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The impact of regional trade agreements on agrifood trade flows: The role of rules of origin

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Abstract:

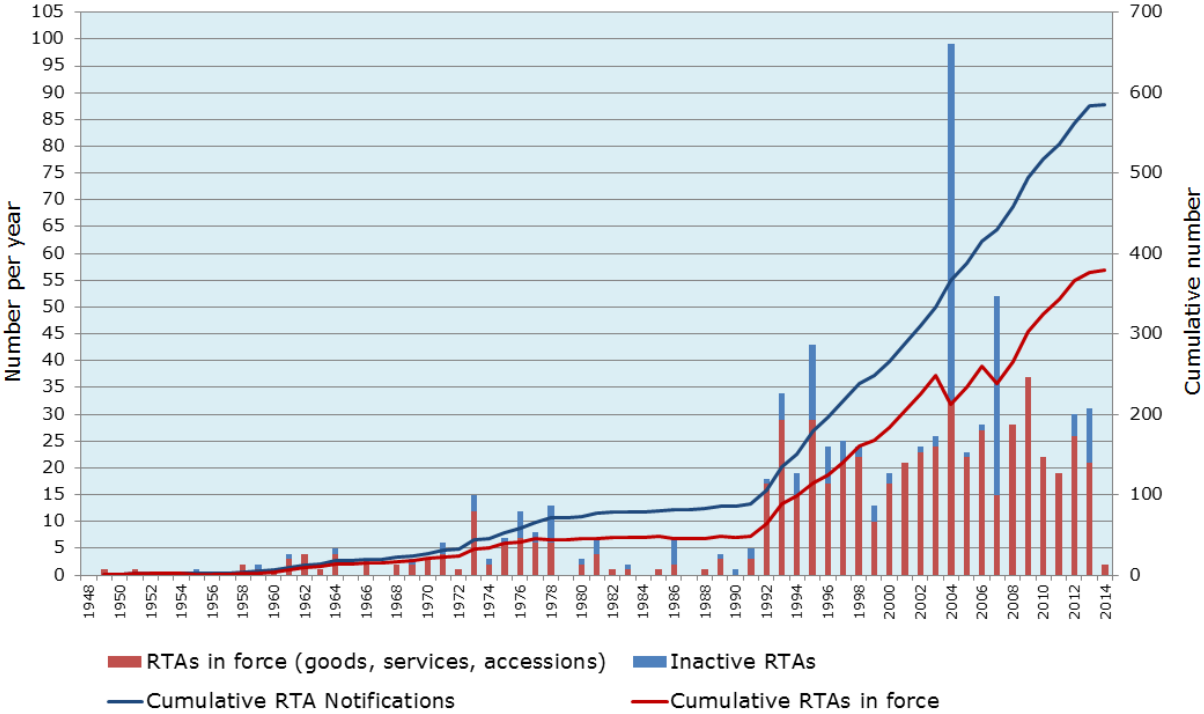
In this paper we provide an assessment of the impacts of RTAs on agricultural trade, putting emphasis on the role of rules of origin (RO) which are always part of these agreements. We distinguish trade in raw agricultural products and trade in processed food products. Our sample includes 180 countries over four time periods: 2001, 2004, 2007 and 2011. We consider the main trade agreements involving major world exporting countries of agricultural commodities and food products. Using a gravity model, we introduce dummies for controlling for the multilateral resistance terms and we use the Poisson-Pseudo Maximum Likelihood (PPML) estimation method to deal with zero trade flows. Econometric results globally confirm that RTAs have a positive impact on trade between member countries, a negative or a non significant direct impact of RO, a negative or a non significant cross impact of RTAs and RO. Our estimation results globally support a significant non linear impact of RTAs, its positive effect on trade between members decreasing with the degree of restrictiveness of involved RO. As expected, our results suggest that trade in food products is more sensitive to RTAs and their RO than trade in agricultural products. Contrary to expectations, our estimation results do not support clear differentiated impact of RTAs and involved RO on North to South and South to North agrifood exports. Finally, our results suggest that RO matter regarding the trade impacts of RTAs.

Keywords: Regional trade agreements, Agricultural trade, food trade, developing countries, gravity, Poisson-Pseudo Maximum Likelihood, rules of origin

Introduction

Regional trade agreements (RTAs) have become increasingly prevalent since the early 1990s (see Figure 1). As of 15 June 2014, some 379 RTAs were in force according to the World Trade Organization.¹ Regional Trade Agreements (RTAs) are preferential trading arrangements between countries or groups of countries. They are designed to encourage open and competitive markets in the participating countries. There are various types of RTAs including free trade agreements (where members have both preferential rates for goods or services but keep their own external tariff rates), customs unions (where members have both preferential rates for goods or services and the same external tariff rates) and non-symmetrical agreements (where members offer each other non-symmetric preferences).

Figure 1. Evolution of the number of RTAs in the world



Source: WTO Secretariat, http://www.wto.org/english/tratop_e/region_e/regfac_e.htm

The proliferation of RTAs generates some discussion regarding their impacts on trade and welfare but also their role as regards the multilateral trade liberalization process. A large body of the literature is concerned with the empirical assessment of the trade and welfare effects of RTAs, either at the global trade level or for some specific sectors. Cardamone (2007) and Cipollina and Salvatici (2010) both provide an extensive review of the main findings in the

¹ http://www.wto.org/english/tratop_e/region_e/region_e.htm, 25 November 2014.

existing literature. First of all, existing work do not provide conclusive results on the welfare impacts of RTAs for both participating member countries and the world at large. Secondly, studies that decompose the trade effects of RTAs into trade creation and trade diversion effects find divergent results, which do not allow for definitely concluding about the net trade-creating or the net trade-diverting effects of considered RTAs. Thirdly, most studies find a positive impact of RTAs on trade between the member countries. However there is still no consensus on the extent of this effect with many different results according to the time period, the considered geographic areas, the studied sectors, the aggregation level of data, the kind of RTA, the econometric methodology, etc. Finally, a large part of estimates tend to be biased due to a series of conceptual problems (Cardamone, 2007) and there is still no consensus about the methodology to be used.

More specifically, three main problems have been identified in empirical studies. First, Anderson and van Wincoop (2003) pointed out that specifications of gravity equations used in numerous studies fail to account for price terms (for both the exporting and the importing countries), which may lead to potential bias into the estimations. Second, as underlined by Bureau and Jean (2013), most studies analyzing the impacts of RTAs on trade suffer from an endogeneity problem since the causality between RTA and trade flows is not well-established. Indeed, it is likely that the probability of a RTA to be signed by one country is not independent from this country's trade flows. In such a case, as stated by Bureau and Jean (2013), the dichotomous indicator variable commonly used in empirical studies to account for RTAs' implementation can no longer be considered as independent of the error term and resulting estimates are biased. The third problem relates to the zero trade flows, which are commonly ignored in empirical studies. Santos Silva and Tenreyro (2006) propose to use a Pseudo Maximum Likelihood estimation technique, which in addition to be consistent in the presence of heteroscedasticity, allows for dealing with the zero values of trade flows in gravity estimations.

In this paper, we are interested in analyzing the impacts of RTAs on trade in agricultural and food products. Furthermore, we pay specific attention to the role of rules of origin which are always part of these agreements. There are few studies providing assessment of the impacts of RTAs on agricultural trade, and among them very little differentiate trade in raw agricultural products from trade in processed food products. To our knowledge there is no existing study analyzing the role of rules of origin in the impacts of RTAs on agricultural trade.

Most existing studies dealing with RTAs' impacts on agricultural trade flows focus either on raw agricultural products or on raw agricultural and food products (e.g., Grant and Lambert, 2008; Jayasinghe and Sarker, 2008; Korinek and Melatos, 2009; Bureau and Jean, 2013).² To our knowledge only Lambert and McKoy (2009) distinguish trade in raw agricultural products from trade in food products. Focusing on trade creation and trade diversion, they find a positive impact of preferential trade associations on intra-bloc trade in both agricultural products and food products. Their findings support trade creation in agricultural products but are inconclusive regarding food products.

The aim of our paper is to add to the existing literature on the impacts of RTAs on agrifood trade by contributing in four directions. First of all, contrary to most existing studies which limit their study sample to specific countries or group of countries, we propose a more systematic analysis by considering nearly all countries (180 countries over 4 time periods: 2001, 2004, 2007, 2011). Secondly, we put emphasis on the role of rules of origin in the trade impacts of main RTAs which are in force in agrifood trade. Thirdly, we distinguish trade in raw agricultural products and trade in processed food products in order to be able to compare the impacts of RTAs on trade of both types of products. Fourthly, we propose a methodological approach allowing for dealing with two of the main problems that have been identified in gravity studies: we introduce dummies for controlling for the multilateral resistance terms and we use the Poisson-Pseudo Maximum Likelihood (PPML) estimation method to deal with zero trade flows.

Following Lambert and McKoy (2009)'s results, our intuition is that the trade impacts of RTAs is likely to be different for raw agricultural products and processed food products, and that the rules of origin involved in RTAs could play a role to this regard. Rules of origin (RO) are helping to determine whether a product exchanged between two countries which are members of a RTA may be considered as originating from the export country and so may benefit from the preferential tariff provided by this RTA. Usually rules of origin require that the product wholly originates or has undergone a substantial transformation in the exporting country. According to Fulponi et al. (2011), in most RTAs which are in force in agrifood trade RO require a chapter change (in the Harmonised System 2 digit) for making the proof of a

² In the following, we name "agricultural trade" the trade in raw agricultural products (i.e., chapters 1 to 14 in the HS classification) and "food trade", the trade in processed food (and feed) products (i.e., chapters 15 to 24). Agrifood trade will be used for designating trade in both agricultural and food products.

substantial transformation in the exporting country. Hence, we think that this makes sense to distinguish trade of raw agricultural products and trade of food products since raw agricultural products are inputs for food products and thus both types of products do not face the same RO restrictions. Fulponi et al. (2011) show that RO are likely to be more restrictive and less easy to meet for processed food products than for raw agricultural products.

The paper is organized as follows. Section 1 provides a brief review of the literature on the impacts of agrifood regional trade agreements, both theoretically and empirically. Section 2 describes data and the econometric approach used. Section 3 analyzes empirical results and section 4 concludes.

1. Literature review: Agrifood Regional Trade Agreements and rules of origin

Few studies provide assessments of the impacts of RTAs on agrifood trade. Grant and Lambert (2008) find, using economic gravity equations for the period 1982-2002, that the positive impacts of RTAs on trade between member countries is much larger for agrifood products (HS chapters 01 through 24) than for non-agrifood products. They control for the time-varying multilateral resistance terms using country-by-time fixed effects and all time-invariant bilateral barriers using bilateral pair fixed effects. Then, focusing on six agreements (North American Free Trade Agreement: NAFTA; Canada-United States Free Trade Agreement: CUSTA; European Union agreement: EU, MERCOSUR, Andean Pact, Closer Economic Relations, Association of South-East Asian Nations: ASEAN), their result is confirmed for all considered agreements but the ASEAN.

Korinek and Melatos (2009) use a gravity model and a panel dataset, containing annual bilateral trade data for 55 products (3-digit SITC) comprising all agrifood products for the period 1981 to 2006, in order to estimate the trade effects of three RTAs: AFTA (ASEAN Free Trade Area), COMESA (Common Market for Eastern and Southern Africa) and MERCOSUR. RTAs are introduced through dummy variables in the gravity equation and several econometric methods are used, such as OLS or maximum likelihood Poisson for correcting heteroskedasticity. However zero trade flows are not included in the dataset. Their results suggest that the implementation of AFTA, COMESA and MERCOSUR has positively affected trade in agrifood products between member countries. According to the authors, this may be explained by the following points. Within COMESA and MERCOSUR, members

offer each other duty-free access to their markets for almost all agrifood products while AFTA members' tariffs are less than one third MFN rates on average. Besides, they find no robust indication of trade diversion. Finally, they show that trade costs such as transport and logistics remain important factors in determining agrifood trade flows.

Bureau and Jean (2013) focus on measuring the effects of tariff preferences accorded by agreement partners over the period 1998-2009 through 78 agrifood trade agreements, using difference-in-differences panel estimations. They find that trade flows are significantly positively affected by the trade agreements both with respect to impacts on intensive margin (pre-existing trade flows) and extensive margin (new trade flows).

Finally, Lambert and McKoy (2009) use a gravity model to isolate the effects of various preferential trade agreements (PTAs) on both intra- and extra-bloc trade in agricultural and food products for three time periods (1995, 2000, and 2004). They find PTA benefits in terms of increased intra-bloc trade for both types of products. Besides, trade creation is observed in agricultural products. For food trade, PTA membership is associated with both trade creation and trade diversion depending on the concerned PTA.

Several studies have focused on the impacts of rules of origin on trade but they all consider aggregate trade flows. Anson et al. (2005) have investigated the effects of rules of origin of the NAFTA on trade between partner countries. From a gravity model and cross-sectional data for the period 1999-2001, they find that the Agreement has increased the volume of intra-trade but the restrictiveness of rules of origin had a negative impact.

Manchin and Pelkmans-Balaoing (2008) analyze the effectiveness of preferential arrangements on intra-regional trade flows in ASEAN in order to provide a rough estimate of the costs of preferential arrangements. The results suggest that preferential tariffs favorably affect intra-regional imports only at very high margins (around 25 percentage points). This highlights the likelihood of high administrative costs attached to the exploitation of preferences, particularly with regard to the compliance with AFTA's rules of origin.

As part of NAFTA, using data on Mexican exports to the United States in 2001, Carrère and de Melo (2004) estimate the likely restrictiveness of different kinds of rules of origin differentiating finished and intermediate products and compare these results with those obtained from a synthetic index. The econometric results indicate that the change in tariff

classification-type RO is in average more restrictive for final products than for intermediate products.

Gretton and Gali (2005) compared the restrictiveness of rules of origin in the main preferential trade agreements proposing a new synthetic index. This index relies on a classification of the trade restrictions stated by the rules of origin and facilitates comparisons on a common basis. The results show a significant variation in the restrictiveness of rules of origin through the Economic Partnership Agreements (EPAs). Furthermore they suggest that NAFTA, the related agreements and the agreements signed by the EU tend to have more restrictive rules.

Our paper adds to this literature by proposing an assessment of the trade impacts of RTAs on agrifood trade, putting emphasis on the role of rules of origin, distinguishing trade in raw agricultural products and trade in processed food products and considering nearly all countries as well as a set of major RTAs in force in agrifood trade.

2. Data and Methodology

We estimate a gravity model on trade in agricultural and food products. Agricultural and food trade flows are total bilateral exports from country i to country j in year t (X_{ijt}) and come from the BACI trade database constructed by CEPII. Flows in BACI are Free on Board in current million USD. Agrifood is defined as chapters 1 to 24 of the Harmonized System (HS).³ Once the sample is divided in two, agriculture correspond to chapters 1 to 14 and food to chapters 15 to 24.

The database covers 180 countries with a population greater than 200 000 in 2007.⁴ We consider the period 2001 to 2011. Years 2001, 2004, 2007 and 2011 are used to cover this period while avoiding the criticism arguing that as dependent and independent variables may not fully adjust in a single year, time fixed effects estimations should not be performed on pooled data over consecutive years (Anderson and Yotov, 2011).

2.1. Building the RTA and the Rules of origin variables

³ Following the WTO definition of agriculture, we excluded chapter 3 (Fish and crustaceans) from our analysis.

⁴ The list of the 180 considered countries is provided in Annex.

The agreements considered in this study are those involving the main world exporting countries of agricultural and food products: NAFTA, MERCOSUR, ASEAN, ASEAN-South Korea, ASEAN-India, ASEAN-Japan, UE-27, EU-Egypt, EU-Turkey, ASEAN-Australia-New Zealand.

For measuring the trade impact of these agreements, a dummy variable RTA_{ijt} is introduced in the gravity equation. This dummy takes value 1 if countries i and j are both members of a same agreement on year t . At this stage, it is important to notice that for our set of retained RTAs over our considered time period, and as far as agricultural and food products are concerned, there is no country pair belonging to more than one RTA in our country sample. Hence, whatever the pair of countries, our dummy RTA_{ijt} always equals either 0 or 1.

For testing the influence of rules of origin, we construct an index which is aimed to capture the restrictiveness induced by the rules of origin of each agreement. The difficulties regarding the measurement of the degree of restrictiveness of rules of origin in regional trade agreements result from the fact that they are more or less expressed in the form of complex legal texts. Thus, to give a statistical sense to these rules, they have first to be codified and then an ordinal restrictiveness index has to be defined, that summarizes all the information of the first step. Such an approach has been introduced for the first time by Estevadeordal (2000) who proposes a synthetic index at the tariff line level, ranging from one (least restrictive) to seven (most restrictive), based on an observation rule which summarizes the restrictiveness of rules of origin. Estevadeordal (2000) applied his approach to NAFTA.

For this study, we adopt the approach proposed by Anson et al (2005) which is more general and more elaborated than the one developed by Estevadeordal (2000). The construction of the restrictiveness index relies on the “substantial transformation” criterion evaluated at the tariff line level. In RTAs, the degree of transformation one product has experienced in one country is first measured through changes of tariff classification (CTC). For the latter, Anson et al. (2005) adopt the following observation rule:

- a change of classification at the chapter level (CC) is more restrictive than a change at the Heading (CH) level; a change at the heading (CH) level is more restrictive than a change at the sub-heading (CS) level; a change at the subheading level is more restrictive than a change at the tariff line or item level (CI). This implies the following observation rule: $\Delta CC > \Delta CH > \Delta CS > \Delta CI$.

Then, RTAs may include restrictions attached to CTC (ECTC) stating that non-domestic materials from certain subheadings or headings or chapters are forbidden. Third, other requirements may be added such as Value content (VC), setting a minimum percentage value to be added by the considered country, or technical requirement (TECH) stating that the product must undergo certain manufacturing operations. VC and TECH attached to a given CTC add to the index's restrictiveness. Thus, the observation rule assigns higher values to the index resulting from the CTC when these other requirements are added on (and a lower value when there is an allowance). Like Estevadeordal (2000), Anson et al. (2005)'s index ranges from one (least restrictive) to seven (most restrictive).

We thus undertook a huge work of coding and rating of CTC and other restrictions by tariff line in all ten RTAs we are considering in this study. We used the appendix of legal texts of these trade agreements provided by WTO. Then we computed the average restrictiveness index for each agreement distinguishing agricultural products and food products.

Our variable "rules of origin" (RO_{ij}) which is introduced into the gravity model corresponds to the computed restrictiveness of the agreement RTA_{ijt} countries i and j both belong to in year t . As we already mentioned in the case of the RTA_{ijt} variable, there are no country pair belonging to more than one of our considered agreements. Hence for each country pair, there is no or at most one RTA-RO pair concerned.

2.2. The estimated gravity model

The following gravity model is estimated:

$$X_{ijt} = \exp(\beta_0 + \beta_1 \ln(dist_{ij}) + \beta_2 RTA_{ijt} + \beta_3 \ln(1 + RO_{ij}) + \beta_4 RTA_{ijt} * \ln(1 + RO_{ij}) + \beta_5 contig_{ij} + \beta_6 clang_{ij} + \beta_7 colony_{ij} + \gamma_{it} fe_{it} + \gamma_{jt} fe_{jt}) + \varepsilon_{ijt} \quad (1)$$

Where X_{ijt} stands for the bilateral exports between i and j in year t , RTA_{ijt} is a dummy equal to 1 for country pairs belonging to the corresponding RTA signed in year t , RO_{ij} is the restrictiveness index of rules of origin involved in the corresponding RTA.

As we are interested in the role of rules of origin regarding the trade impact of RTAs, we add an interaction term $RTA_{ijt} * \ln(1 + RO_{ij})$ as to test for a non-linear effect of RTAs on export flows due to the rules of origin.

Other bilateral trade costs are introduced, data coming from CEPII: the distance between exporting i and importing j countries following the great circle formula ($dist_{ij}$), a dummy contiguity variable for countries i and j sharing a common border ($contig_{ij}$), a dummy variable for countries i and j sharing a common language ($clang_{ij}$), and a dummy variable for countries i and j having had a colonial relationship after 1945 ($colony_{ij}$).

In order to perform a consistent estimation of the structural gravity model (Anderson and van Wincoop, 2003; Head and Mayer, 2013), multilateral resistance terms are controlled for with exporter-year fe_{it} and importer-year fe_{jt} specific effects (as recommended by Baldwin and Taglioni, 2006, and Feenstra, 2004). Finally, ε_{ijt} is a random error term satisfying usual assumptions and clustered at the country-pair level to control for the potential dependence between RTAs from a same country.

We suspect that Ordinary Least Squares and Least Squares Dummy Variables estimators that do not allow taking into account zero trade flows to suffer from a selection bias. Indeed, an endogeneity problem arises if unobserved bilateral trade costs explain the existence of such zero trade flows. Santos-Silva and Tenreyro (2006) recommend to use the Poisson-Pseudo Maximum Likelihood (PPML) estimator that deals with heteroskedasticity problems and has the subsequent advantage of allowing an easy incorporation of zeros in the trade flows variable (Head and Mayer, 2013). The PPML is expected to produce consistent estimates provided the conditional mean is correctly specified.⁵ Another way to deal with the presence of zero trade flows is the 2-step Heckman-based approach (Helpman et al., 2008). The first step involves using a Probit to estimate the probability that i exports a positive amount to j . The second step estimates the gravity equation on the positive-flow observations including a selection correction. However, in our context it is difficult to find an exclusion restriction as this variable must be dyadic and time varying in nature, as both empirical steps already include country-year dummies to control for multilateral resistance terms. Furthermore, a 2-step Heckman-based approach would separate the effect of RTAs on the extensive margin from the effect on the intensive margin (Head and Mayer, 2013). Santos-Silva and Tenreyro (2009) further argue that this estimation method is also biased in the presence of heteroskedasticity in trade data. Considering that the RESET test performed over our sample

⁵ The conditional mean must satisfy $E(X_{ij} / Z_{ij}) = \exp(Z_{ij}\hat{\beta})$, with Z the vector of explanatory variables.

confirms the presence of heteroskedasticity, we choose the PPML estimator for our empirical strategy.

3. Results

We estimate the previous gravity model for two country sub-samples and two sub-sectors. The first sub-sample covers exports flows from developed (North) countries to developing (South) countries. The second sub-sample considers exports flows from developing (South) countries to developed (North) countries. In both cases, we distinguish trade in agricultural products and trade in food products.

Estimation results are reported in Table 1 for North to South exports and in Table 2 for South to North exports. Our intuition is that rules of origin are more constraining for developing countries than for developed countries so we expect that South to North exports will be more negatively affected by rules of origin than North to South exports. In the same way, following Fulponi et al. (2011), we expect that rules of origin affect more negatively trade in food products than trade in agricultural products.

In Tables 1 and 2, the first three columns report the results for exports in agricultural products while the last three columns report the results for exports in food products. Results suggest that, for both countries' sub-samples and whatever agricultural or food trade, all coefficient estimates exhibit the expected signs and are statistically significant. Higher distance between countries tends to discourage their bilateral exports. Countries sharing common frontier, common language or former colonial links tend to trade more together. As expected, RTAs tend to increase bilateral trade between member countries while RO have a negative impact, sometimes non significant however.

Focusing on Table 1, our results confirm that RTAs have a positive and significant direct impact on agricultural and on food exports from North to South countries. We find that the RTAs' direct impact is greater for food exports than for agricultural exports, even if from a statistical point of view, both corresponding coefficients are not statistically different. Our results also confirm that RO involved in RTAs impact negatively and significantly agricultural exports from North to South countries. In the case of trade in food products, the impact of RO is not significant. Hence, contrary to our expectation, our results suggest that as

regards exports from North to South countries, RO are likely to have greater negative direct influence on agricultural than on food exports.

The interaction term however may change this conclusion. Indeed RO also have an indirect effect through this interaction term. The latter has a negative and significant impact for both agricultural and food exports. This means that RTAs have a non linear effect on North to South exports, depending on the level of RO restrictiveness: RTAs have a positive effect on exports between member countries but this effect decreases with increasingly stringent RO. For exports of agricultural products, the threshold is about 7 meaning that the effect of RTAs is always positive since the variable RO is lower or equal to 7. At reverse, for exports of food products, the threshold is about 5 implying that RTAs may affect negatively exports from North to South countries when involved RO are highly restrictive. In that sense, RO may have higher negative impacts for food trade than for agricultural trade.

Table 2 indicates that results are almost similar for exports from South to North countries. Main difference is that the coefficient of the interaction term is not significant for agricultural exports. Hence, for South to North agricultural exports, Table 2 shows that the impact of RTAs is positive, significant and constant whatever the restrictiveness of RO. The impact of RO is negative and significant.

As for North to South exports, the direct RTAs impact is greater for food than for agricultural exports and, contrary to expectations, the direct impact of RO is greater in absolute value for agricultural products than for food products. However, like in the previous North to South exports case, the interaction term may change the conclusion. The threshold for a positive RTAs impact on South to North food exports is 4.77. Hence, RTAs have a positive impact on food exports until the restrictiveness of RO reaches this threshold.

Table 1. Estimation results for the North to South sample

| VARIABLES | (1) | (2) | (3) | (4) | (5) | (6) |
|-----------------|----------------------------|----------------------------|----------------------------|------------------------|-----------------------|------------------------|
| | Agriculture North-South | Agriculture North-South | Agriculture North-South | Food North-South | Food North-South | Food North-South |
| | PPML | PPML | PPML | PPML | PPML | PPML |
| Ldist | -1.139*** (-18.71) | -1.154*** (-18.710) | -1.143*** (-18.260) | -0.953*** (-13.860) | -0.954*** (-13.66) | -0.957*** (-13.820) |
| Rta | 0.356** (2.2900) | 0.742*** (4.7000) | 2.275*** (3.6800) | 0.260* (1.7700) | 0.290 (1.5200) | 3.754*** (3.9400) |
| ln(ro+1) | | -0.326*** (-2.8900) | -0.298*** (-2.6900) | | -0.0177 (-0.1200) | 0.0293 (0.1900) |
| rta*ln(ro+1) | | | -1.085** (-2.4000) | | | -2.103*** (-3.6500) |
| Contig | 0.920*** (6.5600) | 0.889** (6.6800) | 0.951*** (6.7700) | 1.144*** (6.8100) | 1.143*** (6.7500) | 1.014*** (5.7900) |
| Clang | 0.301** (2.3100) | 0.327** (2.5200) | 0.311** (2.3900) | 0.422*** (4.1000) | 0.424*** (4.1100) | 0.465*** (4.5400) |
| col45 | 1.038*** (6.0400) | 1.009*** (5.9100) | 1.020*** (5.9400) | 0.821*** (6.0200) | 0.820*** (4.1100) | 0.807*** (5.9600) |
| Constant | 6.794*** (9.8500) | 6.775*** (9.9400) | 6.201*** (8.500) | 5.152*** (7.4500) | 5.154*** (7.4300) | 5.442*** (7.8000) |
| Observations | 38,061 | 38,061 | 38,061 | 37,982 | 37,982 | 37,982 |
| R-squared | 0.867 | 0.869 | 0.869 | 0.827 | 0.827 | 0.832 |
| Fixed effect it | Yes | Yes | Yes | Yes | Yes | Yes |
| Fixed effect jt | Yes | Yes | Yes | Yes | Yes | Yes |

Robust standard errors in brackets (clustered by country pairs). South (North) countries are defined using the World bank classification by Gross National Income per capita: using 2012 figures, North countries are the high income countries as defined by the World Bank; South countries are other countries.

* $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$

Source: Authors' estimates.

Table 2. Estimation results for the South to North sample

| VARIABLES | (1) | (2) | (3) | (4) | (5) | (6) |
|-----------------|----------------------------|----------------------------|----------------------------|------------------------|------------------------|------------------------|
| | Agriculture South-North | Agriculture South-North | Agriculture South-North | Food South-North | Food South-North | Food South-North |
| | PPML | PPML | PPML | PPML | PPML | PPML |
| ldist | -1.057*** (-13.960) | -1.068*** (-14.330) | -1.064*** (-14.150) | -0.859*** (-8.3500) | -0.861*** (-8.2000) | -0.865*** (-8.3700) |
| rta | 0.860*** (3.4600) | 1.321*** (6.1000) | 2.232** (2.3000) | 0.163 (0.8800) | 0.250 (1.2100) | 4.283*** (3.8200) |
| ln(ro+1) | | -0.442*** (-2.8300) | -0.433*** (-2.8800) | | -0.0514 (-0.2800) | -0.00927 (-0.0500) |
| rta*ln(ro+1) | | | -0.602 (-0.91) | | | -2.443*** (-3.6600) |
| contig | 0.890*** (4.5300) | 0.842*** (4.6000) | 0.860*** (4.5300) | 1.465*** (6.3900) | 1.461*** (6.3300) | 1.305*** (5.6300) |
| clang | 0.412** (2.3200) | 0.453*** (2.5800) | 0.451** (2.5600) | 0.365*** (2.6000) | 0.371*** (2.6200) | 0.417*** (3.0200) |
| col45 | 0.854*** (3.1000) | 0.811*** (2.9600) | 0.813*** (2.9700) | 0.765*** (4.4000) | 0.760*** (4.3500) | 0.746*** (4.8000) |
| Constant | 8.935*** (13.640) | 8.942*** (13.720) | 8.587*** (11.670) | 7.980*** (8.9900) | 8.004*** (8.7100) | 8.242*** (9.2800) |
| Observations | 19,028 | 19,028 | 19,028 | 18,949 | 18,949 | 18,949 |
| R-squared | 0.852 | 0.858 | 0.858 | 0.828 | 0.829 | 0.833 |
| Fixed effect it | Yes | Yes | Yes | Yes | Yes | Yes |
| Fixed effect jt | Yes | Yes | Yes | Yes | Yes | Yes |

Robust standard errors in brackets (clustered by country pairs). South (North) countries are defined using the World bank classification by Gross National Income per capita: using 2012 figures, North countries are the high income countries as defined by the World Bank; South countries are other countries.

* $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$

Source: Authors' estimates.

In order to make easier to compare the trade impacts of RTAs (including RO) across sub-samples and between agricultural and food products, Table 3 provides synthetic results. Hence it is clear from the last line of Table 3 that: (i) taking into account the degree of restrictiveness of RO, the range of the intra-trade impact of RTAs is larger for food than for agricultural products, suggesting that trade in food products is more sensitive to RTAs than trade in raw agricultural products. For least stringent rules of origin, RTAs have a greater positive impact on food trade than on agricultural trade. When RO become more restrictive, the intra-trade impact of RTAs remains positive for agricultural products while it turns to negative for food products. ; (ii) contrary to what we expected, there is not empirical evidence that RTAs and involved RO impact differently North to South and South to North trade flows. The profile of estimated coefficients are very similar across both country sub-samples, except for the coefficient of the interaction term between the RTA and the RO variables which is not significant in the South to North exports of agricultural products sub-sample. This suggests that for South to North exports of agricultural products only, the intra-trade impact of RTAs is non linear.

Table 3: summarized estimated RTA (including RO) effects on exports

| | North -South | | South-North | |
|---|--------------|---------------|--------------|---------------|
| | Agriculture | Food | Agriculture | Food |
| Direct effect of RTA | 2.275 | 3.754 | 2.232 | 4.283 |
| Direct effect of RO | -0.298 | 0 | -0.433 | 0 |
| Total effect of RTA (including RO [7, 1]) | [0.02; 1.52] | [-0.62; 2.30] | [2.23; 2.23] | [-0.80; 2.59] |

Concluding remarks

In this paper, we propose a systematic analysis of the impacts of RTAs, including the role of rules of origin, on trade in agricultural and food products. Using a gravity model, and a dataset covering 180 countries and the 2001-2011 time period, we estimate the impact of

RTAs on bilateral trade flows between country pairs, distinguishing agricultural products and food products.

In doing so, we add to the existing literature in four directions. First of all, contrary to most existing studies which limit their study sample to specific countries or group of countries, we propose a more systematic analysis by considering nearly all countries and major RTAs in force in agrifood trade from 2001 to 2011. Secondly we distinguish trade in raw agricultural products and trade in processed food products in order to compare the trade impacts of RTAs in both sectors. Thirdly, we investigate the role of rules of origin in such RTAs impacts. Fourthly, we propose a methodological approach allowing for dealing with two of the main problems that have been identified in gravity studies: we introduce dummies for controlling for the multilateral resistance terms and we use the Poisson-Pseudo Maximum Likelihood (PPML) estimation method for dealing with zero trade flows.

Our results show clearly that taking properly into account zero trade flows and controlling for multilateral resistance terms matter since estimation results are sensitive to both these factors. This calls everybody to be extremely cautious not to draw policy recommendations on the basis of biased estimates.

We find a clear positive direct impact of RTAs on trade between member countries, a negative or a non significant (depending on the type of products) direct impact of RO, a negative or a non significant cross impact of RTAs and RO. Hence except for exports of agricultural products from the South to the North countries, our estimation results support a significant non linear impact of RTAs, its positive effect on trade between members decreasing with the degree of restrictiveness of involved RO. As expected, our results suggest that trade in food products is more sensitive to RTAs and their RO than trade in agricultural products. In particular, we show that the intra-trade impact of RTAs remains positive whatever the degree of restrictiveness of involved RO as far as agricultural products are concerned, while it becomes negative for most stringent RO in the case of trade in food products.

Contrary to expectations, our estimation results do not support clear differentiated impact of RTAs and involved RO on North to South and South to North agrifood exports. The main difference across country sub-samples lies in the linear effect of RTAs which is specific to

South to North exports of agricultural products. Hence our results do not confirm our initial intuition stating that RO are likely to have greater negative impact on South to North than on North to South trade.

Finally, our results suggest that RO matter regarding the trade impacts of RTAs. Indeed we clearly show that in some cases, stringent RO may reverse the positive direct trade impacts of RTAs. Furthermore, our results indicate that such cases are more likely to arise for trade in food products than for trade in agricultural products. This suggests that countries willing to sign a RTA must be very cautious as regards the elaboration of RO, particularly for food products, if they likely want to keep benefits from the RTA in terms of increased exports.

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Annex : List of countries

| Country | Code | Population_2007 | Country | Code | Population_2007 |
|-----------------------------|------|-----------------|---------------------|------|-----------------|
| Afghanistan | AFG | 26349243 | Lao PDR | LAO | 6013278 |
| Albania | ALB | 3166222 | Latvia | LVA | 2276100 |
| Algeria | DZA | 35097043 | Lebanon | LBN | 4139813 |
| Angola | AGO | 17712824 | Lesotho | LSO | 1955784 |
| Argentina | ARG | 39331357 | Liberia | LBR | 3522294 |
| Armenia | ARM | 2989882 | Libya | LBY | 5782108 |
| Australia | AUS | 21015900 | Lithuania | LTU | 3375618 |
| Austria | AUT | 8300788 | Luxembourg | LUX | 479993 |
| Azerbaijan | AZE | 8581300 | Macao SAR, China | MAC | 493206 |
| Bahamas, The | BHS | 342049 | Macedonia, FYR | MKD | 2096620 |
| Bahrain | BHR | 1032353 | Madagascar | MDG | 19371023 |
| Bangladesh | BGD | 146457067 | Malawi | MWI | 13713758 |
| Barbados | BRB | 276277 | Malaysia | MYS | 26813819 |
| Belarus | BLR | 9560000 | Maldives | MDV | 308239 |
| Belgium | BEL | 10625700 | Mali | MLI | 12725629 |
| Belize | BLZ | 286196 | Malta | MLT | 409050 |
| Benin | BEN | 8707490 | Mauritania | MRT | 3330037 |
| Bhutan | BTN | 679365 | Mauritius | MUS | 1260403 |
| Bolivia | BOL | 9676456 | Mexico | MEX | 113529819 |
| Bosnia and Herzegovina | BIH | 3868665 | Moldova | MDA | 3576904 |
| Botswana | BWA | 1915187 | Mongolia | MNG | 2595068 |
| Brazil | BRA | 189996976 | Montenegro | MNE | 617800 |
| Brunei Darussalam | BRN | 381440 | Morocco | MAR | 30667086 |
| Bulgaria | BGR | 7659764 | Mozambique | MOZ | 22171404 |
| Burkina Faso | BFA | 14235075 | Myanmar | MMR | 50828959 |
| Burundi | BDI | 8328312 | Namibia | NAM | 2080700 |
| Cambodia | KHM | 13747288 | Nepal | NPL | 25950022 |
| Cameroon | CMR | 19097676 | Netherlands | NLD | 16381696 |
| Canada | CAN | 32927517 | New Caledonia | NCL | 242400 |
| Cape Verde | CPV | 483713 | New Zealand | NZL | 4228300 |
| Central African Republic | CAF | 4106897 | Nicaragua | NIC | 5595533 |
| Chad | TCD | 10694366 | Niger | NER | 14197289 |
| Chile | CHL | 16668892 | Nigeria | NGA | 147187353 |
| China | CHN | 1317885000 | Norway | NOR | 4709153 |
| Colombia | COL | 44498390 | Oman | OMN | 2569739 |
| Comoros | COM | 632736 | Pakistan | PAK | 163928329 |
| Congo, Dem. Rep. | ZAR | 57187942 | Panama | PAN | 3491034 |
| Congo, Rep. | COG | 3758858 | Papua New Guinea | PNG | 6397623 |
| Costa Rica | CRI | 4463226 | Paraguay | PRY | 6125285 |
| Cote d'Ivoire | CIV | 17949061 | Peru | PER | 28328410 |
| Croatia | HRV | 4436000 | Philippines | PHL | 88875548 |
| Cuba | CUB | 11301674 | Poland | POL | 38120560 |
| Cyprus | CYP | 1063095 | Portugal | PRT | 10608335 |
| Czech Republic | CZE | 10334160 | Puerto Rico | PRI | 3782995 |
| Denmark | DNK | 5461438 | Qatar | QAT | 1152459 |
| Djibouti | DJI | 798690 | Romania | ROM | 21546873 |
| Dominican | DOM | 9615015 | Russian | RUS | 142100000 |

| | | | | | |
|----------------------|-----|------------|----------------------|-----|-----------|
| Republic | | | Federation | | |
| Ecuador | ECU | 14268397 | Rwanda | RWA | 9928143 |
| Egypt, Arab Rep. | EGY | 74229577 | Saudi Arabia | SAU | 25915624 |
| El Salvador | SLV | 6122952 | Senegal | SEN | 11904974 |
| Equatorial Guinea | GNQ | 639618 | Serbia | SRB | 7381579 |
| Eritrea | ERI | 5209846 | Sierra Leone | SLE | 5416015 |
| Estonia | EST | 1341672 | Singapore | SGP | 4588600 |
| Ethiopia | ETH | 80440708 | Slovak Republic | SVK | 5397318 |
| Fiji | FJI | 835392 | Slovenia | SVN | 2018122 |
| Finland | FIN | 5288720 | Solomon Islands | SLB | 492148 |
| France | FRA | 64012572 | Somalia | SOM | 8910851 |
| French Polynesia | PYF | 260361 | South Africa | ZAF | 48257282 |
| Gabon | GAB | 1447388 | South Sudan | SSD | 8736736 |
| Gambia, The | GMB | 1529406 | Spain | ESP | 44878945 |
| Georgia | GEO | 4388400 | Sri Lanka | LKA | 20039000 |
| Germany | DEU | 82266372 | Sudan | SDN | 33218250 |
| Ghana | GHA | 22525659 | Suriname | SUR | 510433 |
| Greece | GRC | 11192763 | Swaziland | SWZ | 1134977 |
| Guatemala | GTM | 13317931 | Sweden | SWE | 9148092 |
| Guinea | GIN | 10046967 | Switzerland | CHE | 7551117 |
| Guinea-Bissau | GNB | 1484337 | Syrian Arab Republic | SYR | 19561477 |
| Guyana | GUY | 770407 | Tajikistan | TJK | 7111025 |
| Haiti | HTI | 9513714 | Tanzania | TZA | 41119693 |
| Honduras | HND | 7178436 | Thailand | THA | 66076927 |
| Hong Kong SAR, China | HKG | 6916300 | Timor-Leste | TMP | 1046030 |
| Hungary | HUN | 10055780 | Togo | TGO | 5834806 |
| Iceland | ISL | 311566 | Trinidad and Tobago | TTO | 1310040 |
| India | IND | 1159095250 | Tunisia | TUN | 10225100 |
| Indonesia | IDN | 230972808 | Turkey | TUR | 69496513 |
| Iran, Islamic Rep. | IRN | 71809219 | Turkmenistan | TKM | 4858236 |
| Iraq | IRQ | 28740630 | Uganda | UGA | 30728747 |
| Ireland | IRL | 4356931 | Ukraine | UKR | 46509350 |
| Israel | ISR | 7180100 | United Arab Emirates | ARE | 5797347 |
| Italy | ITA | 59375289 | United Kingdom | GBR | 60986649 |
| Jamaica | JAM | 2675800 | United States | USA | 301231207 |
| Japan | JPN | 127770750 | Uruguay | URY | 3338384 |
| Jordan | JOR | 5661000 | Uzbekistan | UZB | 26868000 |
| Kazakhstan | KAZ | 15484192 | Vanuatu | VUT | 220001 |
| Kenya | KEN | 37752304 | Venezuela, RB | VEN | 27655937 |
| Korea, Dem. Rep. | PRK | 24111989 | Vietnam | VNM | 84221100 |
| Korea, Rep. | KOR | 48598000 | West Bank and Gaza | WBG | 3494496 |
| Kosovo | KSV | 1733404 | Yemen, Rep. | YEM | 21182162 |
| Kuwait | KWT | 2554920 | Zambia | ZMB | 12109620 |
| Kyrgyz Republic | KGZ | 5268400 | Zimbabwe | ZWE | 12740160 |