This section reviews the literature on the theoretical and empirical potential effects of PTAs on exports and welfare and situates the analysis in the relevant field of research.

**Theoretical Framework**

Stumbling block vs building block dichotomy

**Comparative advantage and trade creation and diversion**

Traditional trade theory emphasizes trade creation (allowing cheaper products from PTA members to substitute for more expensive domestic products) and trade diversion (substituting products from non-PTA members that were cheaper before the PTA with products from PTA members that are cheaper now due to the PTA reducing tariffs) (Schiff, Winters and Schiff, 2003) and argues that the impact of PTAs depends on the comparative advantage of member countries. In particular, it argues that PTAs magnify the impacts of a country’s comparative advantage, relative to the world and to other member countries signatories of a common PTA. If member countries of a PTA have a comparative advantage on a factor endowment relative to the world, but one country also has a comparative advantage on the same factor endowment relative to the other member countries, the country with the “extreme” advantage will be more vulnerable to trade diversion effects, while countries with “intermediate” advantages will gain from trade creation effects, predicting divergence of trade outcomes, and winners and losers among member countries. (Venables, 2003). This emphasis on the trade creation and trade diversion effects among member countries with significant differences in the comparative advantage of their factor endowments relative to the world and to each other, suggests that, when the country with the “extreme” comparative advantage is a high-income country, relative to a lower-income country with an “intermediate” comparative advantage, the lower-income country should seek a PTA with the other high-income country as it will gain more. On the contrary, if both members are lower-income countries, the country with the “extreme” comparative advantage, should not seek a PTA with the other low-income member country as it will be vulnerable. (Sanguinetti, Siedschlag and Martincus, 2010). This logic can be easily extended to the North-South and South-South types of PTAs, as “North” countries will reasonably have an “extreme” comparative advantage in skill-intensive goods relative to “South” countries, while “South” countries will reasonably have an “extreme” comparative advantage in labour-intensive goods relative to “North” countries. Furthermore, it is also argued in the literature that benefiting from economies of scale through South-South economic integration is more difficult because member countries do not have complementary production and trade structures, nor high interpenetration of each other’s markets on intra-industry trade. (Schiff, Winters and Schiff, 2003). Also, South countries can benefit from greater technological diffusion from North-South PTAs as the “North” countries have higher industrial development as well as investment in research (Schiff and Wang, 2008). Finally, as the trend in manufacturing has been in favour of vertical specialization or value chain fragmentation (Krugman, 1995), North-South PTAs are preferable as developing countries strive to capture a greater portion of the value added. Based on these arguments, developing countries should therefore be better off entering into North-South rather than South-South agreements.

**Economies of Scale, Input-Output linkages and Products Exported**

In contrast, classical development theory and new trade literature go beyond the static welfare gains from trade creation and diversion effects when analysing the effect of PTAs. Developing countries can use PTAs to overcome limitations of their domestic market size in the industrialization process (Dahi and Demir, 2013). Such potential increases in the effective market size could help industries in developing countries achieve economies of scale and increase the skill content of production and exports, which in turn could improve the market penetration of exports of developing countries in developed markets in industrial products (Fugazza and Robert-Nicoud, 2006). Also, due to similarities in production patterns and resource base among developing countries, incentivising trade by lowering barriers could facilitate appropriate technology transfer, according to the needs of developing countries (UNIDO, 2006). Of particular relevance for developing countries, it is argued that the products that countries export matter for long-term economic performance. If a country exports products from industries that are more technology-intensive, these are likely to create input-output linkages and spillover effects in human and physical capital accumulation and innovation (Hausmann, Hwang and Rodrik, 2007). Furthermore, by allowing for factor accumulation, PTAs can reduce intra-block trade barriers and increase competition and access to cheaper intermediate goods, triggering changes in industrial production in member countries. As such, PTAs among “South” countries can reduce intra-South barriers and lead to industrialization of the region (Puga and Venables, 1998). In this context, what matters are not static gains from PTAs, but dynamic gains in industrial development. If South-South PTAs truly promote industrial development of member countries, they might be desirable even if there are short-term losses due to trade diversion (Dahi and Demir, 2013). Other arguments in the development literature emphasize the asymmetries in bargaining power between “North” and “South” countries, which could lead to worse outcomes for developing countries if their policy space gets restricted (Thrasher and Gallagher, 2008). To the extent that these arguments hold true, developing countries could be better off entering into South-South rather than North-South agreements, or at least should pursue both kinds of agreements.

**Empirical Evidence**

The preference of a type of partner in a PTAs then becomes an empirical question. Do South-South PTAs promote trade and industrial development among their members? The empirical literature overall reports positive effects of PTAs on the trade of member countries, but with considerable heterogeneity on the estimation coefficients. For example, a meta-analysis of research papers on the effects of PTAs on member trade, encompassing 85 papers and 1827 estimates, finds an average of 0.59 (an 80% increase in trade), with a median of 0.38 (a 46% increase in trade), a wide range of coefficient estimates (-9.01 to 15.41), and only 312 out of 1827 estimates reported as negative (Cipollina and Salvatici, 2010). Furthermore, a survey of the empirical research on the effect of economic integration agreements on international trade flows, as well as using the most modern econometric techniques to address biases, found an increase of 50% on international trade, but with significant variation in the effects of specific agreements (Kohl, 2014). However, much of the empirical research is focused on the effects of PTAs on or including the most advanced economies. Empirical research focused exclusively on the effects of South-South PTAs or comparing them to the effects of North-North or North-South PTAs, is much less prevalent in the literature. However, several research papers do control for the type of agreement (North-South or South-South) and have found positive and significant effects of South-South PTAs (Medvedev, 2006; Mayda and Steinberg, 2007; Dahi and Demir, 2013; Deme and Ndrianasy, 2017), but these articles tend to be limited in their scope, sample size or only focus on trade volumes.

**Significance of Exports**

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