

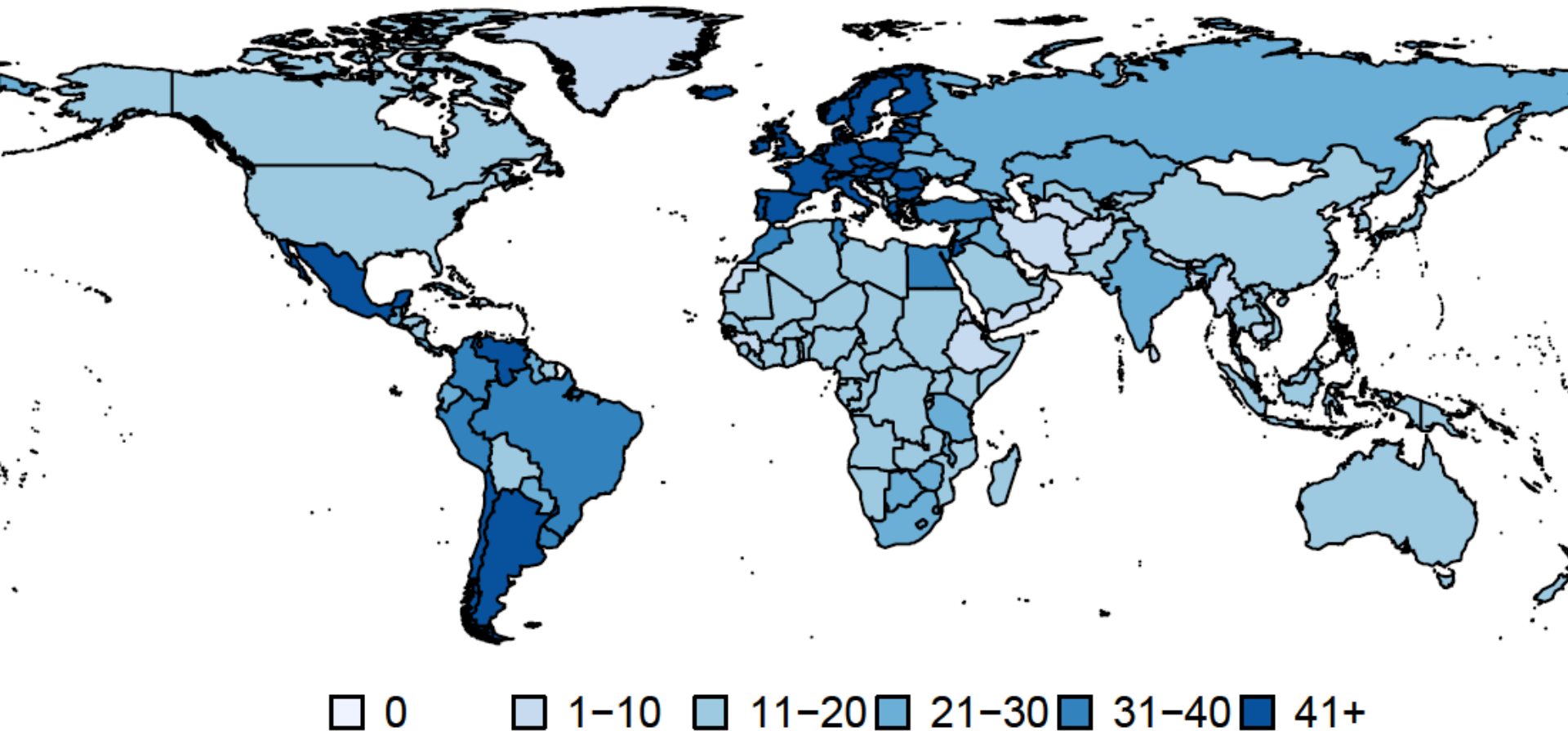
The Design of Trade Agreements (DESTA)

Prof Manfred Elsig
World Trade Institute
University of Bern
manfred.elsig@wti.org

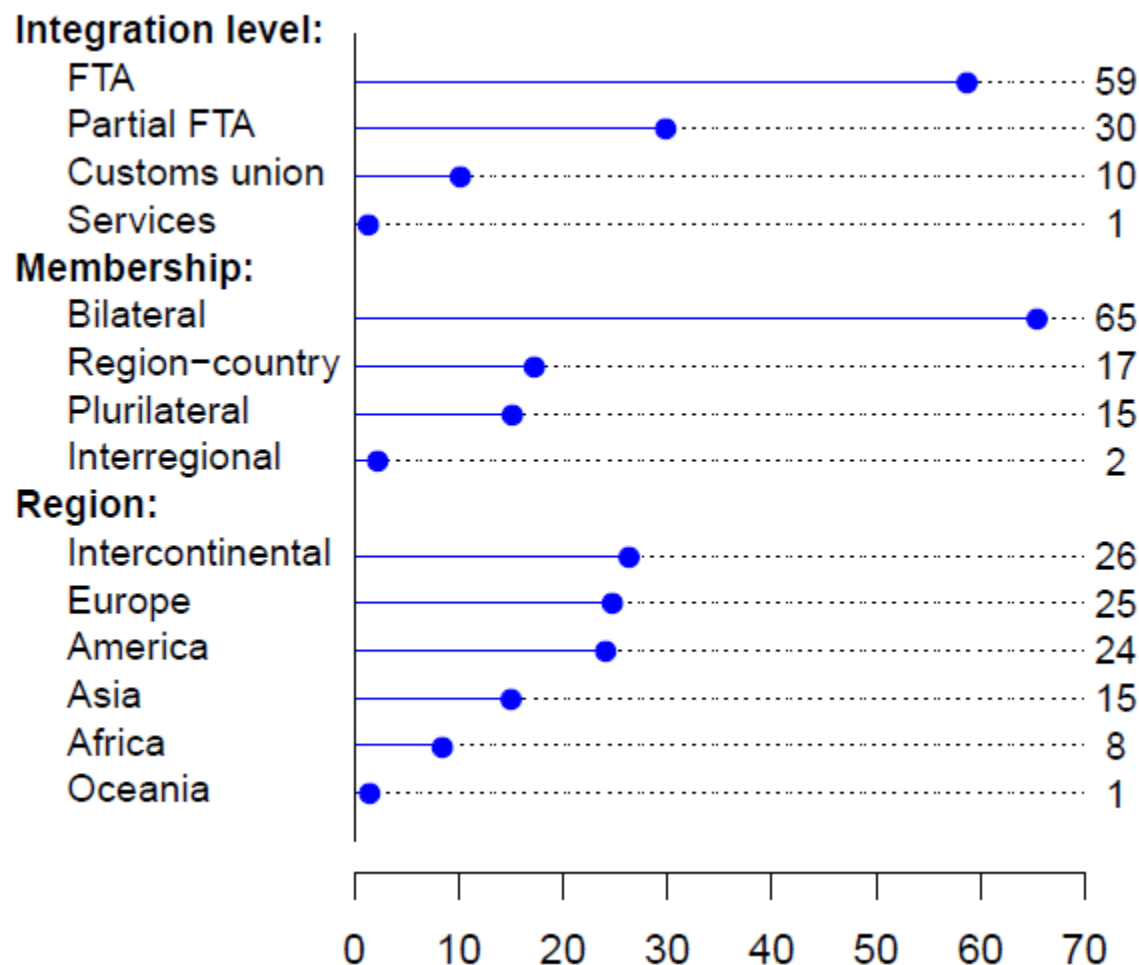
**The Multilateral Trading System and the New Generation
of Free Trade Agreements**
Istanbul, 26 November 2012

DESTA – some information

- 732 preferential trade agreements (1945-2009), 587 coded
- More than 100 data points per treaty
- 10 issue areas: tariff liberalization, services, intellectual property rights, investment provisions, public procurement, TBT and SPS, trade remedies (anti-dumping and safeguard measures), competition rules, dispute settlement provisions, non-trade issues
- Quality control: double coding (inter-rater agreement)

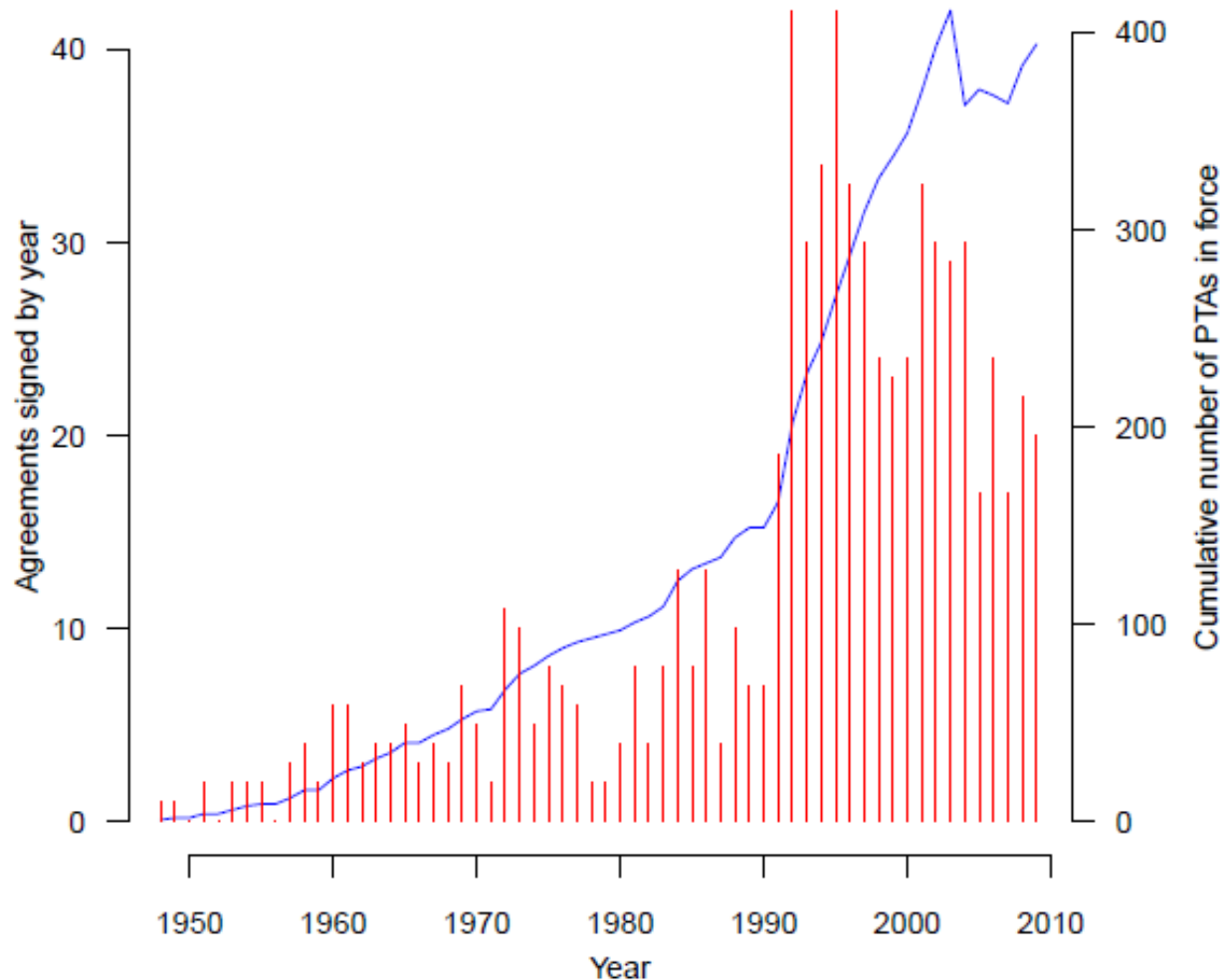


Types and regional composition

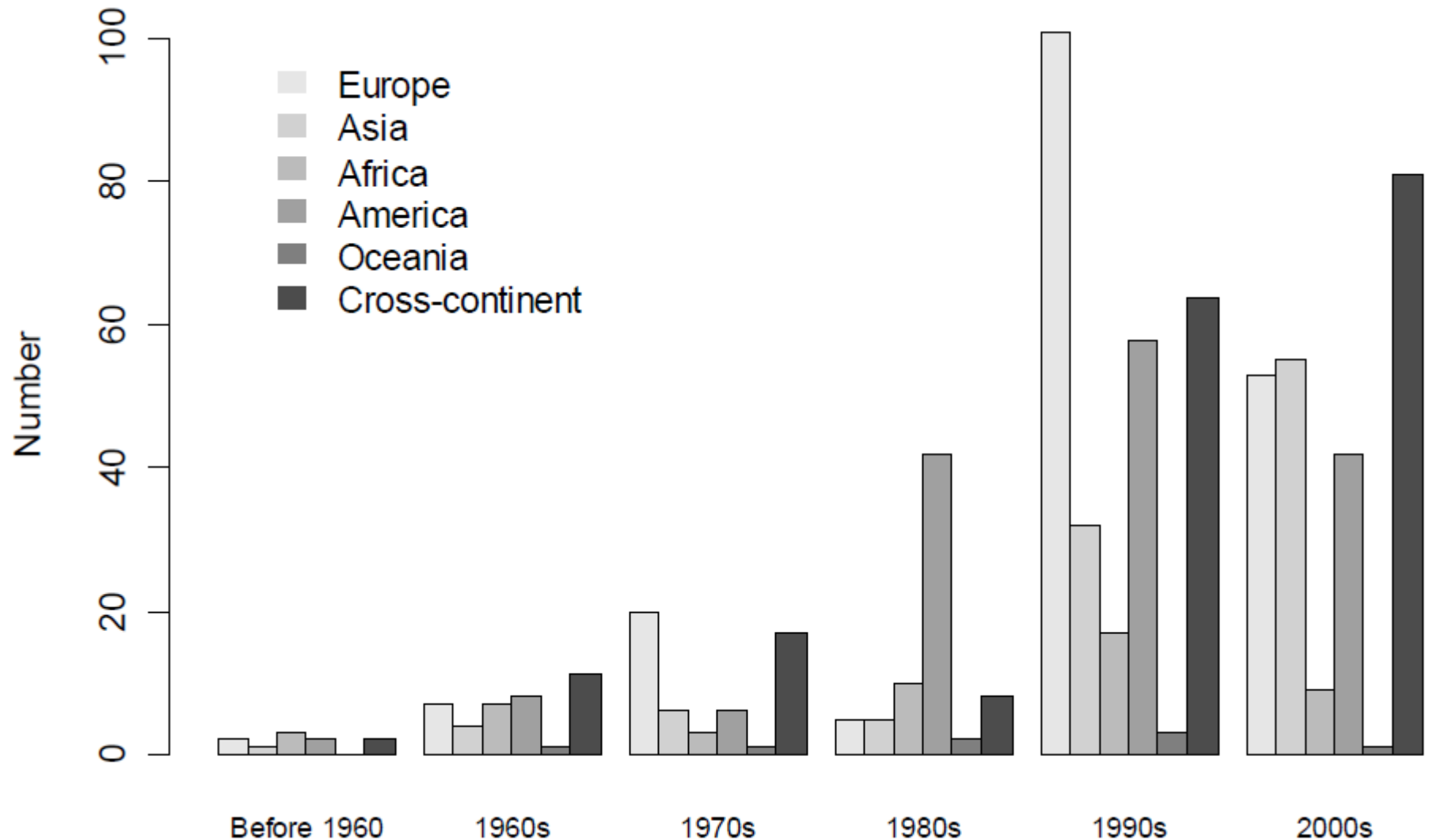


PTAs over time

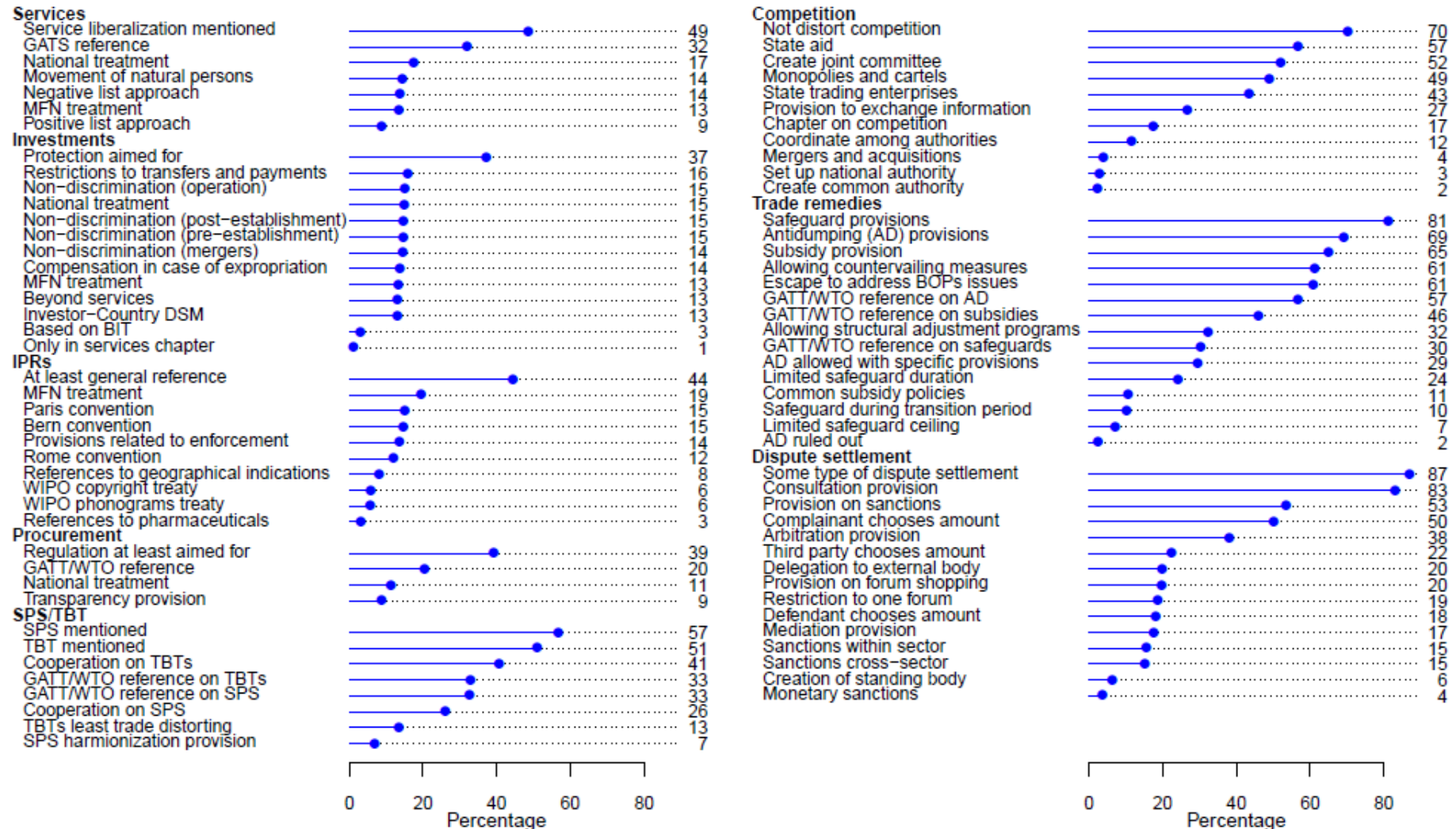
Figure 1: PTAs over time.



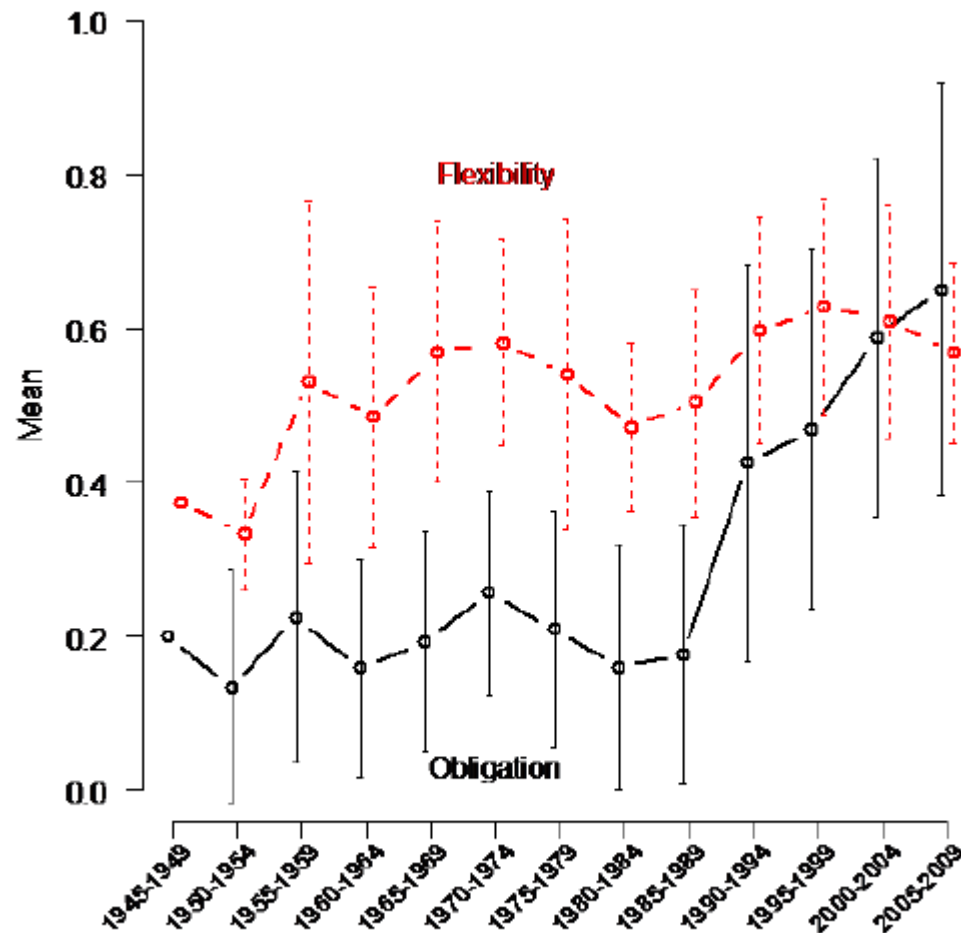
Regional composition over time



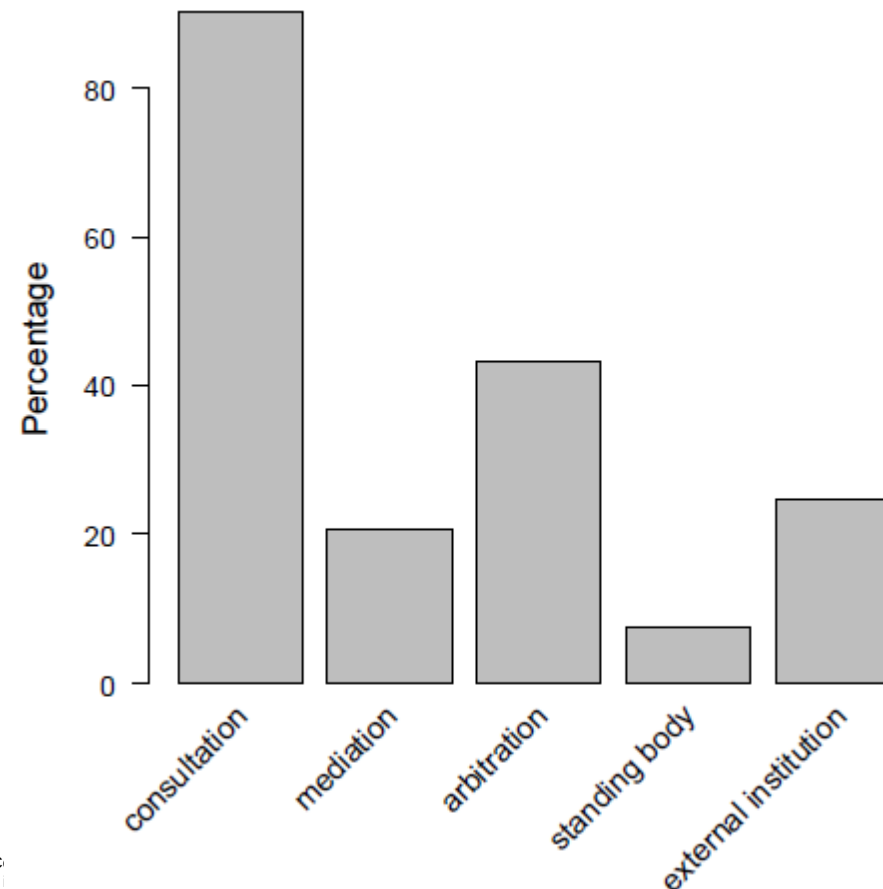
Variation in design



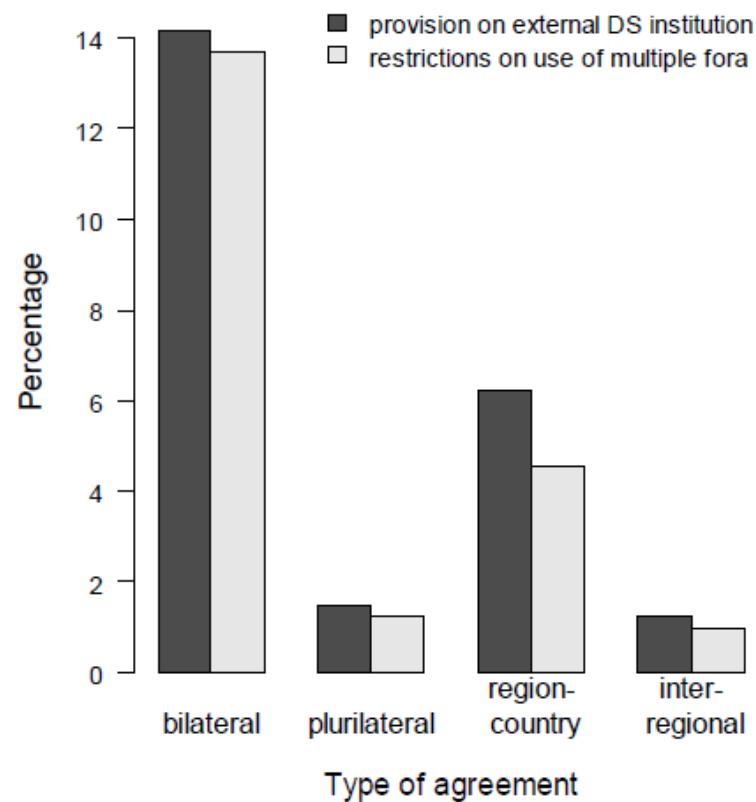
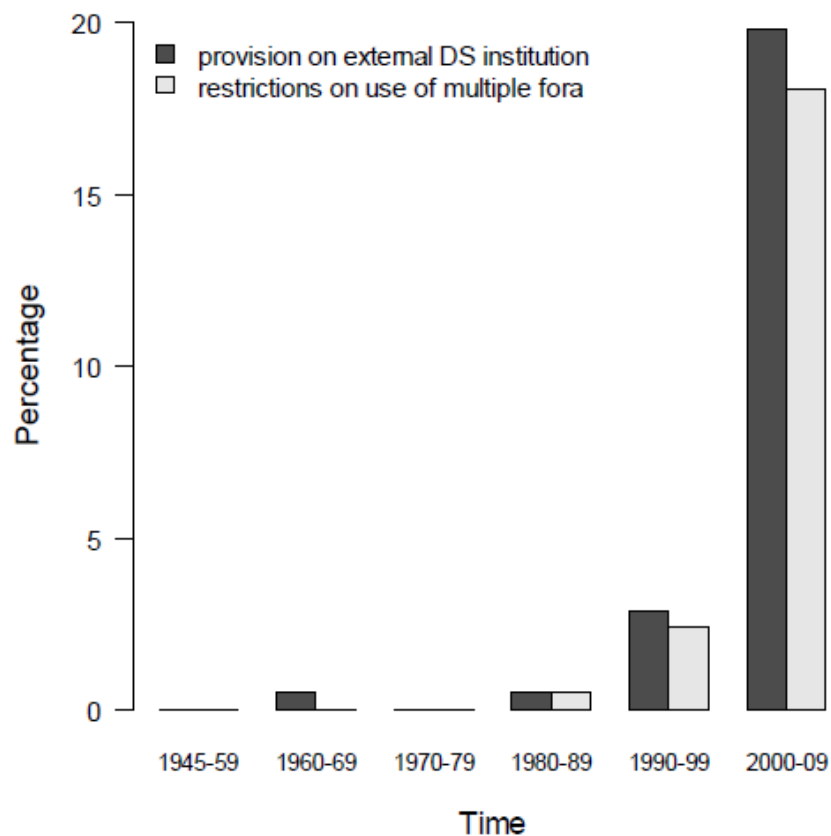
Depth and Flexibility over time



One example: Dispute Settlement (Enforcement)



(Legal) Forum Shopping



(Legal) Forum Shopping

- PTA negotiators are aware of the challenges of forum shopping
- They draft language to restrict negative effects
- Diffusion of formulations
- In practice: few disputes (in bilateral PTAs), loopholes
- Is the WTO dispute settlement system (and its actors) “willing” to respond to a “regionalization of multilateral dispute settlement”?

The Design – Trade Flow Nexus

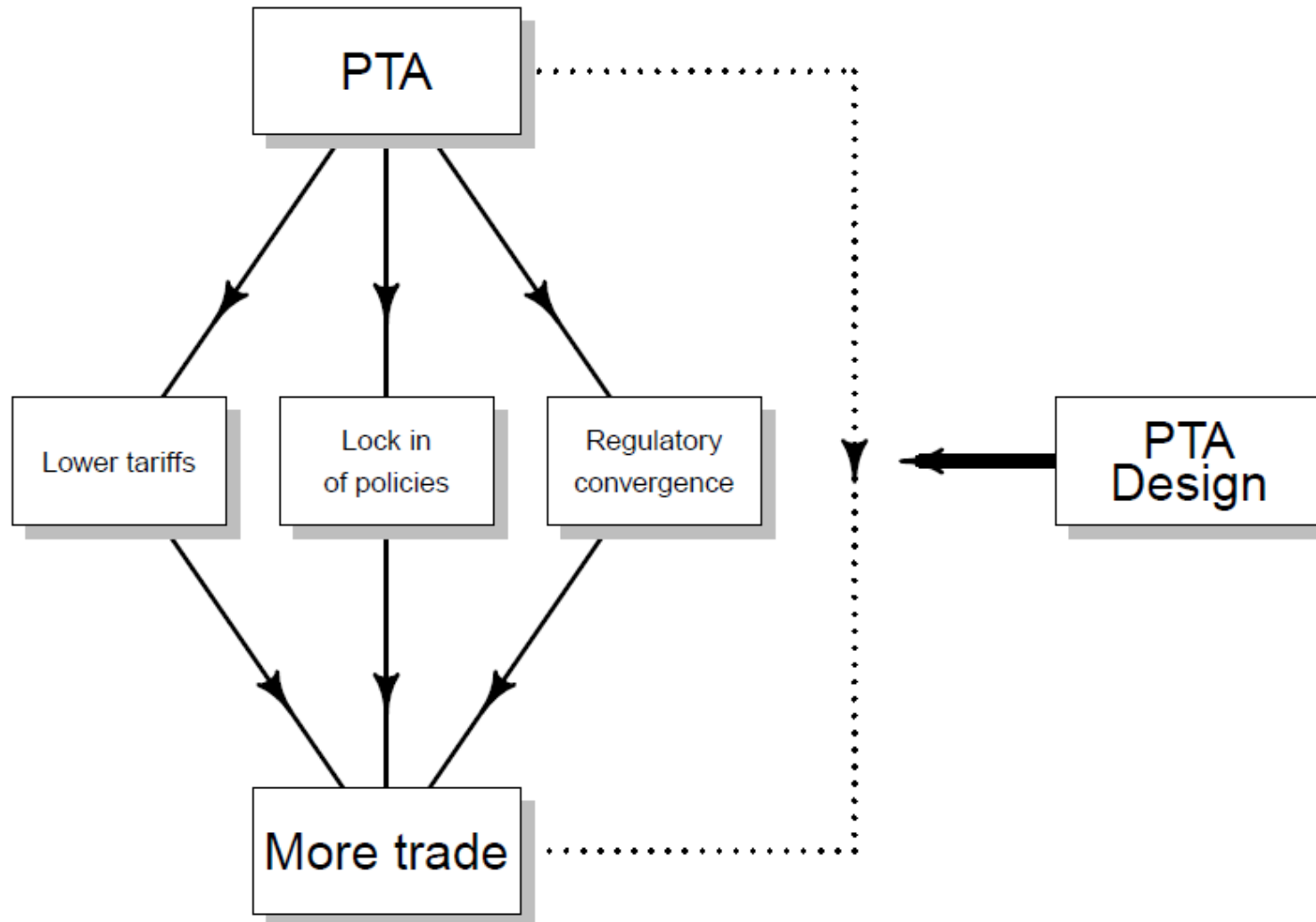
- An illustration of the usefulness to pay more attention to design differences
- The litmus test for PTAs (in relation to its “effects”)
- **Trade flow effects** (focusing on concessions beyond tariff concessions)
- Results: Effects differ for deep and shallow agreements; generally outperform WTO effects.

Literature

Literature:

- Political science literature: mixed evidence, CNN effect, non-trade objectives
- Economic studies (large-n studies): effects are positive (Baier and Bergstrand 2007, 2009, Goldstein et al. 2007), yet no design differentiation

Causal Argument

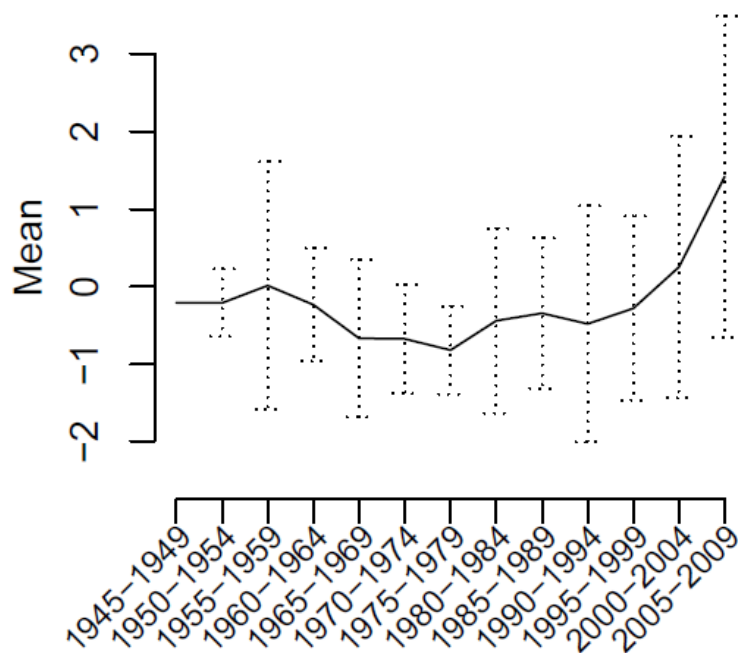


Operationalizing design: here depth

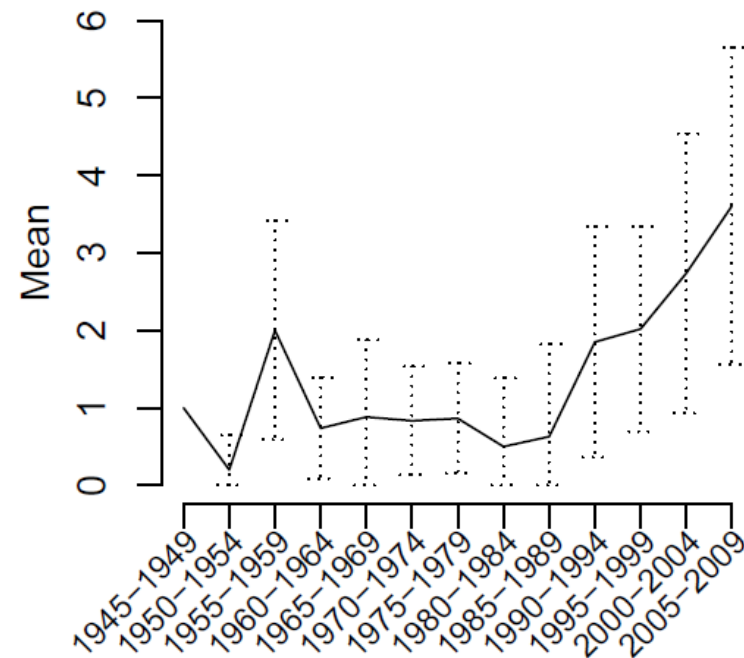
- Additive score (0-7), e.g. substantive provisions concerning services, investments, technical barriers to trade (TBT) and/or sanitary and phytosanitary (SPS) measures, public procurement, competition and intellectual property rights.
- Factor analysis (58 variables, variables highly correlated, not all equally important)

Operationalizing design: here depth

a.) Factor analysis

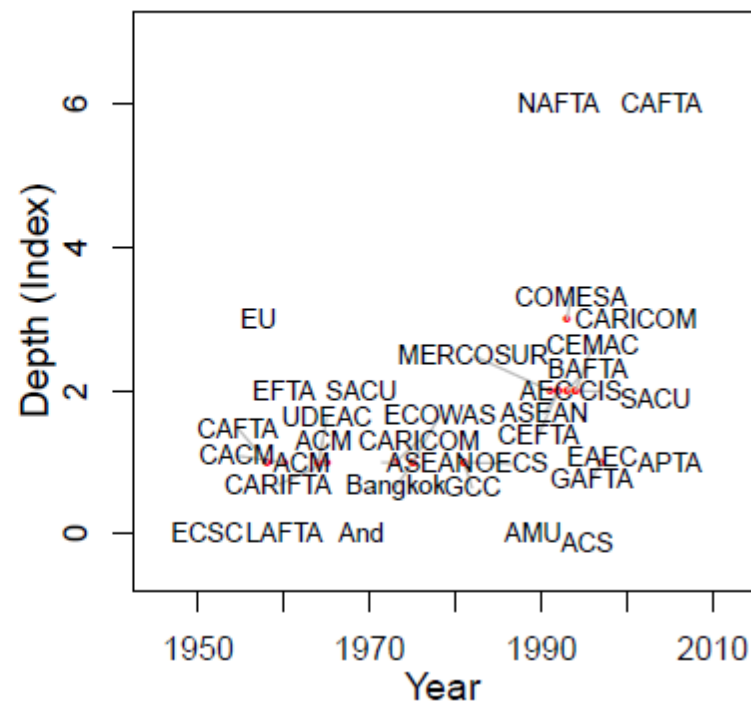
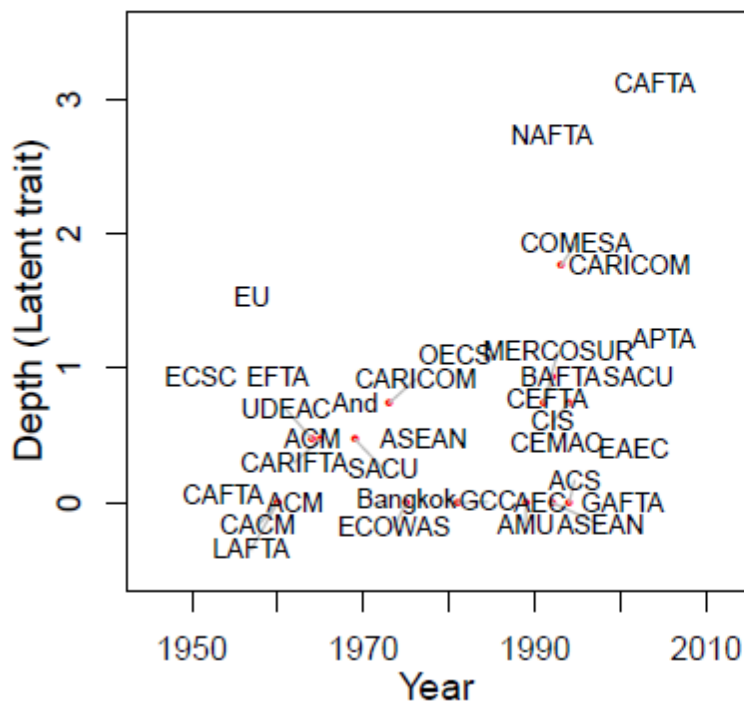


b.) Index of depth



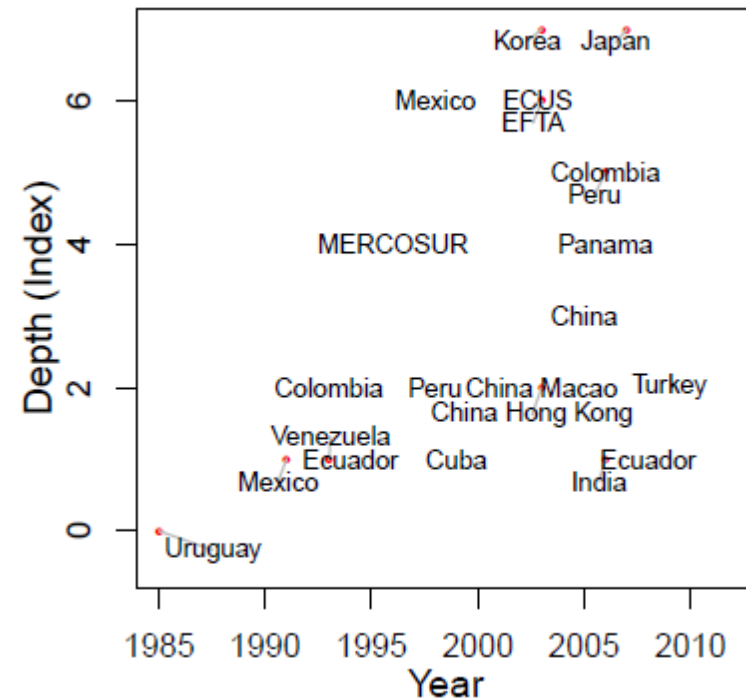
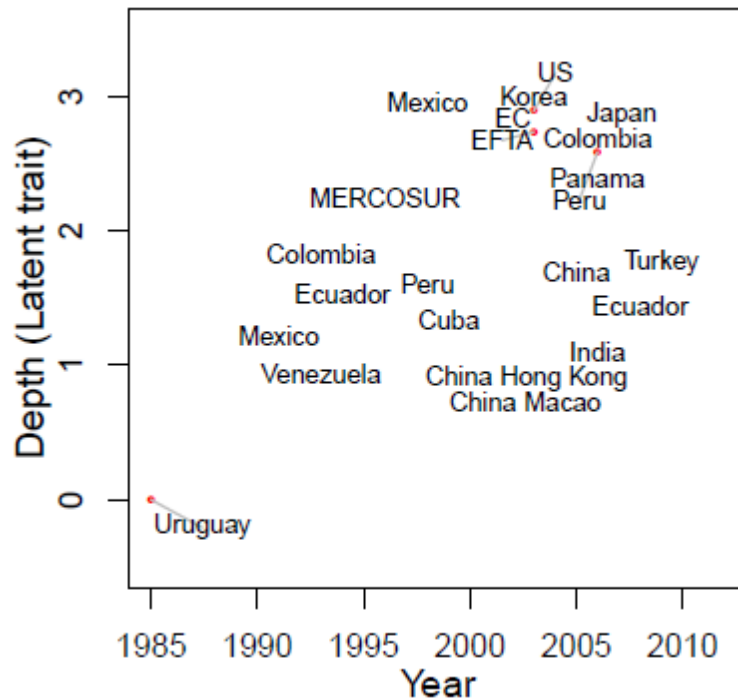
Depth over time

a.) Sample of plurilateral agreements



Depth over time

b.) Chilean agreements



Turkish PTAs: (some shallow ones, no very deep ones): Lowest 10% category

- Bosnia and Herzegovina 2002
- Estonia 1997
- Montenegro 2008
- Tunesia 2004

Research Design

- Gravity model
- 22,690 pairs of states (directed dyads)
- 536 PTAs (1948-2009)
- Trade (dependent variable): Gleditsch, IMF
- Depth (factor analysis) as main explanatory variable
- Control variables

Results

Table 2: The effect of PTAs on trade

Main variables	Increase in trade (%)	C.I.
<i>Deep_anticipatory</i>	40	[39, 41]
<i>Deep_short – term</i>	52	[51, 53]
<i>Deep_middle – term</i>	53	[52, 54]
<i>Deep_long – term</i>	65	[64, 66]
<i>Shallow_anticipatory</i>	-10	[-11, -9]
<i>Shallow_short – term</i>	15	[14, 16]
<i>Shallow_middle – term</i>	19	[18, 20]
<i>Shallow_long – term</i>	34	[33, 35]
<i>PTA</i>	31	[30, 32]
<i>GATT/WTO</i>	4	[3, 5]

Discussion and implications

- PTAs increase trade, important differences deep vs. shallow agreements and short term and long term effects
- Future steps: More detailed tariff data (for post 1990 treaties), analysis of the tariff schedules (front load vs back load), types and regions, individual depth components (e.g. services)

Lessons for the PTA-WTO nexus

- Trade in goods continues to drive the process (exporter discrimination)
- Limits in regulatory areas (competition, subsidies, standards, IPRs)
- Exploring how to multilateralize:
 - Plurilaterals (International Services Agreement, TPP)
 - Critical mass inside the WTO?
 - Dispute settlement as a „bridge“?