverse than export. This likely reflect the need to satisfy domestic demand for a wide variety of products from abroad. Vegetable and food products represent the largest share of imports, highlighting the high need from imported product to satisfy domestic food consumption. Beyond food and agriculture, the country also imports significant amount of machinery, vehicles, and fuels, depending on the year.

32. Import sources are concentrated and Portugal is the main supplier of goods to São Tomé and Príncipe. In 2015, Portugal accounted for the majority of exports to São Tomé and Príncipe (See Figure 25), at close to 60 percent. Regional partner Angola, came second with close to 20 percent. Beyond these two sources, import share tend to be very small, with China and other suppliers accounting for 3 percent or less. In this respect, imports remain very concentrated by source in São Tomé and Príncipe.

33. The imports from Portugal are very varied, covering a wide range of products. Top products include wine, cement, tableware, flour, soybean, water (including mineral), vehicle, rice, beer, and poultry products (See Figure 26). Combined, this accounts for about of one-third of imports into São Tomé and Príncipe from Portugal.
Table 3 – Imports in São Tomé and Príncipe: 2005 and 2015

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th></th>
<th>2015</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Value (USD thousand)</td>
<td>Share (%)</td>
<td>Value (USD thousand)</td>
<td>Share (%)</td>
<td>CAGR (%)</td>
</tr>
<tr>
<td>Animal products (ch. 01–05)</td>
<td>1,489</td>
<td>3.0</td>
<td>6,475</td>
<td>4.6</td>
<td>15.8</td>
</tr>
<tr>
<td>Vegetable products (ch. 06–15)</td>
<td>9,244</td>
<td>18.5</td>
<td>17,657</td>
<td>12.5</td>
<td>6.7</td>
</tr>
<tr>
<td>Food products (ch. 16–24)</td>
<td>8,471</td>
<td>17.0</td>
<td>19,994</td>
<td>14.1</td>
<td>9.0</td>
</tr>
<tr>
<td>Minerals (ch. 25–26)</td>
<td>1,492</td>
<td>3.0</td>
<td>4,591</td>
<td>3.2</td>
<td>11.9</td>
</tr>
<tr>
<td>Fuels (ch. 27)</td>
<td>10,094</td>
<td>20.3</td>
<td>724</td>
<td>0.5</td>
<td>-23.2</td>
</tr>
<tr>
<td>Chemicals (ch. 28–38)</td>
<td>2,188</td>
<td>4.4</td>
<td>5,589</td>
<td>3.9</td>
<td>9.8</td>
</tr>
<tr>
<td>Plastic and rubber (ch. 39–40)</td>
<td>897</td>
<td>1.8</td>
<td>4,502</td>
<td>3.2</td>
<td>17.5</td>
</tr>
<tr>
<td>Hide and skins (ch. 41–43)</td>
<td>17</td>
<td>0.0</td>
<td>222</td>
<td>0.2</td>
<td>29.1</td>
</tr>
<tr>
<td>Wood and paper products (ch.44–49)</td>
<td>524</td>
<td>1.1</td>
<td>2,569</td>
<td>1.8</td>
<td>17.2</td>
</tr>
<tr>
<td>Textiles and textile articles (ch. 50–63)</td>
<td>659</td>
<td>1.3</td>
<td>3,082</td>
<td>2.2</td>
<td>16.7</td>
</tr>
<tr>
<td>Footwear and headgear (ch. 64–67)</td>
<td>144</td>
<td>0.3</td>
<td>1,016</td>
<td>0.7</td>
<td>21.5</td>
</tr>
<tr>
<td>Stone, ceramic, and glass (ch. 68–71)</td>
<td>1,306</td>
<td>2.6</td>
<td>5,788</td>
<td>4.1</td>
<td>16.1</td>
</tr>
<tr>
<td>Base metals (ch. 72–83)</td>
<td>1,806</td>
<td>3.6</td>
<td>6,834</td>
<td>4.8</td>
<td>14.2</td>
</tr>
<tr>
<td>Machinery and electric equip. (ch. 84–85)</td>
<td>4,061</td>
<td>8.1</td>
<td>16,338</td>
<td>11.5</td>
<td>14.9</td>
</tr>
<tr>
<td>Vehicles and transport (ch. 86–89)</td>
<td>6,597</td>
<td>13.2</td>
<td>9,845</td>
<td>6.9</td>
<td>4.1</td>
</tr>
<tr>
<td>Miscellaneous (ch. 90–99)</td>
<td>870</td>
<td>1.7</td>
<td>36,622</td>
<td>25.8</td>
<td>45.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>49,860</strong></td>
<td><strong>100</strong></td>
<td><strong>141,847</strong></td>
<td><strong>100</strong></td>
<td><strong>11.0</strong></td>
</tr>
</tbody>
</table>

Source: Staff elaborations from Comtrade data.

**Figure 25 – Principal suppliers of imports in São Tomé and Príncipe: 2015**

Source: Staff elaborations from Comtrade data.

**Figure 26 – Import from Portugal in São Tomé and Príncipe: 2015**

Source: Staff elaborations from Comtrade data.

**IX.** Among peers, São Tomé and Príncipe is the only country not part of a free-trade area and not yet a member of the World Trade Organization (WTO).

**34.** São Tomé and Príncipe is part of the Economic Community of Central African States (ECCAS), which aims at a free-trade area, but that still remains to be implemented. ECCAS includes the CEMAC.
members of Cameroon, the Central Africa Republic, Chad, Congo, Equatorial Guinea, and Gabon, plus Angola, Burundi, and D.R. Congo. In this respect, the subset of countries belonging to the CEMAC has in theory achieved higher level of integration with their customs union and free-trade area, relative to the whole ECCAS.

35. While São Tomé and Príncipe has no free-trade agreement in force, all other peers have put in force free-trade agreements, with Mauritius being a part of seven agreements. Belize, Fiji, Mauritius, Seychelles, and St. Lucia have completed agreements with the EU. São Tomé and Príncipe can negotiate an Economic Partnership Agreement (EPA) with the EU as part of the Central Africa Region (which includes the CEMAC countries, plus D.R. Congo, and São Tomé and Príncipe). Among these countries, an EPA is in force with Cameroon. EPAs go beyond unilateral preferential regimes and include disciplines on non-tariff measures, provisions on trade facilitation, efforts in trade capacity building, and “rendez-vous clauses” in view to continue deepening the agreement in other areas of reform.

36. Among peers, São Tomé and Príncipe and Comoros are the only countries not member of the WTO. Indeed, as an observer to the WTO since 2001, São Tomé and Príncipe is one of few countries around the world not yet a member, and little progress has been achieved in a possible accession. The country expressed interest to join the WTO in 2005 and a Working Party was established that year. Yet, the country has not presented the Memorandum on the Foreign Trade Regime (the first set of necessary documents on which to base discussions), and the Working Party has not yet met. Thus, in terms of the process toward full membership, over a decade after applying, the country is still at the very beginning. Comoros applied for membership in 2007 and is further along the process, having concluded several rounds of negotiations.

37. As a small economy, São Tomé and Príncipe may have limited capacity for undertaking its intended accession, but other small island economy have succeeded. STP should reactivate its accession process to the WTO and build capacity to do so in accordance to its national objectives. Among comparator countries, Cabo Verde, Seychelles, and Vanuatu negotiated their accession to the WTO. The accession of Cabo Verde, in fact, was relatively quick, taking about eight years from application. In general, the average length to accession for the ten newest members is 15 years. Accession discussions, which involves a process of bilateral, plurilateral, and multilateral negotiations with member countries is yet to start in São Tomé and Príncipe. Establishing a national working group with necessary technical skills and political support would be key to carry out this process. Negotiating principles should, at the same time, reflect national priorities and development goals as identified from national development plans and active consultations with country stakeholders.

38. Joining the WTO could bring economic benefits as STP aims to diversify the economy away from its traditional exports. The increase in WTO membership over the past 20 years suggests that the aggregate “cost of exclusion” from the WTO outweighs the “cost of joining”. The WTO provides for a rule-based trading system with guaranties for market access in terms of most-favored nation and national

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3 A rendezvous clause would be a commitment to engage in negotiations of other policy areas at a later time. For example, to agree to sustain negotiations on a future e-commerce chapter.
4 The others full members became members of the WTO as original parties to the General Agreement on Tariffs and Trade (GATT).
treatment. Moreover, the process of accession involves bilateral, plurilateral, and multilateral negotiations that can accelerate domestic reforms towards improving the environment for investment in trade-oriented economic opportunities. Finally, small and less developed countries can access grants and technical assistance to help them negotiate their access and comply with WTO rules.

39. The WTO accession process can be used as important tool for economic development, as it requires that the country undertake substantial policy and institutional open-economy reforms to bring itself into basic compliance and expectations of the WTO membership. Acceding economies undergo structural reforms that can trigger further economic development and help to secure the country integration into the global economy. Such reforms may include adoption of not only trade liberalization measures, but also provisions related to intellectual property rights, foreign direct investment, customs administration, technical barriers to trade and sanitary and phytosanitary measures, government procurement, transparency in trade and governance matters, among other areas.

40. STP accession to the WTO may send a clear signal to investors and traders about a country’s commitment to a more open economy. This could encourage the inflow of foreign investment and technological know-how that ultimately can help the economy growth and improve governance and productivity across sectors which can vital for economy diversification. The membership terms and their WTO commitments in several acceding countries have proven to be important in helping acceding governments undertake domestic reforms by generating long-term predictability and confidence to third parties by locking in reforms at home that could otherwise become subject to reversals. Some evidence in the literature supports the existence of a link between WTO accession and economic growth. The WTO accession can boost economic growth in the years after accession if the country was subject to rigorous accession procedures, and if it commits to deep reforms, leaving a positive long-term impact on the size of the country’s economy (Tang and Wei, 2009).

X. Several main results emerge from this trade outcome analysis for São Tomé and Príncipe as follows

41. São Tomé and Príncipe remains highly dependent on imports to satisfy domestic demand. This demand has been satisfied primarily by imports from Portugal and to a much lesser extend Angola. Imports from other sources have been relatively small in recent year. This highlights better integration, particularly with regional suppliers.

42. São Tomé and Príncipe runs a trade balance deficit in goods and services, but on services it is a net global supplier thanks to rapid growth in travel services. Among comparators, it shows the worst case of a merchandise trade balance. In travel services, the country is showing comparative advantage, and greater comparative advantage to many of its comparators. Furthermore, travel services have turned São Tomé and Príncipe to be a net supplier of services in recent years.

43. Goods exports from São Tomé and Príncipe remain highly concentrated in cocoa products, particularly cocoa beans. The relying on cocoa is unique for São Tomé and Príncipe relative to comparators, and it shows the least diversification of exports among the comparators. Recent trends have been to consolidate this concentration on cocoa exports.
São Tomé and Príncipe has a clear comparative advantage on cocoa products, but beyond that certain products may show promise. Coconuts, on which São Tomé and Príncipe has always have a comparative advantage, and certain fishery products (such as scallops and octopus), are gaining prominence.

Export growth shows substantial variability year by year, given its dependence in agricultural products. In general, however, the long trend has been to an increase on exports, driven by cocoa product. These products are mainly exported to the European market.

Exports of cocoa and to Europe have provided for established markets. However, the country has not been able to expand trading relationships significantly over the year. Especially, São Tomé and Príncipe has not been successful in introducing new varieties of export products in general. This will continue to remain a constraint in its pursue of export diversification.

While most of São Tomé and Príncipe exports (principally of cocoa) go to the EU, the country remains a small global supplier of these products in the EU market. Further, the low concentration of market destinations for São Tomé and Príncipe depends critically on a number of EU markets. Any disruptions of exports from São Tomé and Príncipe to the EU for any technical standard or regulation could have immense consequences for exports of cocoa from São Tomé and Príncipe, as the country has barely any other markets at present beyond the EU.

São Tomé and Príncipe exhibits low export connections with regional markets, as most of its exports are destined to satisfy cocoa demand in Europe. In a significant amount, only exports of coconuts find their way to Angola (but as low as 2 percent of exports).

In terms of regional integration policy, São Tomé and Príncipe, contrary to peer countries in general, has not implemented free-trade agreements or became part of the WTO. The country can benefit from these engagements, especially by concluding an accession to the WTO, which can bring technical assistance to the country in areas such as trade facilitation, together with structural reforms to reduce uncertainty for enduring trade and investment relationships.