Do bilateral Free Trade Agreements (FTAs) promote trade unevenly? An alternative approach for estimating dynamic effects.

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Abstract

In this work, the effects of bilateral Free Trade Agreements (FTAs) on trade flows are studied in a dynamic way. The analysis allows a classification of bilateral FTAs according to their impact over time.

An alternative approach to gravity equations is used. First, a common global trend (the significant trade growth due to globalisation and the profound negative impact of the 2008 economic crisis) is removed from the data through factor analysis. In a second step, once the effect of this common trend has been captured and eliminated, the transfer function analysis is used with the purpose of observing how bilateral FTAs have affected each trade series

The analysis of 101 bilateral FTAs with quarterly trade flows from Q4 – 1982 to Q3 – 2017 shows differences between exports and imports flows in the short and long run effect, as well as in the start date of the impact. Moreover, the crisis of 2008 seems to have had a different influence among traders, which reveals the role that trade agreements might have (or not) as stabilising instruments.