This paper empirically analysed the effects of TAs on the volume of trade of exports and on the value per unit of manufacturing products exported of member-countries to agreements signed between the years 2000 and 2015, with an ample dataset comprised of 154 agreements and 143 countries, using a gravity model of trade, updated with the best practices in the literature, and subsequent extensions to capture the heterogeneous effects of TAs on its members, and on their disaggregated bilateral trade relationships classified as North-North, North-South and South-South, relative to non-TA-members. We found coefficient magnitudes consistent with the empirical literature and high degrees of heterogeneity on the effects of TAs, and no conclusive answer to the research questions of whether South-South TAs act as building blocks or stumbling blocks to developing countries, or if they are preferable to North-South agreements. We proposed some potential mechanisms driving the heterogeneity of the effects of TAs, and also cautioned against threating the “South” as a homogeneous group.

In this paper we have proposed several methodological innovations to advance the literature on the effects of TAs. We use a modern data set, comprised of data between the years 1995 and 2015, with data on both international and domestic trade. We do not focus our sample on particular regions or groups of countries, nor on specific agreements. We try to cover as many countries and TAs as possible, without over representation of developed or “North” countries or of the biggest agreements. We extend traditional gravity estimations to capture heterogenous effects of TAs instead of the average “total” partial effect as is common in the literature, as well as heterogenous effects of TAs on the different categories of bilateral trade relationships (North-North, North-South and South-South). Finally, we complement our main estimations by replacing bilateral trade volume with the export product unit value of manufacturing products (HS codes 84 and 85).

Future research on the heterogenous effects of TAs using gravity models is promising, as the empirical methods continue to improve, and they are applied to get more detailed and nuanced estimates that can better guide the developmental decisions and policies of developing countries. Some potential areas for future research on “South” countries include research on the dynamic effects of TAs on the industrialization process and on technology absorption and upgrading; extending gravity models to capture effects of country-pairs member to a TA, and to capture effects on individual countries of a country-pair member to a TA (Baier et al., 2019); extending the gravity model to capture effects of different types of TAs depending on their depth and content; different sub-classifications of “South” countries should be explored to further understand the limits to South-South cooperation in trade; and, beyond trade volume, the measure of export product unit value can be used to capture the increase or decrease of the value per unit commodities and goods in specific industries.

References

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