THE FORMATION OF INTERREGIONAL TRADE AGREEMENTS: WHICH FACTORS PROVOKE TRADE BLOCS TO COOPERATE?

АЙМАҚАРАЛЫҚ САУДА КЕЛІСІМДЕРІН ҚҰРУ: ҚАНДАЙ СЕБЕПТЕР САУДА БЛОКТАРЫН ЫНТЫМАҚТАСТЫҚҚА ИТЕРМЕЛЕЙДІ?

ФОРМИРОВАНИЕ МЕЖРЕГИОНАЛЬНЫХ ТОРГОВЫХ СОГЛАШЕНИЙ: КАКИЕ ФАКТОРЫ ПРОВОЦИРУЮТ ТОРГОВЫЕ БЛОКИ К СОТРУДНИЧЕСТВУ?

by

BEKZADA ABILKASSYMOV

A Thesis Submitted to the School of Humanities and Social Sciences of Nazarbayev University in Partial Fulfillment of the Requirements for the Degree

MASTER OF POLITICAL SCIENCE AND INTERNATIONAL RELATIONS

ASTANA, KAZAKHSTAN

2016

THESIS APPROVAL FORM

NAZARBAYEV UNIVERSITY
SCHOOL OF HUMANITIES AND SOCIAL SCIENCES

THE FORMATION OF INTERREGIONAL TRADE AGREEMENTS:
WHICH FACTORS PROVOKE TRADE BLOCS TO COOPERATE?

АЙМАҚАРАЛЫҚ САУДА КЕЛІСІМДЕРІН ҚҰРУ:
ҚАНДАЙ СЕБЕПТЕР САУДА БЛОКТАРЫН
ЫНТЫМАҚТАСТЫҚҚА ИТЕРМЕЛЕЙДІ?

ФОРМИРОВАНИЕ МЕЖРЕГИОНАЛЬНЫХ ТОРГОВЫХ СОГЛАШЕНИЙ:
КАКИЕ ФАКТОРЫ ПРОВОЦИРУЮТ ТОРГОВЫЕ БЛОКИ К
СОТРУДНИЧЕСТВУ?

BY
Bekzada Abilkassymov
NU Student Number: 201468266

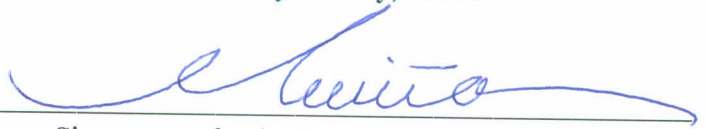
APPROVED

BY

Dr. Mwita Chacha

ON

The 11th day of May, 2016.



Signature of Principal Thesis Adviser

THE FORMATION OF INTERREGIONAL TRADE AGREEMENTS: WHICH FACTORS PROVOKE TRADE BLOCS TO COOPERATE?

АЙМАҚАРАЛЫҚ САУДА КЕЛІСІМДЕРІН ҚҰРУ: ҚАНДАЙ СЕБЕПТЕР САУДА БЛОКТАРЫН ЫНТЫМАҚТАСТЫҚҚА ИТЕРМЕЛЕЙДІ?

ФОРМИРОВАНИЕ МЕЖРЕГИОНАЛЬНЫХ ТОРГОВЫХ СОГЛАШЕНИЙ: КАКИЕ ФАКТОРЫ ПРОВОЦИРУЮТ ТОРГОВЫЕ БЛОКИ К СОТРУДНИЧЕСТВУ?

by

BEKZADA ABILKASSYMOV

Principal adviser:	Dr. Mwita Chacha
Second reader:	Dr. Yoshiharu Kobayashi
External reviewer:	Dr. Edward Friedman

Electronic Version Approved: ✓

Dr. Alexei Trochev
Director of the MA Program in Political Science and International Relations
School of Humanities and Social Sciences
Nazarbayev University
11 May 2016

TABLE OF CONTENTS

Page

LIST OF TABLES

Page

LIST OF FIGURES

Page

ABSTRACT

Recently we have observed cooperation between trade blocs as the European Union, the Andean Community, Mercosur, ASEAN and others. These actors have started to negotiate a possibility of trade agreements between each other. What did provoke regional trade blocs to form and proliferate this kind of arrangements in trade? How it can be explained through a theoretical standpoint of international relations? I attempt to answer for these questions in this paper. Generally, the research constructs an explanation for the formation of interregional trade agreements through bargaining theory by emphasizing the roles of trade gains, depth of integration within a bloc, a level of developments, membership and disputes history in the WTO. The results demonstrate positive and significant influence of trade gains, depth of integration and membership in the WTO, while disputes history affected significantly but negatively interregional cooperation. There is an important implication for policy-makers in applying this information for calculation of possible trade agreements between blocs.

INDEX WORDS: regional trade blocs, interregional trade agreement, interregional cooperation, inter-blocs cooperation, trade gains, depth of integration, a level of development, the World Trade Organization, disputes history

ACKNOWLEDGEMENTS

Firstly, I would like to thank my supervisors Dr. Mwita Chacha and Dr. Yoshiharu Kobayashi, who have supported and directed me during the thinking about and writing the project. In fall 2014 Professor Mwita Chacha approved term paper regarding interregional trade agreements and despite of the weak product he graded and accepted it. From retrospective point it seems to me that at that point Dr. Mwita Chacha already could see potentiality in this topic and guided me towards a gradual development of arguments. Moreover, he agreed to meet in summer 2015 and helped me with data collection. I am very grateful for these invaluable assistances and spent time. Professor Yoshiharu Kobayashi taught conducting a quantitative research, which was an essential method used in the thesis. In addition, his encouragement to think more theoretically and to analyze articles deeper was very useful for me. I am very grateful for this knowledge. I also would like to express my gratitude to Professor Edward Friedman for his commentaries and recommendations.

Secondly, my colleagues Almira Sadykova, Aibar Sharipov, Aisulu Kazhikenova and Azhar Kabdulinova gave me very valuable comments, which helped me to improve theory and hypotheses. I am sure that without their reviews and advices this thesis could not be finished. I can certainly state that author is always self-biased, and only colleagues can cure this disease.

Thirdly, I am grateful to the Government of Kazakhstan for funding me as a holder of scholarship at Nazarbayev University. It is very honorable to be a master student in the first cohort of Political Science and International Relations program.

CHAPTER 1. INTRODUCTION

The trading tendencies have gradually progressed during the past two decades. There have emerged many trade agreements in various forms and types, as preferential trade agreements, free trade areas, customs union, common market and fiscal and monetary unions (Mansfield and Milner 1999; Mansfield and Reinhardt 2003). The most notable feature in these processes is that a vast majority of trade arrangements were concluded by countries individually within one particular region, which led to the formation of regional trade blocs (Mansfield and Milner 1999; Bajo 1999; Mansfield and Reinhardt 2003; Aggarwal and Fogarty 2003; Szegedy-Maszak 2009; Boyer and Schuschny 2010). The common reasons among countries in forming regional trade blocs were obtaining access to market and trade gains, strengthening domestic policy reform, increasing multilateral bargaining leverage, establishing strategic multilateral connections with trade partners (Whalley 1998; Mansfield and Milner 1999; Mansfield and Reinhardt 2003; Mansfield and Pevehouse 2013). As the best examples of the agreements, European Union (EU), North American Free Trade Agreement (NAFTA), Southern Common Market (Mercosur), Association of South East Asian Nations (ASEAN), Andean Community can be undoubtedly considered. Consequently, these blocs have been starting to negotiate on trade agreements with each other and to form interregional trade institutions. This trend is important for exploration, as regional trade blocs have a huge influence on international trade relations because of their scale increased by number of states participated in each bloc. Moreover, the formation of these agreements seems to continue, meaning that cooperation between regional trade blocs will be widespread. Hence, a focal objective of the presented

paper – is to determine reasons for the formation and proliferation of region-to-region trade agreements.

Practically, a cause for investigating this theme was triggered by the signing of interregional trade agreements between the European Union and Mercosur and the European Union and Andean Community, by negotiations on new interregional trade agreements between the European Union and ASEAN, the Andean Community and Mercosur and others (Bajo 1999; Aggarwal and Fogarty 2003; Devlin, Estevadeordal and Krivonos 2000; Van der Geest 2004). Also, it is expected that there will be a promising continuation in developments of the block-to-block trade relationships. As seen above, the most active actor in the formation of interregional trade agreements is the European Union, hence, a focus of the paper is dedicated to examination of cooperation between the European Union and other regional trade blocs in order to derive general patterns of interregional collaboration.

Consequently, these kinds of the agreements will substantially affect international relations, international organizations and global trade, because they embrace groups of states, which multiply effect of impact to a great extent. Therefore, interregional trade agreements deserve to be researched deeper by academia and to be taken into consideration by governments, as they are very important for domestic and international politics, economic growth and financial policy. Indeed, there is a need for distinct theory explaining reasons for establishing interregional trade arrangements, because present theories in Whalley (1998), Aggarwal and Fogarty (2003), Mansfield and Reinhardt (2008), Mansfield and Pevehouse (2003, 2013) do not reveal causal mechanisms for cooperation on bloc-to-bloc level taking into account integration level of blocs.

The thesis aims to find an answer for research question as of what can explain the proliferation of interregional trade agreement. Particularly, there is an attempt to demonstrate the answers for this inquiry based on following factors. Firstly, I focuses on information about

the type of trade blocs creating interregional trade agreements, as there are occurrences of cooperation between some groups, while in other cases not. Furthermore, secondly, there should be a comparison of trade agreements formed on regional and interregional level, in so doing, then it will be evident to see differences between them. Thirdly, possible profits and losses from establishing trade agreements are underlined as well, because trade blocs take into account them in negotiations. Moreover, fourthly, the role of the World Trade Organization (WTO) in these processes should be covered due to its heavy influence on regional trade groups. Generally, this thesis has an objective to present compelling arguments for the question relating to explanation of the proliferation of region-to-region trade agreements.

Dozens of materials on this subject shows the importance of interregional trade agreements in international organizations and international relations literature. Some authors attempt to distinguish types and forms of interregionalism (Aggarwal and Fogarty 2003) and to examine particular cases (Bajo 1999; Boyer and Schuschny 2010; Szegedy-Maszak 2009). However, their arguments and hypotheses are not generally applicable to bloc-to-bloc trade cooperation, because each author focuses on own case and identifies special explanations. Consequently, this explanation of one case does not fit for other cases. Another part of academics devotes research to preferential trade agreements and gives very plausible theories and hypotheses for their explanation of emergence (Baldwin and Jaimovich 2010; Mansfield and Milner 2012; Mansfield and Pevehouse 2013; Mansfield and Reinhardt 2008) and on the effect of the World Trade Organization (Mansfield and Reinhardt 2003; Rose 2004; Tomz, Goldstein and Rivers 2007). Apparently, this second group of works does not particularly consider interregional trade agreement as a distinct political phenomenon in international relations with own developed theory and hypotheses. Therefore, I argue that there is a need for clear theory on interregional trade agreements, because their nature is different from other types of agreements

in inherent features as depth of regional trade blocs. Ultimately, on the foundation of these differences I propose theory on bloc-to-bloc agreements.

Almost all basic assumptions explaining interregional cooperation are supported by statistical testing and robustness check, except a weak effect of development level, which can be explained by inadequate measurement of the concept or by its real insignificance for the formation of interregional trade agreements. Moreover, robustness check of the integration level of blocs shows that coordination in economic affairs are significantly important, while a level of political integration is important to less extent. The quantitative evidence is complemented with a case study on cooperation between the European Union and the Andean Community. Inclusion of qualitative research helps to demonstrate the processes occurred by influence of general factors.

There are important policy implications derived from the results of conducted research for policy-makers. First of all, they should care about increasing mutual trade with a potential counterpart. Secondly, it is essential to deepen a level of integration within a bloc, particularly in economic spheres. Thirdly, policy-makers should pay attention to own and counterpart's dispute history in the framework of the World Trade Organization, because it clearly shows to what extent an actor complies with international established rules in trade. Fourthly, even a level of development is not high, there is a chance to cooperate with other bloc. Policy-makers and negotiators can use these tools to reach interregional agreement.

General research revealing main causal mechanisms of interregional trade agreements is not conducted yet. This thesis exploits already defined some factors of regional cooperation theories for interregional cooperation, which means that it contributes empirical study for understanding of the new object. Nevertheless, there is both empirical and theoretical contribution to the field of knowledge in insertion of bloc's depth and WTO dispute histories for explanation of bloc-to-bloc cooperation.

Hence, the thesis seeks to construct an applicable theory with hypotheses, which explain the spread of interregional trade agreements. Particularly, by applying Fearon's bargaining theory and its parameters as discount rate and status quo this research purports to address following arguments: (1) examination of integration level, (2) a role of development level, (3) trade gains enriching benefits from trade, (4) market access enhancing opportunity to sell goods and services, (5) reducing volatility in global trade and (6) seeking independence from the World Trade Organization. I assume that each of these arguments causes states to strive for region-to-region trade agreements. Notably, it is worth mentioning that the most important difference of interregional cooperation from state-to-state model of cooperation are an integration level of blocs and influence of the WTO on them. On the basis of these pillars, I hope, this paper is able to present explanation for the proliferation of interregional trade agreements.

CHAPTER 2. LITERATURE REVIEW

This literature review is dedicated to an explanation of reasons for concluding trade agreements. Mainly, I distinguish two groups in the literature relating to the topic of the paper. First group of scholars concentrates attention on case studies of bloc-to-bloc trade agreements, while second group examines regional trade agreements without differentiating them. These works are taken into consideration, because they help to reveal the foundation of trade arrangements. As there are two categories in the literature, I have two objectives in reviewing them. Firstly, the cases of interregional cooperation in trade are presented to show our current understanding as well as the gap in this field. Secondly, it can be very useful to review uncovered knowledge on regional cooperation, because this type of cooperation gives some insights on the formation of trade agreements in general. .

The proliferation of interregional trade agreements has previously been examined through single case studies such as European Union-NAFTA, European Union-Mercosur, European Union-ASEAN, European Union-Andean Community and Mercosur-Andean Community (Aggarwal and Fogarty 2003; Aggarwal and Fogarty 2005; Bajo 1999; Devlin, Estevadeordal and Krivonos 2000; Faust 2003; Rüland 2001; Szegedy-Maszák 2009; Van der Geest 2004). For instance, Bajo (1999) presents trade liberalization between the European Union and Mercosur as a driving force for cooperation, while Faust (2003) argues that economic interests of domestic groups, ambitions of political actors and WTO stagnation influence partnership between the European Union and Mercosur. Aggarwal and Fogarty (2003) research the European Union's relationship with other blocs by focusing on industrial interests, balance of power and even political and cultural identities converging them into

cooperation. Seemingly, these cases show separate parts of one picture, as market access, trade gains and effect of the WTO, however, they do not address them in a complex manner as an examining the large number of cases. As pointed out before, Faust (2003) says that domestic politics plays a decisive role in the development of the European Union and Mercosur cooperation, however this is not applicable for cooperation between the European Union and the Caribbean Community and Common Market (CARICOM), where internal politics do not affect the process significantly. Aggarwal and Fogarty (2003) do not determine the effect of the WTO and dispute history in considering the cases of European Union's cooperation with other blocs. Therefore, by conducting case studies it is difficult to determine the general factors affecting interregional cooperation and delineating the importance of variable over other one. Meanwhile, in the large number of data these requirements can be fulfilled. In turn, this means that it is possible to come up with a common theory presenting the main reasons for the creation of region-to-region trade agreements.

In the development of a theory on interregional trade agreements, it is crucial to review the literature on regional trade agreements. The reason for this is a reduction of trade barriers grounded in the shared commonalities of the two arrangements, which is intrinsic to all preferential trade agreements. Aggarwal and Fogarty (2003, p. 6) note that interregionalism "is fundamentally cooperative in nature, intended to bring benefits to both parties through voluntary negotiation and mutual agreement regarding a certain set of rights and responsibilities in cross-regional commerce", consequently, this definition is entirely applicable to regionalism with a remark in a scale of cooperation.

Literature on regional trade agreements is instructive in the development of this paper's argument. Literature in this group can be divided into several parts revealing focal reasons in the establishment of these agreements. First, the role of bargaining power is emphasized in negotiations creating trade arrangements. Second category is dedicated to indicating the

importance of market access as a driving force, because, it leads to an increase of trade gains. Third, some researchers argue that a crucial function of regional trade agreements is reducing volatility in the global economy. Last group of people supposes regional trade agreements as a counterbalancing power opposed to the framework of the World Trade Organization (WTO). Generally, scholars adhere to one or several of abovementioned reasons in explaining the proliferation of regional trade agreements. Although, literature on regional trade agreements has many worthwhile explications, they are not explicitly devoted to interregional trade agreements. Despite the fact that regional and interregional trade agreements have shared commonalities, it is a crucial task to delineate region-to-region trade cooperation from other types, as a distinct consideration of them helps to clarify the blurred causal mechanisms and to propose a theory explaining the proliferation of interregional trade agreements. Precisely, a certain difference of inter-group cooperation is regional bloc's own structure. Each bloc has quality of integration in fiscal, monetary, political coordination and supranational institutions, while these issues are not met in state level of cooperation, because they have uniform policy due to one main government, parliament and judicial system. This is defining condition for their actions in international arena (Hufbauer and Schott 1994; Efird and Genna 2002; Efird and Genna 2003; Feng and Genna 2003; Genna and Hiroi 2004; Feng and Genna 2005; Geda and Kebret 2007; Genna 2011).

One of the reasons for the spread of regional trade agreements is bargaining power. Mansfield and Reinhardt (2003) point out that obtaining the bargaining power is closely connected with multilateral trade negotiations in the WTO. On the one hand, in order to have more influence during the negotiations or, on the other hand, in order to avoid undesirable consequences in a case of halted negotiations in the WTO, countries are inclined to seek partnerships. This was supported by Faust's (2002) case study on relationship between the

European Union and Mercosur, where the members of these trade blocs try to strengthen own bargaining leverages and to establish more tenable relations with main trade partners.

Surprisingly, this intention to obtaining more bargaining leverage has a negative effect for initiators of regional cooperation. Haftel (2004) argues that members of regional trade blocs are objects for complaints by the means of WTO disputes from third countries. However, it does not mean that those third countries are in the winning position in the disputes. They will be more successful, if they have more bargaining power because of membership in their own regional trade blocs. This is seen from Mansfield's article (2013), where South American countries in order to negotiate equally with NAFTA and the European Union were forced to create Mercosur. Also, Gallagher (2007) presents a case of resistance to the Doha Round, where developing countries, mainly countries from Mercosur, the Andean Community and ASEAN were not satisfied by the potential benefits. Obviously, the articles point out an importance of bargaining leverage in the negotiations and a framework of the WTO. These examples show that after obtaining necessary bargaining leverage the developing countries can considerably enhance their own influence in deciding various trade liberalization issues.

The next trigger for concluding regional trade agreements is market access and trade gains. Whalley (1998), Mansfield and Milner (2012), Mansfield (2013), Mansfield and Pevehouse (2013) indicate that preferential trade agreements have a property to expand further, if there is open access to trade areas and fairly distributed gains. This means that seeking for a growth of trade induces states to negotiate for access to foreign markets on mutually beneficial terms. It is a general picture, however, as Mattli (1999) notes there is a role of domestic decision-makers, who should be able to comply with the undertaken commitments during integration process. In determining commitments of market access and trade gains, as Milner (1997) argues, certain types of industries, preferences of political leaders and mutual tariff reductions are bases for establishing regional trade blocs. In the same way, Baccini and Dur

(2012) focus on an importance of market access, they explain it by exporters, who provoke own governments to conclude preferential trade agreements because of competition in the international market. To be precise, trade arrangements consist of terms and conditions regulating trade barriers and tariffs on goods and services. In so doing, countries will have clear information on products realized in market of a particular country.

It is also important to emphasize reducing volatility in the market as one of the driving factors leading to the emergence of regional trade blocs. Mansfield and Pevehouse's (2000) reveal that preferential trade agreements diminish a possibility of conflict between members within the arrangement, while, in the same manner, Mansfield and Reinhardt (2008) argue that preferential trade agreements and the WTO decrease potential economic instabilities in the world by establishing certain stable rules for trade and by providing dispute settlement mechanisms in a case of disagreements between countries. Therefore, on the level of regional trade blocs this potential risk in causing trade volatility heavily harming the world economy is prevented by regional trade blocs. Moreover, Mansfield (2013) claims a positive contribution of regional trade agreements in stabilizing political situations in member countries and global market. Hence, the formation of regional trade agreement establishes more stable and profitable partnerships between states.

Apart from abovementioned reasons, the "domino effect" has also been proposed as a reason for the proliferation of regional trade agreements (Baldwin and Jaimovich 2012). The "domino effect" means that third parties seek to conclude preferential trade agreements, because other two countries concluded their own trade agreements. Actors perceive this process as a normal order in international political economy. For example, after initial intentions to conclude the US-Latin America relationship in the form of Free Trade Area of the Americas, the European Union began to negotiate the EU-Mercosur trade agreement (Söderbaum, Stelgren and Van Langenhove 2005). The same pattern can be applied to NAFTA, ASEAN

and the Andean Community, which started to find out ways for establishing interregional trade arrangements (Ruland 2001; Szegedy-Maszak 2009).

To summarize this review, scholars have created great knowledge explaining the behavior of states and of regional trade blocs. Nevertheless, as mentioned above, each of these researches is a piece of whole picture, which means that none of authors present theory embracing all aspects of interregional trade agreements. To be precise, the case studies on interregional trade cooperation are devoted to particular instances, however, they have slightly limited foundation proposing a general applicable theory for these types of agreements. At the same time, literature on regional trade agreements has strong arguments, which can basically explain interregional cooperation due to the fact that cooperation is still in trade. However, they do not address problems of depth within a bloc that is more complicated level of institution. As a result, there are two shortcomings, which create a gap in understanding of region-to-region trade arrangements. Firstly, it is an absence of theory explaining interregional cooperation fully. Even if this can be reached by theories of regional trade agreement, they do not take into account depth of bloc's integration, which is one of the decisive unique features in interregional cooperation. Second gap is a lack of empirical study on interregional trade blocs by considering depth of integration, mutual trade, a level of development, an effect of the WTO and dispute history in the WTO. The objective of this paper is to fill these gaps on the basis of existed studies and to supplement by novelties directly applicable to the proliferation of interregional trade agreements. In so doing, I strive to clearly show theory and hypotheses by shedding light on detailed causal mechanisms in the spread of region-to-region trade agreements.

CHAPTER 3. THEORY

I construct explanation for proliferation of interregional trade agreements relying on bargaining theory proposed by Fearon (1998) and Mansfield and Reinhardt's (2003) determinants of regional integration. The former proposes the theory revealing the main principles of cooperation in international relations, while the latter account for proliferation of preferential trade agreements. In so doing, Fearon's tenets of cooperation are clearly reflected through Mansfield and Reinhardt's reasons for expanding preferential trade agreements. At the beginning, I present essential ideas leading to interregional trade arrangement by following Fearon, and then I apply and expand causal mechanisms proposed by Mansfield and Reinhardt.

Application of Fearon's bargaining theory (1998) settles a basic foundation for building arguments accounting for interregional cooperation. He came up with a generalized foundation for understanding of collaboration logic. The bargaining theory consists of two stages: (1) bargaining phase and (2) enforcement phase. In the first stage, two actors bargain over a particular issue, while in the second stage, both parties care about compliance with established agreement. These two phases are very closely interconnected with each other. To show this link, in bargaining stage, each actor has own preference, meaning that they are different on a particular issue. Subsequently, they negotiate on the terms of cooperation by defending own positions, because they know that future agreement will demand to comply with and any detection can be punished. Therefore, actors negotiate harder in bargaining stage in order not to lose in enforcement stage. After the formation of agreement, terms finally agreed by both side are mutually beneficial in comparison with a status quo case, where two actors suffer more. In other words, a focal point in the bargaining theory is obtaining more gains from cooperation

than from non-cooperation. Fearon (1998) emphasizes that there are two costs for non-cooperation and delaying cooperation due to the negotiations over terms and conditions: (1) discount rate of future cooperation and (2) opportunity costs. It is essential to understand them, because these two costs are parameters triggering actors to cooperate and how to cooperate in any type of agreement in the following way. First, discount rate or shadow of the future is a degree to which actors value future interaction after the formation of agreement, which, in turn, has influence on patience of actors during the negotiations. If future benefit is higher than current ones, then actor will patiently bargain over the object. This is closely connected with enforcement and monitoring of actor's behaviors within the settled rules of arrangement, as it affects their future cooperation. To reiterate, the more the discount rate, the shorter the shadow of the future and the less actors value agreement. Otherwise, if discount rate decreases it means that shadow of the future will extends and an importance of cooperation for actors will grow up. Second, opportunity costs means that a state of affairs of non-cooperation is less beneficial than in a case of cooperation. During the lack of cooperation and negotiations actors lose time, when they can potentially benefit from already formed cooperation. In a case of interregional cooperation, blocs are actors engaged or not in cooperation. Those blocs are influenced by conceptual costs of discount rate and status quo, which are reflected by following variables: bilateral trade, depth of integration, level of development, stagnation of the WTO, and WTO dispute history. It is seen that two parameters conceptually drive trade bloc's preferences to the formation of interregional trade arrangement. Thus, this paper attempts to apply the parameters of bargaining theoretical framework for explication of interregional trade agreements.

In addition, there is an argument underpinning reasons for the proliferation of interregional arguments, which is similar to the explanations for spread of regional trade agreements. In both level of cooperation, generally, the arguments rely on both parameters, discount rate costs and opportunity costs of bargaining theory. However, specifically what are

commonalities and differences in explanations between bloc-to-bloc and state-to-state formats? Why do we see proliferation of bloc-to-block cooperation instead for bloc-to-state cooperation?

On the level of regional trade agreements, Mansfield and Reinhardt (2003) propose subsequent reasons, bargaining leverage, market access, trade gains, reducing volatility and existence of the World Trade Organization (WTO), which provoke states to cooperate in trade. Market access and trade gains give purely economic advantages for states, because they directly relate to economic growth. Volatility in global economy always affects economics and politics in either the domestic or international arena. Therefore, states attempt to reduce instability in international economy by concluding these regional trade agreements. Lastly, today the WTO is a huge framework in trade and trade-related issues in the world. Each country bloc is strongly bound to its framework and processes. However, some decisions or procedures can be harmful for interests of states, therefore, to be ready for unexpected events they want to have straight trade agreements with major partners.

All abovementioned factors are relevant for interregional cooperation level. Nevertheless, the costs of these reasons are incredibly higher due to increased scale of involved actors. Firstly, shadow of the future, which is a patience of bloc for the formation of interregional cooperation needs more efforts to construct, because there are several states coordinating policies towards other bloc consisting of states with the same problems. Thus, negotiation processes are more complicated on bloc-to-bloc level in comparison with state-to-state level. Secondly, in region-to-state model one state has less voice in comparison with a group of states and this can lead to more concessions from one state in the front of demands from a group of states. Due to this fact, if a state does not have enough power, it will not form cooperation with a bloc. In state-to-state level, opportunity costs are lower for a state, because there are many states for cooperation. Meanwhile in case of region-to-region model, there are only 26 regional trade blocs actively engaged in international relations and losing one out of

these possible partners substantially decreases opportunity of enjoying an interregional cooperation. Therefore, in order not to suffer and obtain more future payoffs it is better for trade blocs to deal in group-to-group model. It is worth emphasizing that essential idea of bargaining theory is not to lose more hugely and protect itself as much as possible. In so doing, discount rates and opportunity costs induce trade blocs to form interregional trade agreements.

Preferences of actors in interregional trade cooperation

To begin with, it is essential to identify main players in bargaining theory in the bloc-to-bloc cooperation case. They are regional trade blocs, who can negotiate, form and act within this agreement. Each regional trade bloc is considered as one player, however, as revealed by Hubauer and Schott (1994), they have different levels of integration. This score indicates a quality of depth in coordination of divergent policies within one trade bloc[1]. Hence, it is inherent feature of any regional trade bloc, which should be taken into account, as it influences a behavior of main players on international arena.

Here it is worth mentioning the preferences of trade blocs and their connection with the parameters affecting to a creation of interregional trade agreements. I argue that regional trade blocs are interested in increasing of market size and trade gains, however if they not cooperate or delay cooperation between each other, they discount future benefits. This implies that they lose these benefits. Moreover, current status quo provokes bloc to cooperate with other one bilaterally, because there is a cumbersome organization as the WTO, which is at a standstill and there are frequent trade disputes and noncompliance with rules between states (Mansfield and Reinhardt 2003; Gallagher 2007). Intuitively, trade blocs with a bad history in WTO disputes are not attractive partners for other actors. In other words, the WTO cannot provide

[1] The integration achievement score is calculated by following elements: (1) free movement of goods and services, (2) free movement of capital, (3) free movement of labor, (4) supranational institutions, (5) monetary coordination and (6) fiscal coordination. Each of this element is measured from 0 to 5.

stable interactions between trade partners, therefore, in order to strengthen them, blocs seek to form a trade agreement regulating issues regarding their partnership by a direct route. Thus, cooperation makes both sides better off in comparison with status quo situation.

Market access and trade gains

Information on previous and current level of bilateral market access and trade are two intertwined causes in the proliferation of any trade agreements in the future, because they have a straight connection with opportunity costs. As two actors have had large market access and trade gains have increased in the present time, it means that there is a great potential to expand cooperation further. Hence, as future benefits grow up, opportunity costs increase implying that arrangement will be more likely. Whalley (1998) emphasizes trade gains and market access among factors leading to regional trade agreements, because they give mutual benefits. Also, Mansfield and Pevehouse (2013) argue that trade openness and a fair distribution of trade gains leads to expansion of preferential trade agreements. Although, originally proposed to understand regional agreements, one can use them to analyze interregional trade agreements for empirical testing with inclusion of theoretical argument on depth of integration. In a case of interregional trade agreements, the reason for their importance is evident, because the larger the market access, the more the trade gains. In other words, interregional cooperation offers more opportunities in comparison with state-to-state trade cooperation. Each developed and developing state wants to have markets, which give opportunities to sell goods and services.

Furthermore, many articles dedicated to particular case studies on interregional trade agreements claim that market access and trade gains have a significant effect on their establishments. Bajo (1999), Aggarwal and Fogarty (2003) Devlin, Estevadeordal and Krivonos (2003) in cooperation between the European Union and Mercosur and Van deer Geest (2004) in cooperation between the European Union and the Association of Southeast Asian

Nations (ASEAN) stresses that trade flows will increase if regional trade blocs conclude trade agreement. The observation was supported by a quantitative analysis of interregional trade agreements in Boyer and Schuschny's (2010) article.

As a result, it is shown that interregional agreement increases confidence of businessmen and investors, which raise profits from trade. Therefore, interregional trade agreements are useful way to guarantee market access and to attain trade gains.

Hypothesis 1: *interregional trade agreement is likely between trade blocs, if previous and current level of bilateral market access and trade has a potential to expand further.*

Depth

As well as opportunity costs, discount rate parameter plays a huge role in stimulating regional trade blocs to cooperation in interregional trade format. As mentioned above, main actors in forming interregional trade agreements are blocs consisting of several countries. Each bloc varies over terms and conditions under which they work. It means if one bloc has strict internal rules and each constituent obey them, then, a bloc has a high level of policy coordination. Policy affinity assists to act in international arena as a uniform body. This leads to assumption that a quality of integration within trade bloc itself is a very important factor for creation of interregional trade agreement, because more integrated bloc is constant in its policy (Hufbauer and Schott 1994; Efird and Genna 2002; Efird and Genna 2003; Feng and Genna 2003; Genna and Hiroi 2004; Feng and Genna 2005; Geda and Kebret 2007; Genna 2011).

The preferences of a bloc are evident and it acts more effectively in the negotiations, while less integrated bloc has a divergent policy and cannot be a reliable partner for more integrated trade bloc. Hence, in the negotiations depth reflects discount rate concept by presenting a patience for future cooperation, as more integrated bloc is more consistent in actions within a bloc. Meanwhile, more integrated trade bloc is more predictable and stable in

future cooperation, which, in turn, shows that it is profitable to form an interregional trade agreement with such group than with less integrated group. This means that opportunity costs are higher, if a bloc does not cooperate with other deeply integrated bloc than with less integrated one. In so doing, cooperation between more integrated regional trade blocs decreases discount rate and increase opportunity costs due to uniform policy and high level of coordination. Consequently actors are willing to develop partnership further and form bloc-to-bloc trade agreement with highly integrated group of states.

> **Hypothesis 2**: *higher integrated trade bloc is likely to form interregional trade agreement with other higher integrated trade bloc.*

Level of development

Regional trade blocs pay a huge attention to a level of development meaning that economic prosperity and consumer capability of blocs directly indicate future profits from trade agreement. This factor is linked to increasing opportunity costs parameter, because a high level of consumer capability increases amount of benefits in the future. Therefore, mutual inter-bloc cooperation between significantly developed actors seems to themselves very attractive. Meanwhile, a bloc with low level of consumer capability seems for other blocs as not profitable, because citizens cannot afford to buy their goods and services. There are arrays of interregional collaboration examples as the European Union-ASEAN, the European Union-Mercosur, the European Union-Andean Community and Mercosur-Andean Community, where counterparts have higher level of development in comparison with other regional trade blocs (Bajo 1999; Aggarwal and Fogarty 2003; Aggarwal and Fogarty 2005; Devlin, Estevadeordal and Krivonos 2000; Faust 2003; Rüland 2001; Szegedy-Maszák 2009; Van der Geest 2004).

In addition, it is worth mentioning that the level of development demonstrates only potential trade gains from consumer capability of a particular bloc and it does not reflect a

current state of affairs between blocs. In this sense, emphasizing the difference between Hypothesis 1 and Hypothesis 3 is very crucial. Hypothesis 1 accounts for understanding past and present levels of partnership by analyzing their trade flows, however they do not address a potentiality of consumers. Hypothesis 3 directly shows a consumer capability of blocs, which gives insights about realization degree of products in the future. For instance, there can be the case, when two blocs have high level of development, however, they do not extensively trade with each other. This means that despite the fact that their consumers can buy expensive products, it is less likely that they will form trade agreement, because they do not have a high level of partnership in export and imports of goods and services in the past and present. This leads to assumption that the level of development shows a possible benefits from cooperation without accounting current state of affairs between blocs.

> **Hypothesis 3**: *interregional trade agreement is likely between trade blocs consisting of more developed states.*

The WTO and disputes history in the WTO

Opportunity costs parameter affects interregional cooperation by opting between current status of instability of global economy and disputes in the WTO and creation of stable ties with partners through interregional trade agreement. If regional trade organizations are satisfied with current state of affairs in international arena, they will not try to cooperate through bypassing existing system. However, it is not true, because trade blocs are forming trade agreements with each other due to suffering from existing rules and subsequent dissatisfaction with them. Hence, it is a pure influence of status quo parameter on cooperation in the form of interregional trade blocs.

Particularly, volatility is unpredictability of the global economy caused by the actions of countries as trade barriers, imposing taxes, protectionism and other measures, which can

harm economies of other countries. In order to prevent these economic disasters and instabilities and make a behavior of actors more predictable, states are inclined to form arrangements, which regulate different issues in economics and finance (Mansfield and Pevehouse 2000; Mansfield and Reinhardt 2008). Notably, interregional trade agreements are very influential in the world, because they consist of several states. Nowadays, each regional trade arrangement – the European Union, Mercosur, NAFTA, ASEAN and others – more or less has considerable effect on stability of the global economy. To tackle this uncertainty in volatility of global market, trade agreements help to make internal legislation more transparent and predictable by eliminating protectionism and other trade barriers (Baccini and Kim 2012). Therefore, a creation of these agreements is a vital point for whole system of the global economy.

Last reason is closely bound with previous factor. The WTO is considered as one of the most inclusive organizations in the world, which facilitates trade flow and eliminates trade barriers. The WTO positively effects the formation of interregional cooperation but interestingly there are its two positive and one negative features. Firstly, participation in the WTO means meeting high requirements recognized by international community. Secondly, the WTO aims to exchange information between members. However, thirdly, it has a drawback as many members with different interests at the same time. Mansfield and Reinhardt (2003) explicitly point out that the WTO can balk at some issues, which cannot be tackled unanimously. This was firmly confirmed by the Doha Round, when the United States of America, the European Union and developing countries had long discussions on agriculture (Gallagher 2007). In other words, when there is an absence of consent between members on a particular problem, the WTO needs time for finding a solution. Therefore, countries want to have a “backup” plan in a case of crisis caused by framework of the WTO. As an alternative

plan to the WTO, states see interregional trade agreements guaranteeing certainty in relations with most important trade partners.

Hypothesis 4a: *interregional trade agreement is likely between trade blocs consisting of states, which are members of the WTO.*

As discussed earlier, the WTO is a complex institution regulating trade issues over the globe and 161 states participate there. The organization has three general agreements regarding trade in goods, services and intellectual property rights, while there is a lot of additional specific agreements in agriculture, textile, government procurement and other fields. Legislation of the WTO practically covers all fields of trade activity and gives a possibility to solve disputes between states in the framework of this institution. Therefore, it is justified to exploit disputes history of the WTO, as there are many member-states and a lot of regulations on trade issues, which can be used as an indicator of compliance with terms of possible trade agreement.

Logically, those regional trade blocs comprising of states, which violate rules of the WTO and are frequently complained by other states, are not reliable partners. As Fearon (1998) claims in the enforcement stage, there is a repeated Prisoners Dilemma and each counterpart is monitoring other side. In this sense, already well known as a violator having a spoiled history of disputes is a reluctant partner in interregional trade agreement. Indeed, there is a significant uncertainty in compliance of notorious partner with the rules of agreement in the future. It is evident that actors are interested in predictable partnership, because it helps to establish more long term and reliable cooperation, which, in turn, positively increases benefits from trade. Intuitively, the opposite case brings high risks for business due to the unexpected consequences from unilateral actions, for instance, restricting trade flows in particular goods and services and rising up taxes and payments for exporting them, of violator country participating in a particular bloc. This uncertainty leads to decreasing opportunity costs, which make cooperation with untrustworthy state participating in regional trade bloc less likely. Therefore, trade blocs

comprising of states often violating the WTO rules are not reliable partners for the formation of interregional trade agreement.

Hypothesis 4b: *interregional trade agreement is not likely between regional trade blocs consisting of states, which are frequently engaged in trade disputes in the WTO.*

CHAPTER 4. RESEARCH DESIGN

Research on interregional trade agreement is a complex issue due to the structural form of main actor. Regional trade blocs comprise of three or more states, vary in internal integration level and act as one entity in the international arena. Therefore, the unit of analysis is bloc-year. Generally, as non-economic factors represent categorical conceptions I take average number in them in one year. Also, if someone take the sum in non-economic variables an extraordinary member of bloc can distort real situation by own results, while taking the averages reflects a real picture more correctly. To the contrary, in economic indicators figures are foremost assessment tool and therefore sum of numbers in one year is more relevant.

For the sake of investigating the logic of forming bloc-to-bloc trade agreement influenced by trade gains, market access, depth of integration within a trade bloc, volatility of the WTO and dispute history, I choose the relationship between the European Union and other trade blocs as a general pattern, because the former has the largest number of this trade agreement and is the most developed trade bloc nowadays. Furthermore, interestingly, the European Union negotiates and signs trade agreements with particular groups, while others are not considered as partners for cooperation. Hence, there is a question on what criteria are based European Union's selectivity in counterparts. Taken into account that many trade blocs follow the European Union's policy, ultimate findings would enrich us with some useful conclusions on behavior of regional trade in forming interregional trade agreements (Haas 1961; Dorrucci et al. 2004; Malamud and Schmitter 2007; Telò 2013).

Although, someone can argue that focusing on the European Union and other blocs' cooperation will lead to selection bias, there is an argument that many regional trade blocs

purport to emulate an integration pattern of the European Union (Haas 1961; Dorrucci et al. 2004; Malamud and Schmitter 2007; Telò 2013). Particularly, justification for this is based on the fact that the European Union is a leader in interregional cooperation and other regional blocs are willing to seek for this model, therefore it is worth revealing common patterns from the European Union's relationships with the rest of regional trade blocs. Consequently, as the European Union was formed in 1992 and generally interregional trade agreement emerged from that period, I decided to collect data from 1993 to 2012. The data is panel, because there are determinants changing over time and comparing different subjects. There are 26 regional trade blocs, which are formally registered in the Regional Trade Agreements database of the WTO.

Dependent variable

Dependent variable is the status of trade agreement between the European Union and 26 regional trade blocs and denoted as *IRTAwithEU*. According to the status of cooperation, it is divided into two groups, 0 in a case of non-negotiations and of non-agreement and 1 in a case of ongoing negotiations over agreement and of already formed agreement. The data on status of interregional trade agreements between the European Union and other blocs is obtained from official web sites of the European Union and other trade blocs.

Specifically, as the dependent variable is dichotomous, I decide to use a logistic regression model. The regression is ran with (1) lagged independent variables, (2) clustering standard errors based on regional trade agreements and (3) using cubic splines for dealing with time-dependency (Beck, Katz, and Tucker 1998). Firstly, as I have panel data meaning that variables change over time, it is relevant to lag all explanatory variables. This complication calculates past effect of independent variables on current dependent variable. Secondly, clustering assumes that each regional trade bloc is different from each other, consequently this

implies that each bloc possesses unique indicators in the variables. Therefore clustering helps to take into account these differences from institution to institution. Thirdly, logistic regression supposes that each observation is independent across subjects and years. To cope with dependency arising from the panel nature of the data, I include cubic splines. They consider each year as distinct and independent from other years, which afterwards gives a possibility to deal with time-dependency (Beck, Katz, and Tucker 1998).

Independent variables

There are several independent variables as market access, trade gains, depth, a level of development, WTO membership and WTO disputes, which, I assume, affect the formation of interregional trade agreement. Each variable has own specific characteristics and is collected from reliable sources.

As market access and trade gains aimed to present previous and current level of trade between actors, there is a need to take into account import and export flows between them. Theoretically, total trade flows reflect both discount rate and opportunity costs, because if a trade flow between blocs is high in the past and present, then they are patient as it has a potential to extend to higher level. Values on import and export are simply sums of member-states' indicators within one regional trade bloc. Then, I take the sum in these values on import and export for deriving a total amount of trade, *TotalTrade*, between the European Union and other counterpart. This measurement of total trade is widely used in Mansfield and Pevehouse (2000), Mansfield and Reinhardt (2003) and Mansfield, Milner and Pevehouse (2008). Consequently, I take the logarithm of *TotalTrade* to *TotTradeLogged* in order to make it more normal and decrease the scale. Hence, obtained figures reflect a state of affairs in the past and present time in overall trade. The data is collected from the International Monetary Fund's database called the Direction of Trade Statistics (2015).

Depth of trade blocs is measured by the Integration Achievement Score (*IAS*), which is widely used in the literature (Hufbauer and Schott 1994; Efird and Genna 2002; Efird and Genna 2003; Feng and Genna 2003; Genna and Hiroi 2004; Feng and Genna 2005; Geda and Kebret 2007; Genna 2011). In turn, this means that *IAS* measures conceptual discount rates and

Table 1. Descriptive Statistics

	(1)	(2)	(3)	(4)	(5)
VARIABLES	N	Mean	SD	Min	Max
IRTAwithEU	479	0.134	0.341	0	1
Rtaid	479	14.51	8.373	1	26
Year	479	2,003	5.712	1,993	2,012
Import	479	5.221e+10	8.408e+10	3.481e+08	5.331e+11
Export	479	4.601e+10	7.231e+10	6.673e+07	4.532e+11
TotalTrade	479	9.822e+10	1.514e+11	4.217e+08	8.291e+11
ImportLogged	479	23.56	1.645	19.67	27.00
ExportLogged	479	23.40	1.837	18.02	26.84
TotTradeLogged	479	24.20	1.689	19.86	27.44
IAS	473	1.098	0.681	0.167	2.833
EIAS	471	1.226	1.036	0	3.667
PIAS	479	0.916	0.625	0	3
GDPpcMean	479	5,384	7,282	268	42,700
GDPpcConstMean	479	5,353	7,084	322	30,299
Membership	479	0.689	0.355	0	1
ComplainantinWTO	479	0.170	0.578	0	7
RespondentinWTO	479	0.153	0.506	0	5
DisputesinWTO	479	0.324	1.018	0	9.997
PolityDummy	479	0.328	0.470	0	1
EUpolityDummy	479	1	0	1	1
IASofEU	479	3.674	0.215	3.333	3.833
Distance	479	7,731	3,500	1,548	15,778

status quo costs. Higher integration score is equal to less discount rate and more opportunity costs for regional blocs. Also, the integration score is calculated according to following measures (1) free movement of goods and services, (2) free movement of capital, (3) free movement of labor, (4) supranational institutions, (5) monetary coordination and (6) fiscal coordination. The IAS varies from 0 to 5 and reflects a quality of integration in abovementioned

fields. In so doing, the components of the IAS score are comprehensive, because they capture main spheres of integration in regional institutions.

The Gross Domestic Product per capita, *GDPpcMean*, taken from the World Bank (2016a) expresses the level of development within a bloc, because it precisely shows a consumer capability of citizens. Theoretically, *GDPpcMean* reflects status quo costs affecting the interregional cooperation. Particularly, as *GDPpcMean* increases, costs of status quo rises as well. In other words, the consumer capability gives insights to what extent cooperation between blocs are beneficial. Despite the fact that GDP per capita is economic determinant, it is more logically justified to consider averaged level of development within a bloc, because it reflects overall picture of prosperity a group of states participating in regional integration. Therefore I calculate average of GDP per capita of regional trade blocs based on each member-state's GDP per capita.

Detailed information on WTO membership (2015a) and WTO disputes (2015b) is obtained from a database of the WTO. WTO membership, *Membership*, is calculated in the following way: as a trade bloc is comprised of several states, firstly I determine a participation of country from a particular trade bloc in the WTO. 1 if a country is a member of the WTO and 0 if a country is not member. Secondly, as it is non-economic variable I derive average membership number of regional trade bloc. Membership in the WTO affects states to cooperate, because they want to trade without pauses as it usually happens in this organization. Hence, conceptually, the variable is connected to opportunity costs, which claims that actors lose potential benefits from cooperation during the non-cooperation period.

Technically, procedure for WTO disputes is similar, firstly, I identify participation in trade disputes as a complainant, *ComplainantinWTO*, and a respondent, *RespondentinWTO*, of one country from a particular group. Then, I calculate average trade disputes number of one bloc. Number of complainants varies from 0 to 7, while number of respondents varies from 0

to 5. Also, these records contain dispute history 1993-1994 in the framework of the GATT, because it was an ancestor of the WTO created in 1995. Dispute history gives information on a possible behavior of counterpart based on the past experience. If a counterpart frequently complained or violated the rules of the WTO, it means that it can repeat these actions. Conceptually, opportunity costs are low in this case, because a danger of being engaged in dispute considerably increases.

Control variables

The first control variable is a regime type, which is measured by *PolityDummy* obtained from the Polity IV Project and transformed to dichotomous variable (Marshall and Jaggers 2002). Hence, *PolityDummy* is structured as 1 is democracy and 0 is authority. As previously mentioned in the cases of non-economic variables, I calculate average regime type scores of groups based on a polity score of each state. In addition, there is a polity score of the European Union, *EUpolityDummy*, which has no variation, because all members are democratic states. Therefore, I do not include *EUpolityDummy* in the model, as the statistical software omits it due to the absence of variance.

In the same vein, EU's integration quality, (Hufbauer and Schott 1994; Efird and Genna 2002; Efird and Genna 2003; Feng and Genna 2003; Genna and Hiroi 2004; Feng and Genna 2005; Geda and Kebret 2007; Genna 2011) *IASofEU*, should be taken under control, because other players see a uniformity of regional policy in the European Union and seek to cooperate. In other words, it seems that a deep level of integration within the European Union affects a potential counterpart to be more inclined for collaboration, because the former has already a high quality of coordination during negotiation process and after the formation of agreement in transporting of goods and services, working of regional institutions, monetary and fiscal policies.

Lastly, another control variable is distances, *Distance*, between Brussels and other capitals of states consisting regional trade blocs, because there is a possibility that near trade blocs are more inclined to form agreements than remote ones. The way of calculation is similar to previous non-economic variables. I collect data on a distance of capitals, then will derive average figures. The data will be obtained from the GeoDist database (Mayer and Zignago 2011).

CHAPTER 5. RESULTS

After running logistic regression based on the obtained data, generally, there are results supporting my arguments. Table 2 presents the estimates of independent variables on

Table 2. The Estimates of Interregional Trade Agreements

VARIABLES	(1) Logit coefficient (Model 1)
L.TotTradeLogged	1.440***
	(0.517)
L.IAS	2.528***
	(0.627)
L.GDPpcMean	0.000192**
	(9.13e-05)
L.Membership	9.505***
	(1.988)
L.RespondentinWTO	-5.970***
	(0.867)
L.ComplainantinWTO	-1.490***
	(0.543)
L.PolityDummy	0.880
	(1.226)
L.IASofEU	30.72***
	(8.374)
L.Distance	0.000266
	(0.000207)
Agreeyrs	-2.900***
	(1.029)
_spline1	0.0246
	(0.0182)
_spline2	-0.0507**
	(0.0223)
_spline3	0.0364**
	(0.0170)
Constant	-142.9***
	(26.44)
Observations	477

Robust standard errors in parentheses; Significance: *** p<0.01, ** p<0.05, * p<0.1

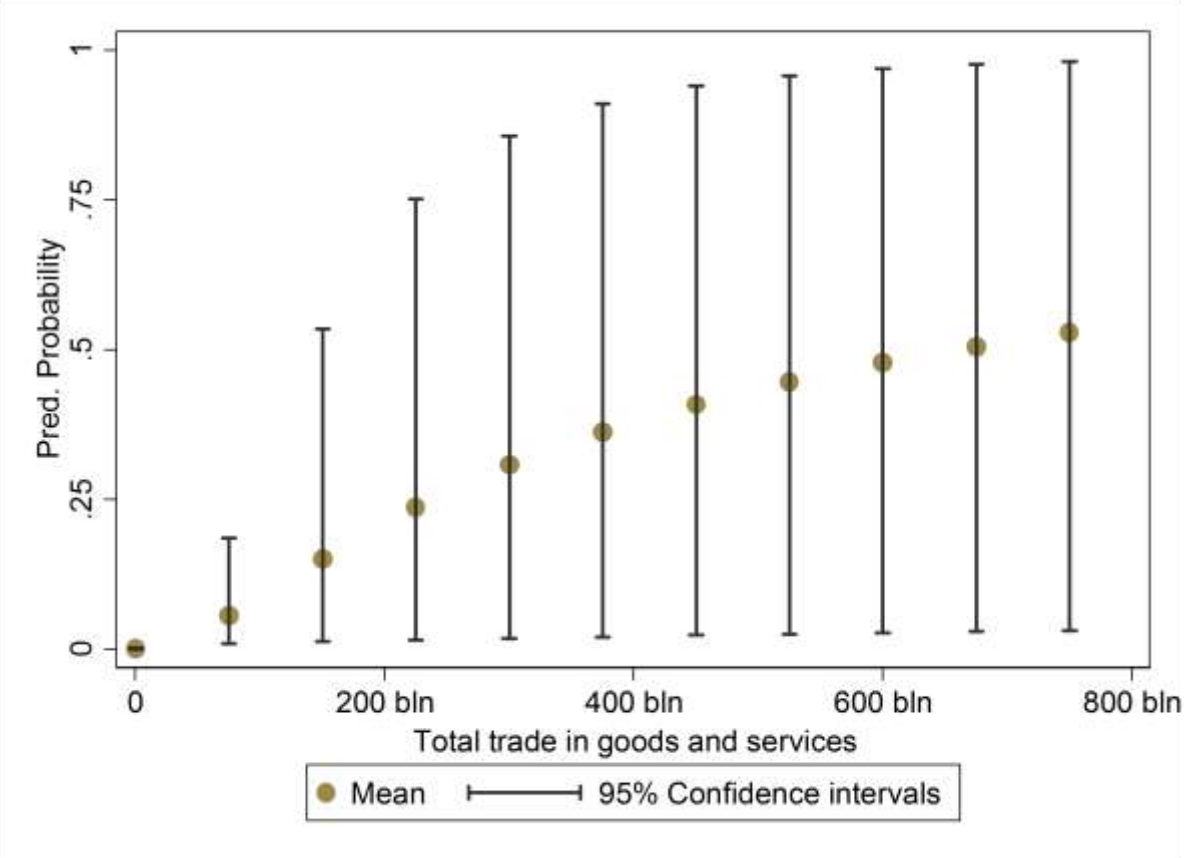
interregional trade agreement between the European Union and other trade bloc. Along with

deriving coefficients of the variables, I present an example from real international arena, where a typical case shows substantive effects, including confidence intervals and uncertainty level based on the averaged estimates of the main model. Confidence interval is a range of predicted probability of cooperation affected by explanatory variable, while uncertainty level is an extent to which we are not sure in the range. This implies that the estimates show features cooperation between the European Union and an average regional trade bloc. Therefore, there is a possibility to understand theoretical arguments reflected by empirical case.

First, according to Table 2, the result of total trade flow between the European Union and other trade bloc are evident, it positively and significantly affects interregional cooperation. As *TotTradeLogged* flow aimed to capture Hypothesis 1, where previous and current level of trade gains and market access are factors triggering for further cooperation, it is seen that the European Union and other regional trade blocs are motivated by increasing benefits from trade through opening own markets broader. Hence, based on the estimates of total trade empirical result supports Hypothesis 1.

As seen from Figure 1, total trade based on the sum of import and export flows shows gradual increasing in probability of interregional cooperation. As the total trade raises up, probability grows up. However, along with a growth of probability, uncertainty in the formation of interregional cooperation increase as well. For instance, when there is a total trade costing 80 billion dollars, the average predicted probability ranges from 0.02 to 0.21. Consequently, this means that uncertainty of predicted probability is about 0.19. Meanwhile, a predicted probability of cooperation based on total trade with 150 billion dollars starts from 0.03 to 0.55 approximately. In this case, uncertainty increases to about 0.52. If there is a total trade costing 300 billion dollars between the European Union and averaged trade bloc, then a predicted probability varies between 0.05-0.85 with 0.80 uncertainty. This trend shows that

Figure 1. Substantive Effects of Total Trade Flows in EU-Averaged Bloc Cooperation



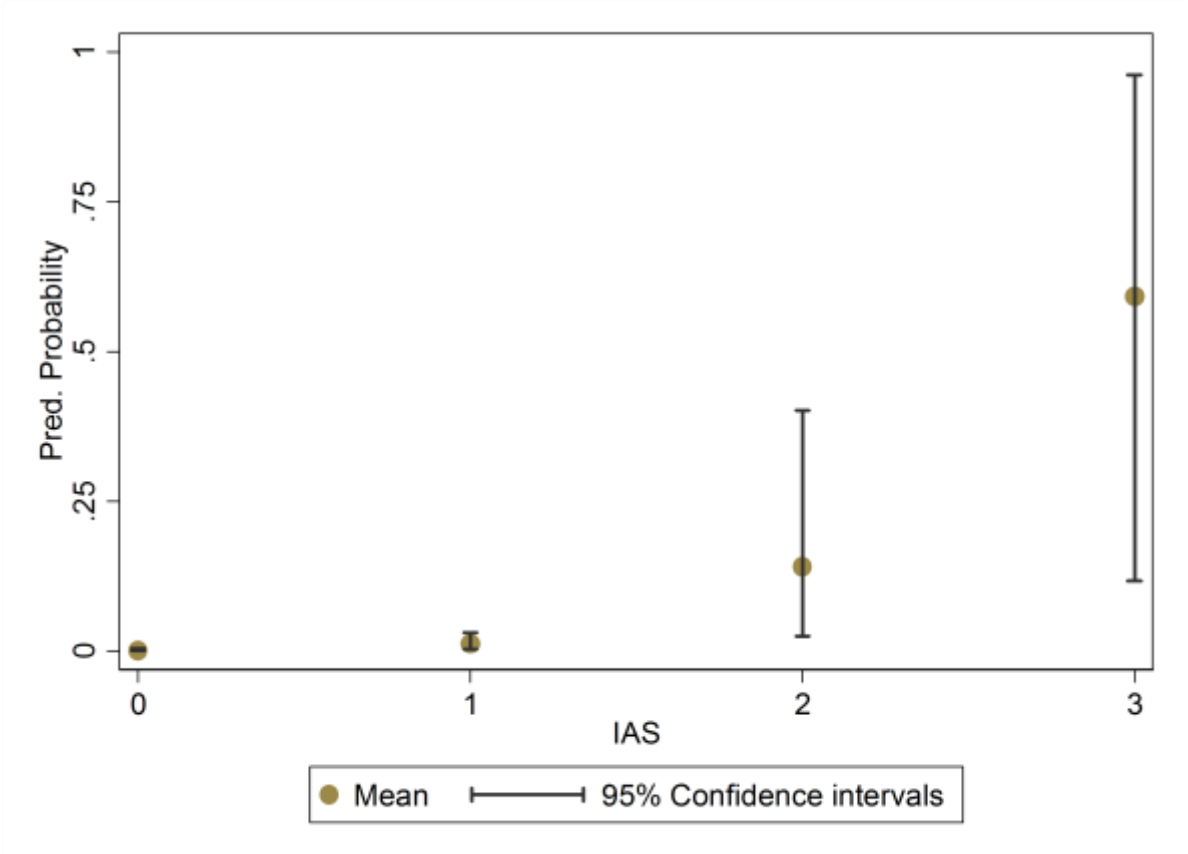
there is more confidence in an increase of probability on interregional cooperation increases as total trade increases but along with expanding uncertainty level.

Second, an estimate of *IAS* score supports the role for depth of integration in Hypothesis 2. The European Union is more likely to negotiate and form agreement with more integrated trade bloc. This is evidence for claiming that uniform policy and high level of coordination are very important factors in choosing partners for cooperation, because these features show to what degree a partner is reliable and predictable during the negotiations and enforcement stages and after establishment of arrangement in trade flows of goods and services between member states.

Figure 2 presents confidence intervals of Integration Achievement Score aimed to show depth of integration. At 0 score there is 0 probability for cooperation, which can be said with 0.01 uncertainty. If there is a trade bloc with 1 IAS score, then a probability negligibly

increases. At 2 score cooperation can be vary between 0.05-0.45 meaning that there is almost 0.40 uncertainty in a probability of cooperation between the European Union and other

Figure 2. Substantive Effects of IAS Score in EU-Averaged Bloc Cooperation

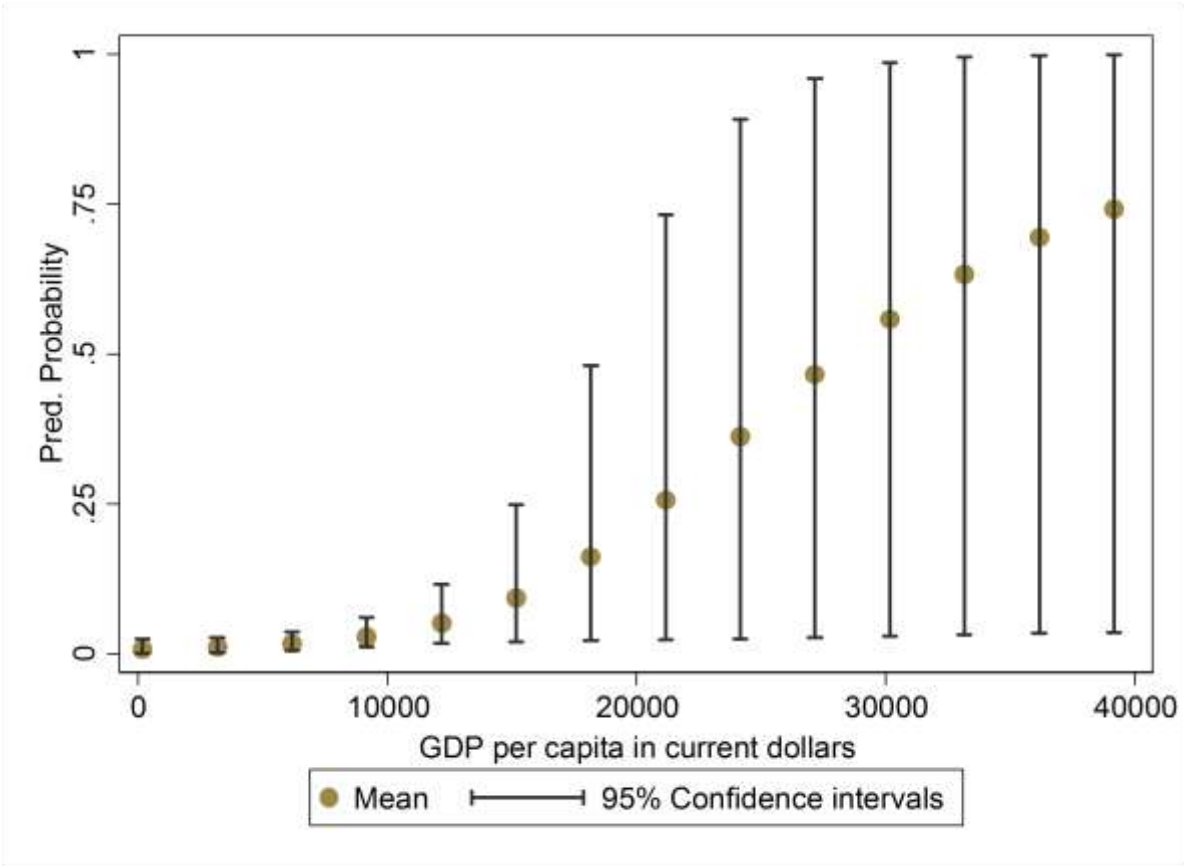


averaged trade group. However, there is a predicted probability ranging from 0.15 to 0.95 at 3 IAS score, while uncertainty fluctuates for 0.80 approximately. Therefore, the typical case based on indicator of depth level shows a trend on increasing of probability in negotiations and agreement on interregional trade as well as growth of uncertainty in them.

Third, as claimed in Hypothesis 3, a level of development is one of the essential qualities for establishing inter-bloc arrangement, as it gives insights on consumer capability for potential partners. The level of development is measured by the Gross Domestic Product per capita, *GDPpcMean*, which has a high significance at 0.95. Therefore, it can be stated that a high development level increases a probability of the interregional trade agreement with the European Union.

Figure 3 shows confidence intervals of GDP per capita, which is directed to show a level of development. Particularly, as GDP per capita rises up, probability of cooperation between the EU and the averaged trade bloc increases simultaneously. Nevertheless, along with

Figure 3. Substantive Effects of GDP Per Capita in Current Dollars in EU-Averaged Bloc Cooperation



them, uncertainty level also markedly goes up. For example, a trade bloc with 6000$ GDP per capita shows probability of cooperation varying only between 0.03-0.06, meaning that there is 0.03 uncertainty. A trade bloc with 12000$ GDP per capita has 0.05-0.14 probability with 0.09 uncertainty. At the same time, at 18000$ GDP per capita confidence intervals varies between 0.06-0.48. In so doing, I observe 0.42 uncertainty in this range of predicted probability. It is evident that uncertainty enhances, as GDP per capita goes up. In terms of the argument, this trend is consistent, because a trade bloc with more GDP per capita is more inclined to create interregional trade agreement.

Fourth, membership in the WTO carries several signals for blocs. One the one hand, as a state participates in the WTO, it should meet international recognized standards. On the other hand, the WTO is an international institution, which shares information about other actors. All these two factors are positive features of the WTO influencing blocs to understand who is preferable for cooperation. Nevertheless, there is a negative feature of the WTO, which is its

Figure 4. Substantive Effects of WTO Membership in EU-Averaged Bloc Cooperation

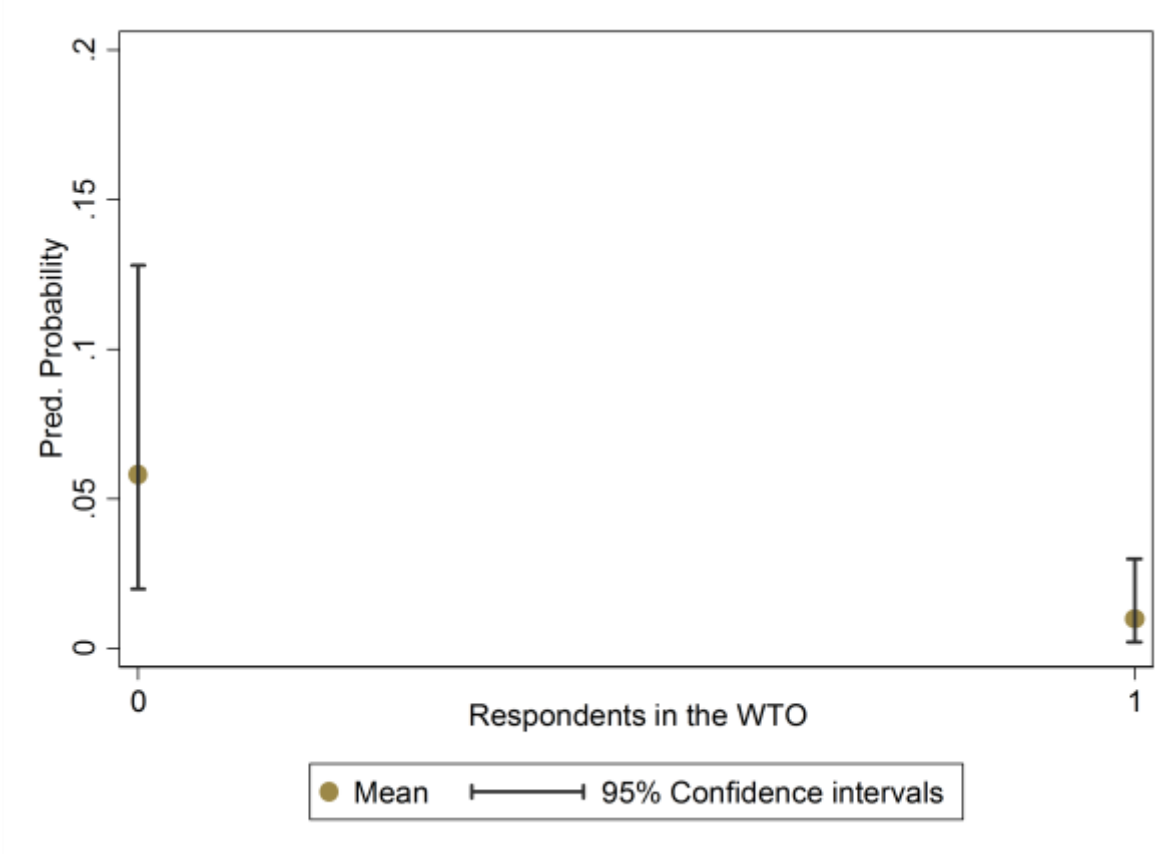
complex structure due to number of members impeding the quick and efficient decisions solving the problems. This negative peculiarity triggers blocs to establish bilateral interregional trade agreements instead of relying only on the WTO rules. Advantages and disadvantages of *Membership* in the WTO have a positive effect on cooperation between the EU and partner trade bloc. Therefore, in comparison with status quo, where the heavy WTO exists, it is more profitable to cooperate with important partners directly, where parties can manage their problems locally and quickly. Thus, opportunity costs lead trade blocs, including in this case the EU and other trade blocs, to seek for cooperation bilaterally.

As seen from Figure 4, there are confidence intervals of WTO membership. If no one in a regional trade group is a member of the WTO, then a probability of cooperation is equal 0 in the bottom. Obviously, uncertainty level is very low 0.01 approximately. If each state consisting trade bloc participates in the WTO, then confidence intervals increase from 0.05 to 0.6. Therefore, there is confidence in uncertainty of aforementioned predicted probability for 0.60. In this typical case based on *Membership* figures of the averaged trade bloc, it is seen that a probability of cooperation is very low. Nevertheless, a general trend is in compliance with the results of Model 1.

Last, the estimates of WTO respondents and complainants are negative and significant. Precisely, participation in the GATT/WTO disputes as a respondent, *RespondentinWTO* and as a complainant, *ComplainantinWTO*, decreases a probability of cooperation on bloc-to-bloc level. Thus, it is relevant noting that Hypothesis 4b is fully supported by respondent and participant records in the GATT/WTO dispute history. Bloc consisting of states with a dirty dispute history is undesirable partner for the European Union for the formation of interregional trade agreements.

Substantive effects of participation being as a respondent in the WTO is shown through binary variable. 0 is equal to absence of participations in disputes as respondent, while 1 is equal to 1 and more participations. Using the dichotomous measurement more clearly shows predicted probabilities of cooperation than count variable. Figure 5 demonstrates that in the typical case of means participation in WTO disputes as a respondent has relatively a low level of uncertainty. If there are 0 cases as a respondent, then a probability of cooperation is around 0.02-0.13 only and uncertainty is 0.11. Meanwhile if there are any instance of participations in the WTO disputes, then there is almost 0-0.03 predicted probability in impossibility of cooperation between the EU and the averaged trade bloc. Generally, a general pattern of

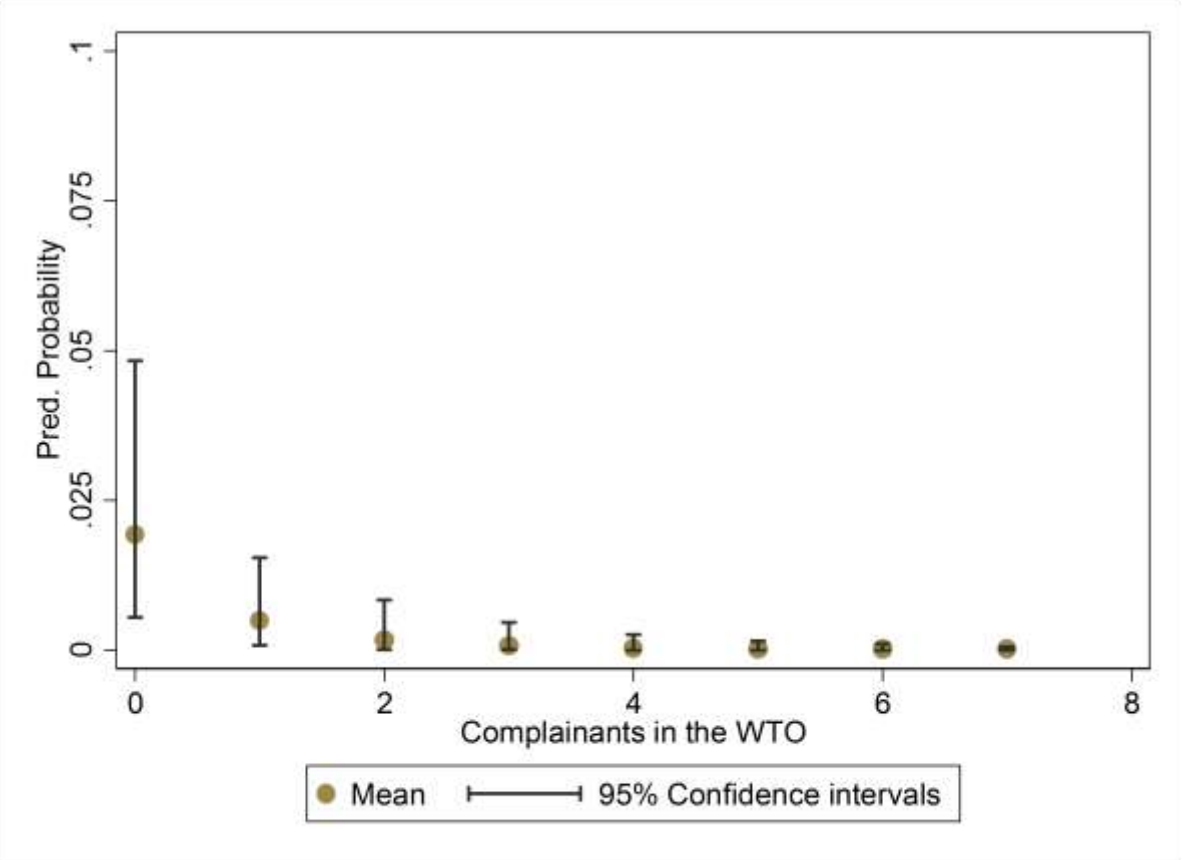
Figure 5. Substantive Effects of WTO Respondents in EU-Averaged Bloc Cooperation



participation in WTO disputes as a respondent is negative on cooperation as postulated in the hypothesis above.

Confidence intervals of participation in WTO disputes as complainants are presented by Figure 6. Visibly, the graph demonstrates a congruent trend with Model 1. In other words, as a number of being complainants in the framework of the WTO increases, a predicted probability of cooperation decreases as well. In other words, any case of participation in a dispute considerably shortens likelihood of interregional cooperation. For example, a trade bloc with null cases of being complainants has 0.01-0.05 probability with only 0.04 uncertainty, while a trade bloc with 2 cases of being complainants has 0-0.01 probability with almost 0.01 uncertainty. Meantime, 7 cases of complains in the WTO falls predicted probability to almost 0. Subsequently, there is almost no uncertainty in a negative effect of complains in WTO disputes on interregional collaboration. In comparison with responding blocs complaining blocs have barely more chances for the formation of the arrangement. This tendency is logically

Figure 6. Substantive Effects of WTO Complainants in EU-Averaged Bloc Cooperation



consistent finding, because it shows that a frequent complainant is more welcomed than a frequent respondent as a potential partner in the interregional agreement.

Regarding control variables, they are different in their degree of influence on the formation of interregional cooperation. Despite the fact that *PolityDummy* has a positive effect, it does not significantly affect the European Union and other regional blocs to form agreements between each other. I suppose that polity types are not considered as an insurmountable barrier for trading on interregional level of collaboration, because blocs have not feature of regime as in case of state-to-state cooperation.

A long history of political and economic dialogue from the World War II across the Europe and deep integration between member states of the European Union means for potential partners that the former coordinates free movement of trade and services, monetary and fiscal policies on very high level. This, in turn, is a promising signal of beneficial cooperation for

other regional institutions. Therefore, *IASofEU* has positive and significant estimates in the model.

Lastly, *Distance* shows that a range of kilometers does not significantly affect cooperation between the European Union and other blocs. This finding can be explained by the fact that on group-to-group level of agreements actors do not take into account distances between them. If there are a potential trade gains and absence of formal barriers for trade, then, despite the remote locations, blocs will negotiate and form agreements. Also, probably long distances are not problem in the modern world, because there are many cheap possibilities to transport goods across continents and oceans.

This section of the paper is structured to show an effect of each explanatory variable on interregional cooperation. Bilateral total trade, depth of integration, WTO membership, WTO respondents, WTO complainants and a level of development measured by GDP per capita show trends consistent with the theory. I suppose that taking means of the variables, which is similar to indicators of the averaged trade bloc, demonstrates average picture of bloc-to-bloc collaboration influenced by the independent factors. Therefore, there is a need to present more comprehensive picture by using indicators of different regional blocs. For the sake of collecting full mosaic, I include investigations of two typical cases in the Appendices.

CHAPTER 6. ROBUSTNESS CHECK

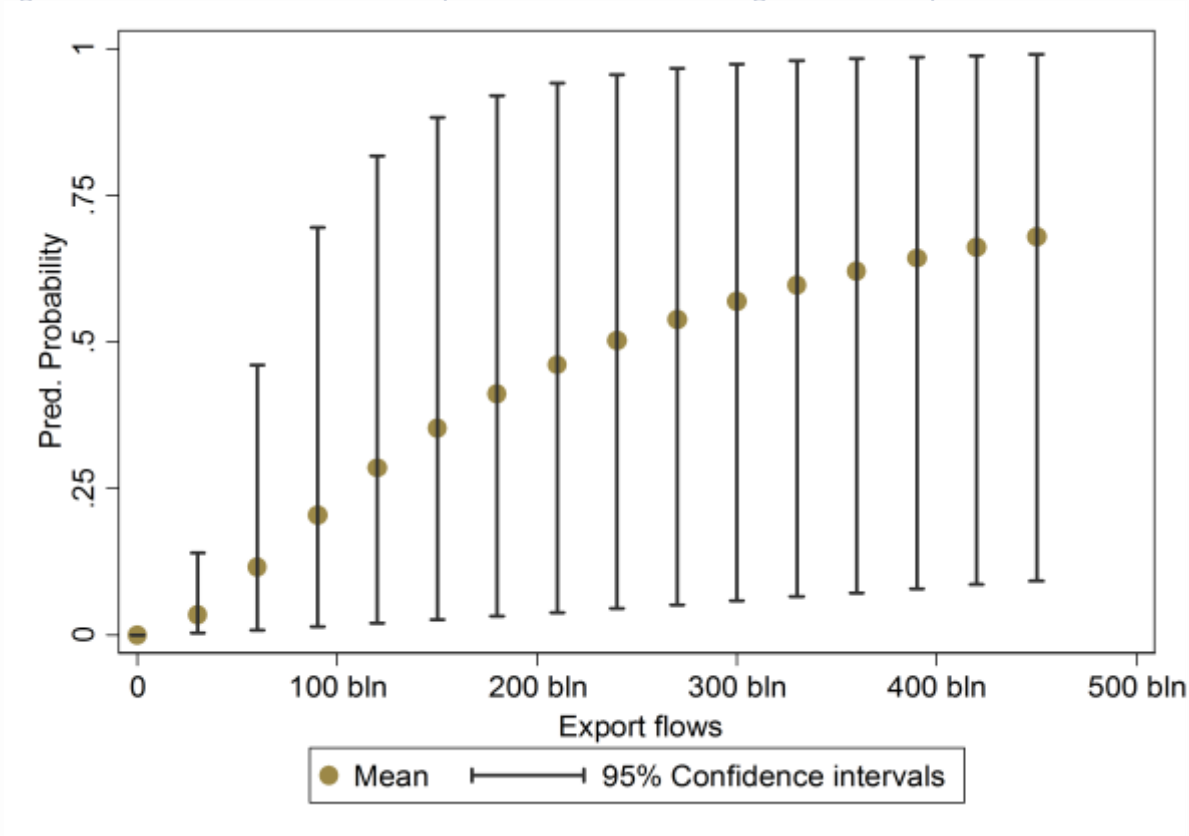
The estimates of Model 1 needs robustness check in order to be confident in obtained results. Notably, almost all explanatory variables have several alternative measures, while only *Membership* is unique and cannot be relevantly substituted by other alternative variables. Substitutable variables are *TotTradeLogged, IAS, RespondentinWTO, ComplainantinWTO and GDPpcMean*, because each can be adequately tested with alternates.

There are Model 2, Model 3 and Model 4 with different specifications, which generally support original Model 1. Meanwhile, I do not change specifications on lagging, clustering based on regional trade agreements and including cubic splines. These specifications are the same for Model 1 as well as for other three models. In order to see robustness of the arguments I analyze each model and compare their estimates with the estimates of Model 1.

Firstly, I substitute *TotTradeLogged* with *ExportLogged*, export flows between the European Union and regional blocs, in Model 2. Export is a component of total trade, therefore it can be considered as an additional indicator of trade level. Significance of exports flows is high at 95% level, which means that it has robustness. Figure 7 shows a predicted probability of interregional cooperation conditioned on export flows between particular trade blocs. It is seen that probability increases along with a growth of exports, although uncertainty level also goes up. For instance, if there is 30 billion dollars export flows, then cooperation will likely occur for 0.15 approximately with 0.13 uncertainty level. If there is 60 billion dollars export flows, a probability increases substantially to 0.40 with 0.38 uncertainty. This trend is continuous and seems that a high level export flows between trade blocs definitely magnifies chances for cooperation. *IAS* score can be divided into economic IAS, *EIAS*, consisting of a

free movement of goods and services, of a capital and of a labor and political IAS, *PIAS*, consisting of supranational institutions, monetary and fiscal coordination. Here in Model 2 I include *EIAS*, which significantly and positively affects in interregional cooperation. *GDPpcMean* is changed to *GDPpcConstMean*, which is the Gross Domestic Product in constant dollars in 2005. The reason for this substation is laid in possibility that the GDP gradually rises everywhere over time. For the sake of taking into account this trend and see what can be happened in case of stable dollar I include *GDPpcConstMean*. Its significance

Figure 7. Substantive Effects of Export Flows in EU-Averaged Bloc Cooperation



substantially decreased, while the effect is positive. This means that the influence of development on cooperation of blocs is weak in comparison with other explanatory variables. *Membership* in the WTO is significant and positive despite the made changes in Model 2. In order to check robustness of *RespondentinWTO* and *ComplainantinWTO* I create *DisputesinWTO* by summing numbers of participations as a respondent and a complainant. The significance level is at 0.99, so undoubtedly it confirms that frequent disputes history negatively affects a probability of cooperation between blocs.

Table 3. Robustness Check of Model 1 with Three Different Models

VARIABLES	(1) Model 1	(2) Model 2	(3) Model 3	(4) Model 4
L.TotTradeLogged	1.440***			
	(0.517)			
L.ExportLogged		1.824***		
		(0.347)		
L.ImportLogged			0.343	1.545***
			(0.413)	(0.254)
L.IAS	2.528***			
	(0.627)			
L.EIAS		2.466***		2.724***
		(0.482)		(0.599)
L.PIAS			0.361	
			(0.646)	
L.GDPpcMean	0.000192**			-3.85e-05
	(9.13e-05)			(5.53e-05)
L.GDPpcConstMean		2.78e-05	0.000304***	
		(9.82e-05)	(8.61e-05)	
L.Membership	9.505***	11.65***	9.609***	8.549***
	(1.988)	(1.902)	(1.164)	(2.437)
L.RespondentinWTO	-5.970***		-6.298***	
	(0.867)		(1.090)	
L.ComplainantinWTO	-1.490***			-3.296***
	(0.543)			(0.720)
L.DisputesinWTO		-3.320***		
		(0.443)		
L.PolityDummy	0.880	1.571	0.768	0.272
	(1.226)	(1.335)	(1.104)	(1.261)
L.IASofEU	30.72***	32.70***	30.81***	29.87***
	(8.374)	(6.764)	(6.402)	(9.451)
L.Distance	0.000266	-8.63e-05	0.000312**	-0.000103
	(0.000207)	(0.000249)	(0.000151)	(0.000219)
Agreeyrs	-2.900***	-3.695**	-2.813***	-2.835*
	(1.029)	(1.447)	(0.576)	(1.700)
_spline1	0.0246	0.00936	0.0293**	0.0337
	(0.0182)	(0.0255)	(0.0138)	(0.0295)
_spline2	-0.0507**	-0.0393**	-0.0570***	-0.0603***
	(0.0223)	(0.0159)	(0.0170)	(0.0198)
_spline3	0.0364**	0.0292***	0.0395***	0.0388***
	(0.0170)	(0.00915)	(0.0117)	(0.00901)
Constant	-142.9***	-154.6***	-115.5***	-138.0***
	(26.44)	(21.06)	(24.79)	(27.41)
Observations	477	447	453	447

Robust standard errors in parentheses; Significance: *** p<0.01, ** p<0.05, * p<0.1

Control variables in Model 2 do not change from their estimates in Model 1. *PolityDummy* and *Distance* are insignificant for the formation of interregional trade agreements. In other words, an influence of regime type and locations of actors do not encourage blocs to cooperate. Meantime, *IASofEU* presents robustness and has significance at 0.99 level. This implies that a quality of integration within the European Union has a strong effect in Model 2.

Secondly, Model 3 is structured with *ImportLogged* instead of *TotTradeLogged* for testing arguments on potential trade gains and expanding market access, because along with export, import is constituent of total trade flows. *ImportLogged* is positive but insignificant in Model 1, which contradicts aforementioned assumption. This decreasing effect is conditioned on inclusion of *PIAS* demonstrating an insignificance level as well. PIAS score represents only political depth of cooperation within a trade bloc, which means that political dimension does

Figure 8. Substantive Effects of WTO Membership in EU-Averaged Bloc Cooperation

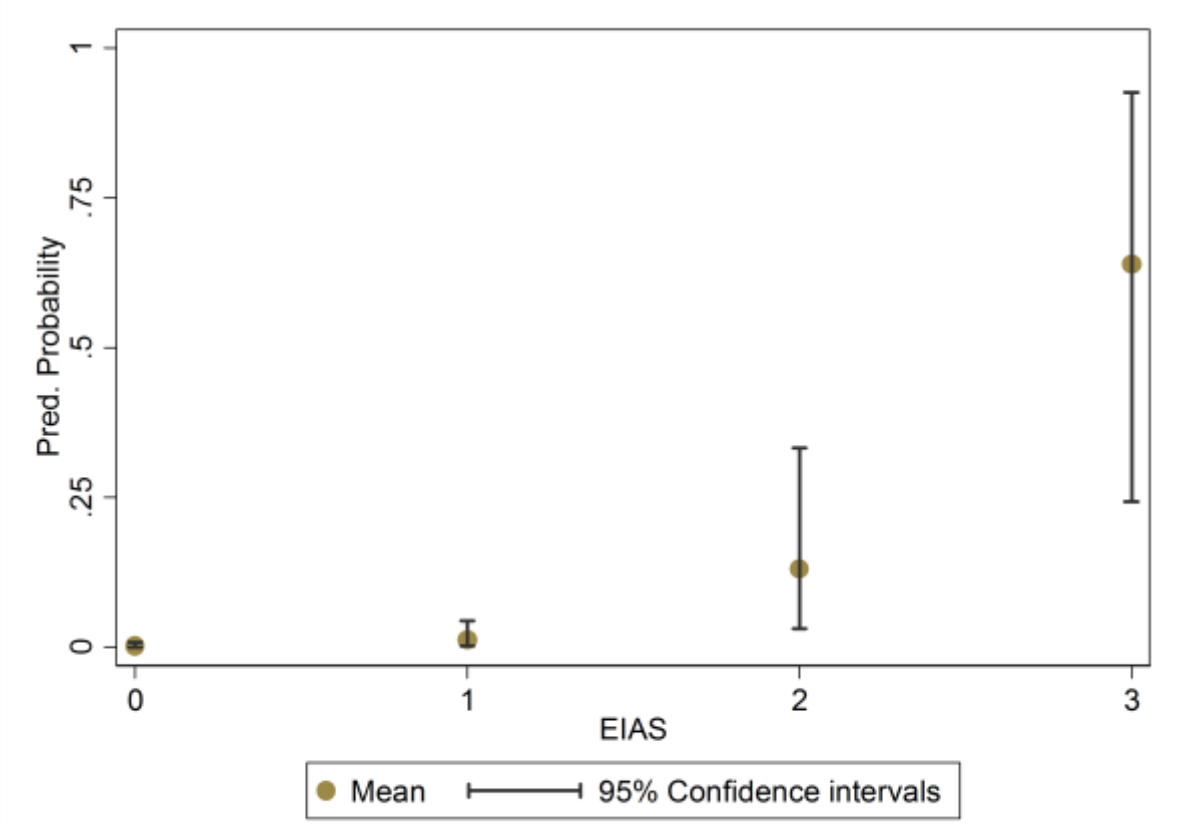
not have significant effect. Generally, it seems to me that a political component of bloc is not focal point for cooperation in trade, because in the same vein, *PolityDummy* does not have significance in any model. Meanwhile, an influence of development measured by *GDPpcConstMean* strengthens in its estimates to $p<0.05$ in Model 3. This coefficient echoes with *GDPpcMean* in Model 1, however it is not enough to claim that a level of development certainly affects interregional cooperation in supportive way. *Membership* in the WTO significantly and positively affects groups of states as in previous models. Figure 7 clearly demonstrates in case of null membership in the WTO, it is certain that there is no possibility for interregional cooperation. Meanwhile, if a trade bloc as a whole is a member of the WTO, then predicted probability ranges from 0.20 to 0.70 approximately with 0.50 uncertainty level. This trend in Model 3 is very similar to Model 1's one. For the sake of various specified models, I run regression with *RespondentinWTO* in Model 3 to see robustness of Model 1 with *RespondentinWTO* and *ComplainantinWTO* and of Model 2 with *DisputesinWTO*. The estimate of *RespondentinWTO* is significantly negative meaning that number of participations in the disputes of the WTO as a respondent diminishes a possibility of arrangement formation.

Control variables in Model 3 do not deviate from Model 1 and Model 2. On the one hand, *PolityDummy* and *Distance* are positive, however they do not have enough significance. It is a supportive evidence for statement that a type of polity and special positions of actors are deprived of importance. On the other hand, *IASofEU* shows very high significance level in Model 3. Potential blocs seek for cooperation with deeply integrated bloc, in this case with the European Union.

Thirdly, Model 4 comprises of *ImportLogged* to test Hypothesis 1, where trade flows triggers blocs to collaborate. I include *ImportLogged* in Model 4, because it is beneficial to see an effect of *ImportLogged* with *EIAS* and compare its insignificance in Model 3 with *PIAS*. Import flows' estimate is significantly positive, which means that trade blocs are inclined to

form agreement, if they already have good level of bilateral trade. *EIAS* is robust in its positivity and significance in Model 4, which means that an economic depth of integration with a trade bloc is a crucial point for interregional cooperation. Figure 9 presents a predicted probability of interregional cooperation affected by EIAS score. If a trade bloc has 1 score, then collaboration with EU has 0.01-0.07 chance to occur, while a trade bloc with 2 score of

Figure 9. Substantive Effects of EIAS Score in EU-Averaged Bloc Cooperation



economic integration has 0.07-0.35 probability of cooperation with the EU. At 3 score interregional cooperation is possible from 0.25 to 0.90 approximately with 0.65 uncertainty. To test a level of development I include *GDPpcMean* in Model 4 as in main Model 1, because an influence of development seems to be ambiguous because of results in Model 2 and Model 3, when it was measured by *GDPpcConstMean*. Strikingly, an estimate of *GDPpcMean* becomes even worse and loses its significance in Model 4. This demonstrates that a level of development is unconvincing factor for the European Union to form trade agreements with other trade blocs. *Membership* is positive and significant, therefore it does not lose its influence

in Model 4 as well as previous models. *ComplainantinWTO* is negatively and significantly affect cooperation, which confirms preceding results of models.

PolityDummy and *Distance* in Model 4 are not different from Model 1, which means that they have no significance. Meanwhile *IASofEU* proves its positive significance for interregional cooperation. In so doing, other blocs are under influence of high integration of EU member states.

This part of the paper is aimed to test robustness of the Model 1. It is made in a way, where I analyze and compare Model 1 with other models with different specifications. The main results support my hypotheses, however influence of some explanatory factors can be doubtful. Particularly, all independent variables in Model 2, Model 3 and Model 4 are congruent with Model 1, except *GDPpcMean* created to test the effect of development level. *GDPpcMean* is weaker in Model 2 and 4 in comparison with Model 1, while in Model 3 it is significant under effect of *PIAS*. The influence of *PIAS* and *EIAS* is also very interesting finding, because it shows that a political integration of regional bloc does not have significant effect, while an economic integration of regional bloc substantially affects interregional cooperation.

CHAPTER 7. CASE STUDY: THE EUROPEAN UNION-ANDEAN COMMUNITY

This case study aims to apply the theory and hypotheses for explanation of interregional cooperation between the European Union and the Andean Community. In so doing, I test explanatory power of the arguments based on the real instance. Initially, I introduce the EU-Andean Community with a brief history of their relationship. Then, firstly, I use Hypothesis 1 stating importance of bilateral trade for the formation of interregional trade agreement. Secondly, depth of integration within each party is revealed, then I uncover how this affected cooperation each other. Thirdly, a level of their development is studied according to Hypothesis 3. This promises to be very intriguing, because an effect of development on bloc-to-bloc collaboration is ambivalent and not robust as shown above in the statistical analysis. Fourthly, I exploit the last hypotheses to account for an influence of the WTO membership and of the WTO disputes in the cooperation of the European Union and the Andean Community. Lastly, I derive some inferences from research of this case study.

Brief history

A history of relationship between the European Union and the Andean community began in early 1990s, which I define as the first period of collaboration. In 1993 they signed a Framework Cooperation Agreement, which was not entered into force till 1998. This agreement was supposed to create road map for further cooperation, however, actions were slow and ineffective. Then, in 1996 the European Commission and the Andean Community signed the Declaration of Rome regulating political, trade, drug-trafficking and migration policies (Szegedy-Maszák 2009; European Union External Action Service 2016; Organization

of American States Foreign Trade Information System 2016). The Declaration of Rome stipulated general terms and showed initial intentions, however there was still crude provisions for comprehensive cooperation in solely trade. In this period, it is worth mentioning that I observe original attempt to build bloc-to-bloc cooperation, which perspectives increased in the following periods.

The second period started in the new millennium. Particularly, the European Union and the Andean Community agreed on terms of new agreement, called the Political Dialogue and Cooperation Agreement in 2003. This agreement contains provisions on deeper and more nuanced cooperation than the Declaration of Rome. Notably, the most important clause in the Agreement was to start negotiations on an Association Agreement and Free Trade Agreement as a part of it (Szegedy-Maszák 2009; European Union External Action Service 2016; Organization of American States Foreign Trade Information System 2016). Thus, both sides are congruent in extending partnership on higher level.

The last period of time is connected with negotiations process and a conclusion of the agreement as an apogee of cooperation. Shortly, from a representation of intentions to cooperate in 2004 to a final signature of the agreement in 2012, there were a creation of ad hoc negotiator groups, 10 rounds of negotiations of Colombia and Peru with the EU members and 4 rounds of negotiations of Ecuador to join the Trade Agreement (Szegedy-Maszák 2009; European Union External Action Service 2016; Organization of American States Foreign Trade Information System 2016; European Commission 2015). As a result, there have seen a long lasting cooperation to reach the formation of interregional trade agreement.

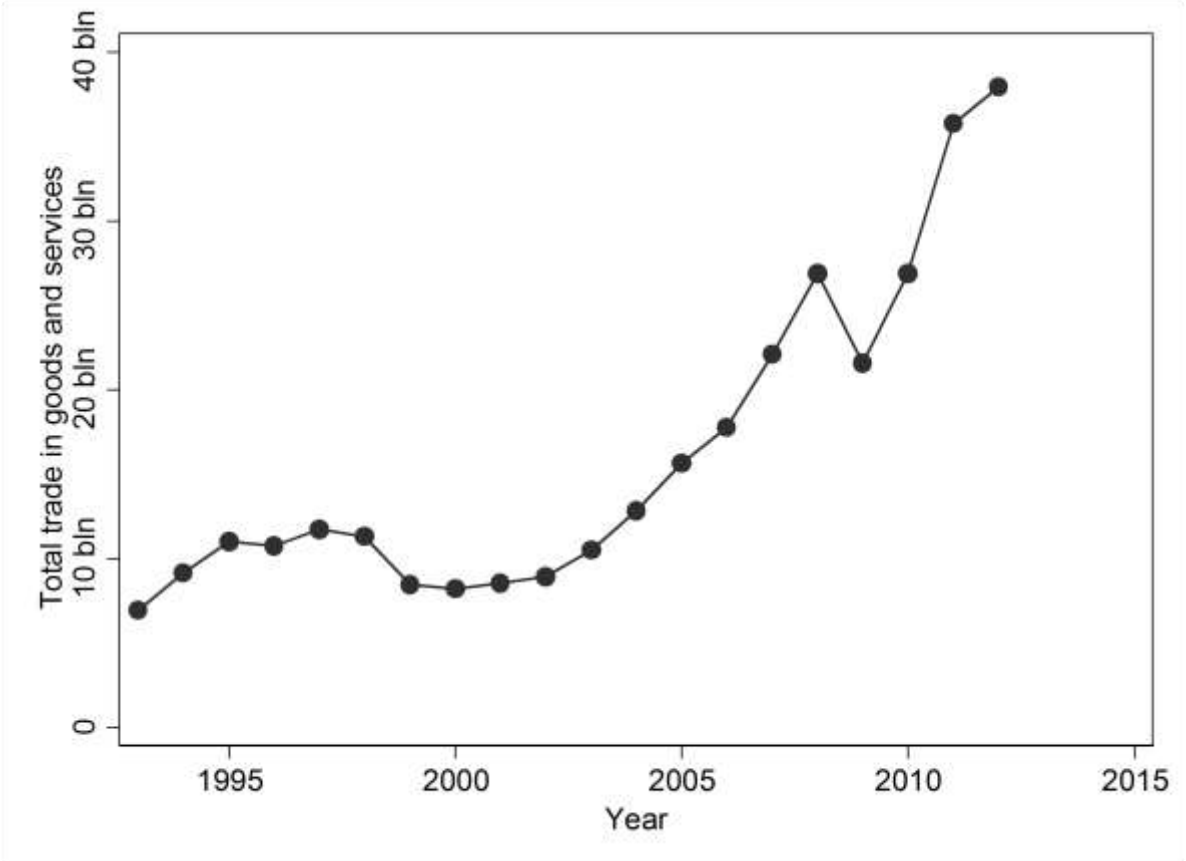
Bilateral trade

To begin with, I compare total trade flows between the European Union and Andean Community from 1993 to 2003 and from 2004 to 2012. This comparison is supposed to show

an impact of bilateral trade flows as an incentive for the formation of interregional trade agreement. Strikingly, it is worth emphasizing that trade gains is a reflection of opportunity costs in more conceptual terms, which means future benefits is than in status quo. This is a case for cooperation between the European Union and Andean Community, because a period of 2004-2012 is more beneficial than a period of 1993-2003.

As seen from Figure 10, there is a gradual growth with some two declines in total trade in goods and services between the European Union and the Andean Community. From 1993 to 1998 trade slightly went up from 95 million dollars to 105 million dollars respectively, however

Figure 10. Total Trade between the European Union and the Andean Community. Source: *The International Monetary Fund, the Direction of Trade Statistics*



in 1999 it declined slightly less than 100 million dollars. In this period the parties have not agreements, which can facilitate commodity flows and providing services between each other. It seems to me that the decline in 1999 is connected with the crisis in Asia, which affected to some extent the rest of the world. Then there is line raising up from 2000 and consequently

when the Political Dialogue and Cooperation Agreement was signed in 2003, it quickly soared from 100 million dollars to 300 million dollars. I consider this sharp increase for almost three times as an effect of cooperation on bilateral trade, because in the Agreement of 2003, they set terms, which reduced trade barriers. The officials of both sides understood that this growth can be even more extends, if they form a comprehensive interregional trade agreement. Therefore, they fruitfully negotiated terms of new free trade agreement.

However, the Global Financial Crisis in 2007-2008 moderately negatively influenced total trade. The drop was not long and in 2009 it rocketed to almost 400 million dollars only in two year period 2011-2012. I suppose that it is a vivid example disclosing an effect of total trade on cooperation of actors. Leaders and businessmen seek for more market access and trade gains, which can be achieved by the formation of interregional trade agreement. In the period of passive dialogue 1993-2003 the European Union and Andean Community traded for about 10535 billion dollars, while in the period of active negotiations 2004-2012 they had trade flows for 21740 billion dollars approximately. Moreover, it is worth pointing out the official meeting dedicated to signing of the EU-Andean Community trade agreement in June 26, 2012 in Brussels. There were several speeches of the officials from the European Union and Colombia and Peru. EU Trade Commissioner Karel De Gucht (European Commission 2012) said:

> I welcome today's signature of the Trade Agreement with Colombia and Peru, which creates a stable framework to boost trade and investment between the EU and the Andean region. In times of economic crisis, increasing trade and investment is the way forward to create growth and jobs. The agreement establishes a foothold for European business in this rapidly growing area and an anchor for further structural reforms in both countries.

From this speech it is seen that the European Union hopes to enlarge cooperation in trade in the front of global economic crisis. In turn, Peruvian Trade and Tourism minister Silva supported (Peruvian Times 2012) partner's inspiring statement:

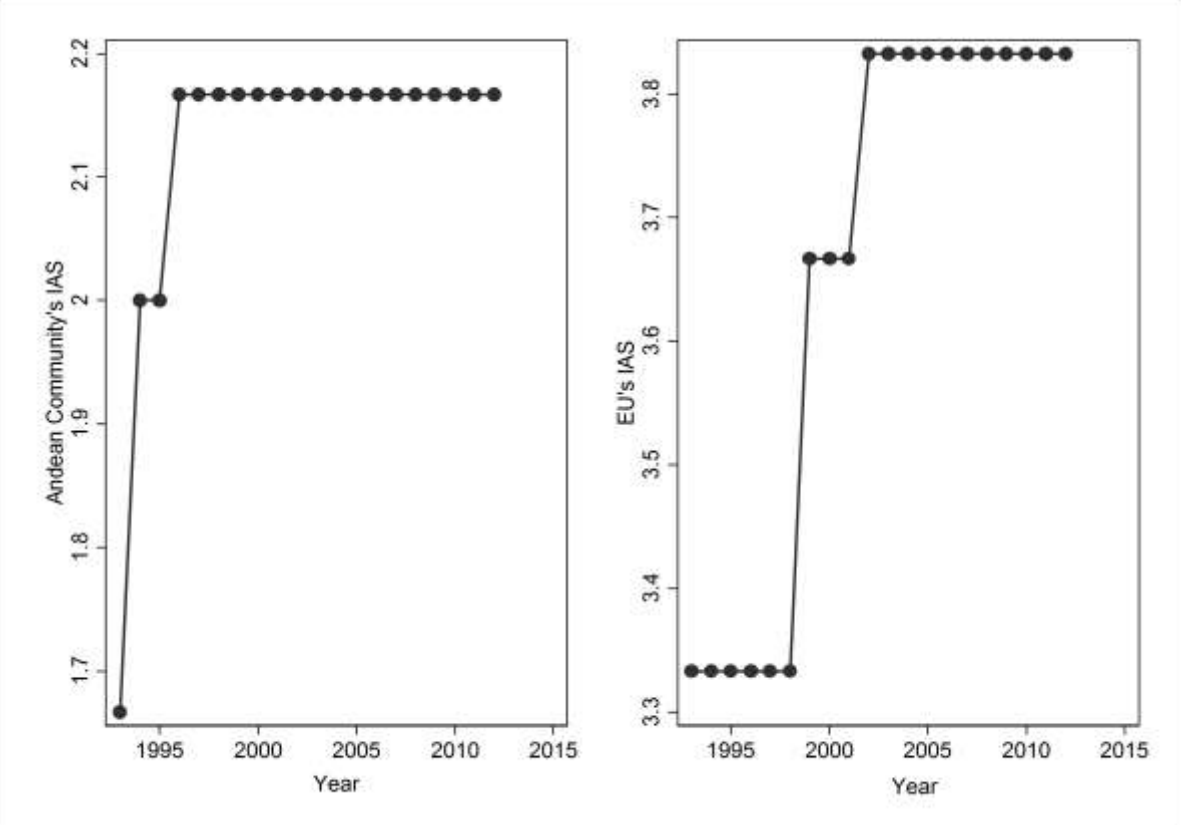
> In the FTA with the United States, we are talking about bilateral trade of about $6 billion. In the case of Europe, it is almost 40 percent higher. As well, we are talking about a market where there are 500 million people with a high purchasing power.

Clearly, the Peruvian minister demonstrated a huge importance and a high level of bilateral partnership in trade and investments by comparing the European Union and the United States. Thus, I suppose that the case of EU-Andean Community cooperation supports my argument that if there is a potential to expand trade flows, it is likely that parties form interregional trade agreement.

Depth of integration

I claim that a quality of integration positively and significantly affects cooperation of trade blocs. The finding of the statistical part supported my assumption. In conceptual terms, as discussed earlier depth of bloc reflects both discount rate defining patience of actor in negotiations and opportunity costs determining future benefits. More integrated trade bloc is clearer in intents and can patiently negotiate over terms and conditions of agreement, if there

Figure 11. IAS Scores of the European Union and the Andean Community



are enough profits. It is turn to test the argument on case study of interregional cooperation between the European Union and the Andean Community.

Figure 11 shows that both parties have a good level of integration in comparison with average IAS score of regional trade blocs, which is equal to 1.064. Initially, the Andean Community had 1.5 scores of integration in 1993, which rapidly soared to 2 scores in 1995. After 3 years it reached approximately 2.2 scores and has lasted till nowadays. Meantime, it is known that the European Union is deeply integrated regional bloc. In 1993, it was slightly above 3.3 IAS points. Then, integration quality increased sharply about to 3.7 scores in 1999. After stable three year period, coordination deepened even more, which is considered for slightly above 3.8 points. The European Union has possessed this amount of integration level till the end of the temporal domain of research in 2012 (Hufbauer and Schott 1994; Efird and Genna 2002; Efird and Genna 2003; Feng and Genna 2003; Genna and Hiroi 2004; Feng and Genna 2005; Geda and Kebret 2007; Genna 2011). It is seen that there is a correlation in their cooperation, because when both blocs had upgraded integration level in 1993, they concluded the Framework Cooperation agreement. Then they had deepened in 1995-1998, they signed the Declaration of Rome in 1996. In intersection of old and new millenniums, when third improvements of their integration had happened, they reached the Political Dialogue and Cooperation Agreement in 2003. As a peak for now, the European Union and Andean Community signed comprehensive trade agreement in 2012.

The depth of European Union's and Andean Community's integration supports Hypothesis 2, because both have considerably higher regional quality of coordination than trade blocs with mean scores. This factor triggered two blocs to cooperate, as they are more uniform in positions during the negotiation process and in their regional policies in the future. Consequently, these variables positively affect the formation of interregional trade agreement.

A level of development and potential consumer capability

I would like to test a role of development for bloc-to-bloc cooperation based on the case of the European Union and the Andean Community. Conceptually, cooperation with more developed bloc brings more benefits in comparison with less developed one. In so doing, opportunity costs is reflected through a level of development. The statistical analysis reveals a shortage of Hypothesis 3 by demonstrating its weak effect under robustness checks. Closer investigation on a case of interregional cooperation can help to explain it.

Figure 12. GDP Per Capita in Constant Dollars (2005) of the Rest Regional Trade Blocs and the Andean Community. Source: *the World Bank*

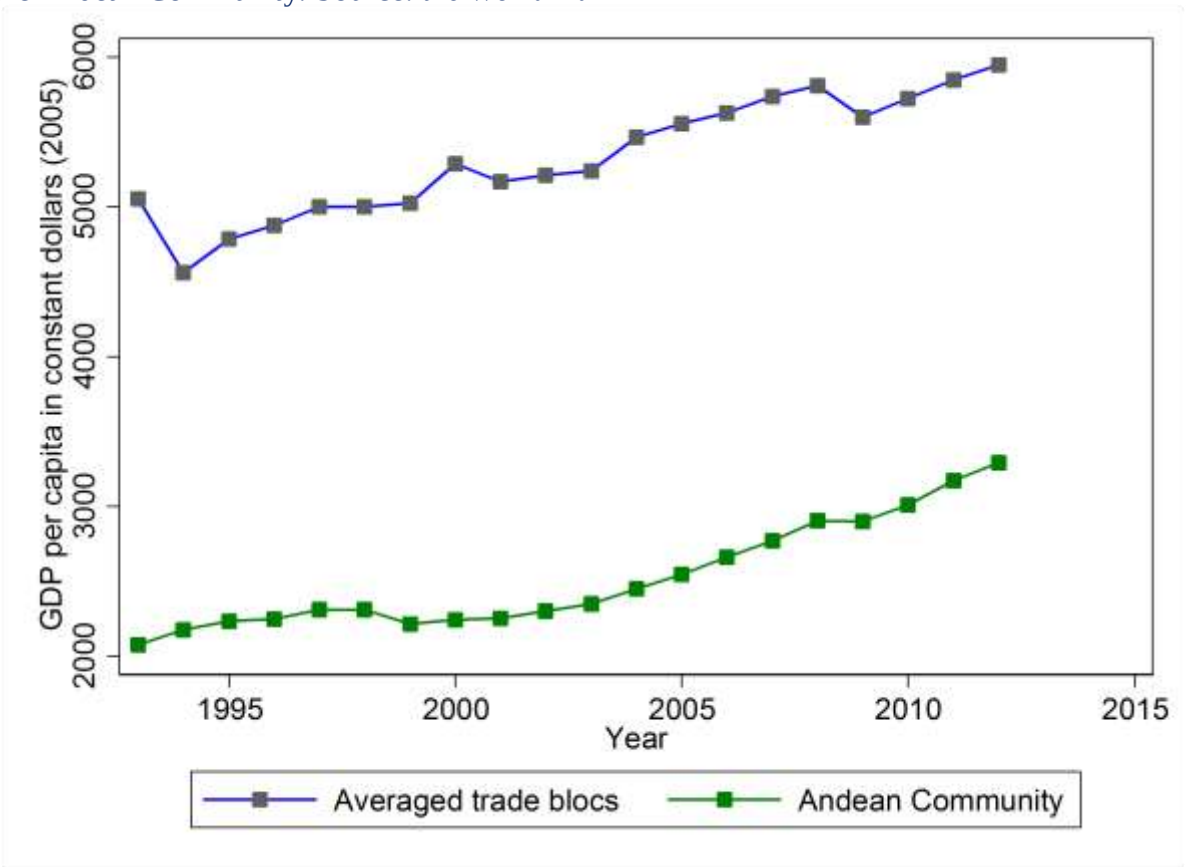


Figure 12 presents the averaged trade blocs' and Andean Community's GDP per capita in constant dollars as of 2005. I compare the Andean Community with other blocs, because it helps to understand a place of the former among the latters, while a place of the European Union surely is substantially higher. Moreover, I choose constant dollars instead of current dollars, because it takes into account inflation, devaluation and other financial mechanisms distorting a real picture of development level.

GDP per capita of the Andean Community started at 2100 dollars approximately in 1993 and continued growth to 1997-1998, when the Asian Financial Crisis negatively affected other parts of the world. Then, a trend of GDP per capita gradually increased till the Global Financial Crisis, when it reached a stable plateau for two years in 2007-2008. Consequently, from that period increasing trend continued to 2012. Nevertheless, this positive trend is only in terms of the particular case, while in comparison with the rest of the globe, it is not so significant and unique. Also, it is worth noting that there are many regional trade blocs with similar indicators to the Andean Community's ones. GDP per capita ranged from 500 dollars to 4000 dollars is very dense in the beginning of 1990s, while this trend has gone approximately up from 600 dollars to 5000 dollars in the 2010s. There are also some groups, which have higher GDP per capita than abovementioned dense group of trade blocs. For instance, the North American Free Trade Agreement and the ASEAN has considerably higher GDP per capita.

This implies that the Andean Community is not highly developed and indeed is below from average trade bloc existing in international arena. Hence a level of development is not a decisive factor for the European Union's consideration whether to cooperate or not. It seems to me that the European Union simply has not extensive choices in choosing potential partners among trade blocs and due to this fact it establishes bilateral relations with available trade blocs. In this sense, the European Union cooperates with those players, with whom sees already good extent of trade gains, which has uniform coordination within a bloc and clear dispute history. However, it should necessarily stipulate that the European Union does not have consider a level of development, but it takes into account this information to less extent in comparison with other variables. Therefore, I suppose this example shows that the European Union is not deeply concerned with development level in the middle ranged blocs as the Andean Community and COMESA but still looks for future potential based on other criteria. As a result, a level of development does not affect interregional in a significant way.

Membership in the WTO

I argue that membership in the WTO positively affects bloc-to-bloc cooperation, because the WTO is an institution stipulating high and internationally recognized standards for trade, however, at the same time it faces stumbling blocks due to its huge size of membership. It is conceptually connected to opportunity costs, because if the WTO framework cannot solve problems, then the European Union and the Andean Community lose benefits. Therefore, trade blocs are inclined to form agreement with important partners directly, who are subject to the rules of the WTO. This assumption is supported by statistical part of the paper.

All members of the Andean Community became members of the WTO in 1996. In so doing, the Andean Community is on the top blocs, who participate in the WTO. Meanwhile, there are still many actors with much less membership scores among regional trade entities, which favored the Andean Community in the eyes of the European Union, which is also top possessor of membership score. Moreover, it is relevant mentioning that there were disagreements over opening market between developing and developed states, because the latter are disadvantaged in comparison with the latter before the Doha Round talks in 2001 (Gallagher 2007). Developing states insisted on attention on development, while developed states wanted to widen markets for realization of its own made products. There were several round tables, which did not reach a consensus. Against the background of these processes, the Andean Community and the European Union had intention to evolve their partnership bilaterally.

Disputes in the WTO

Hypothesis 4b claims that a dirty disputes history in the WTO negatively influences cooperation between blocs, because a violation of established rules and standards is considered

as a potential for reiteration of inconsistent behavior in the future. This is a genuine application of opportunity costs from conceptual terms in practice. The statistical part presented a supportive and significant evidences for this suggestion. Consequently, the case of the European Union and the Andean Community tests an effect of the disputes in the WTO. Firstly, I present a history of disputes between these two actors, because information on their behavior regarding each other directly affects further cooperation on bloc-to-bloc level. Secondly, there is a comparison of disputes between the Andean Community and overall world, because it shows a place of the former among global trends.

Firstly, the European Union and Andean Community had 4 disputes in total from 1995 to 2012 between each other. Peru sued the European Union twice in 1995 and in 2001 with Cases DS12 and DS231 respectively. Ecuador brought one complaint against the European Union in 1996 by Case D27 on importation, sale and distribution of bananas. Colombia brought one suit against the European Union in 2007 by Case DS361 on regime for the importation of bananas. Meanwhile, Peru and the members of the European Union had not any trade disputes (The World Trade Organization 2015b). There are 3 complaints against the European Union from the Andean Community and no complaints against the Andean Community from the European Union. Thus, this clearly shows that generally they are satisfied and comply with the rules of the WTO excluding some minor cases. Mutual trust deriving from the history of bilateral relations was a firm foundation to cooperate further. In so doing, after active negotiations from 2003, a disagreement between both sides occurred only once in 2007, while before that it was 3 times.

Secondly, number of Andean Community's disputes is common with average number of participations. Generally, blocs participated in disputes lower than 0.5 times in 1993-1997 time period, but this trend gradually went up. The Andean Community had the same pattern, particularly they attended 0.25 times in disputes the General Agreement on Tariffs and Trade

and then, the WTO. In 1998 no one member from the Andean Community participated whether as a respondent or a complainant. However, from 1999 to 2001 participation increased to 0.5 times following global trends. Maximum of disputes was in 2003, when the Andean Community participated 1.25 times on average in trade disputes in the WTO. In subsequent years, a number of participations fluctuated between 0 and 0.5 times (The World Trade Organization, 2015b). In comparative terms, the Andean Community is not a frequent violator of rules, which signals to the European Union that the former is reliable and not inclined to break its commitments.

The case study reveals that bilateral trade, depth of integration, membership and dispute history in the WTO substantially affected blocs to seek for cooperation, while a level of development has a certain effect but still not significant. However, the officials emphasized only bilateral trade as a driving factor for interregional cooperation, while other factors are not mentioned. It seems very interesting, possibly other reasons were not be considered or they intentionally omitted to underline their importance, because it could negatively influence relations. The European Union and the Andean Community had a long and complicated background of relations from 1993 towards the formation of the interregional trade agreement in 2012 and it is very risky for both sides to uncover their calculation. Furthermore, this case study of the cooperation between the European Union and the Andean Community supports the findings of the statistical part.

CHAPTER 8. CONCLUSION

To summarize, I argue that bargaining theory through hypotheses above can explain a formation of interregional trade agreements. I suppose that conducted empirical tests by quantitative and qualitative methods support most of aforementioned assumptions. To reiterate, market access, trade gains, depth of integration within a trade bloc, a level of development, an effect of the WTO and a frequent disputes history in the WTO have affected blocs in establishing trade agreements between each other. Particularly, market access and trade gains are incentives to build up more sophisticated and profitable cooperation based on previous and current state of affairs between two blocs. Quality of integration within a trade bloc is an evident indicator to what extent it is a reliable and predictable partner. If a trade bloc is deeply integrated, it is more uniform in its foreign policy. Regarding the WTO, the institution is very complicated to response to problems quickly, which harms members of. Therefore, in order to have direct connection, trade blocs are seeking for cooperation between each other as an alternative option for the WTO. Furthermore, states engaging in the disputes of the WTO are considered as undesirable partners, which means that a regional trade bloc comprising of frequent violator-states or complainant-states are less attractive for cooperation.

Overall, I believe that this paper contributes to the field of international political economy in a way that we have known internal mechanism of international trade. Before there were notable researches on preferential trade agreements and regional trade agreements, while there is no research devoted to interregional trade cooperation, particularly with theoretical argument on depth of integration and empirical testing of all variables on bloc-to-bloc cooperation. I suppose that this research is the first attempt to systemize knowledge on and

proposing general factors affecting interregional cooperation. After this, there is a possibility to conduct a research exploiting empirical methods of this work based on all blocs, which can demonstrate fuller picture taken the place behind interregional cooperation.

Moreover, I suppose, that understanding of interregional trade agreements have useful political implications for policy-makers, political scientists and economists. They can use information of previous bilateral trade, depth of integration within a potential partner, its level of development and dispute history in the WTO, which can be helpful during the negotiations processes. Skillful negotiators can bargain over trade barriers by taking into account strengths and weaknesses of counterpart in these fields. Policy-makers should be especially concerned with choosing the most reliable and predictable partners in cooperation by paying attention to disputes history, as it has a direct influence on increasing economic prosperity and development of states consisting in trade blocs. Lastly, this topic is also important, as a scale of regional trade blocs are huge and cooperation between two blocs can lead to the substantial changes in a particular regions and afterwards in the world.

APPENDIX A

I decided to present 2 typical cases, because it helps to construct more comprehensive picture of processes explained by the theory in the main part of the paper. Particularly, there is an analysis based on means of the variables. Nevertheless, there are two main categories of blocs, which should be demonstrated. Namely, on the one hand, a bloc with high indicators of the factors as the Southern Common Market (Mercosur) and on the other hand, a bloc with low indicators of the variables as the Pacific Island Countries Trade Agreements (PICTA).

Typical case – Mercosur

Looking at the case of interregional cooperation between the European Union and Mercosur is very interesting, because this instance demonstrates an extent of probability between blocs having a strong relationship and long-term interests. Mercosur is a trade bloc consisting of Argentina, Brazil, Paraguay, Uruguay and Venezuela, which are considered as leading states in the Latin America and trade with the members of the European Union on high level.

Figure 13. Substantive Effects of Total Trade Flows in EU-Mercosur Cooperation

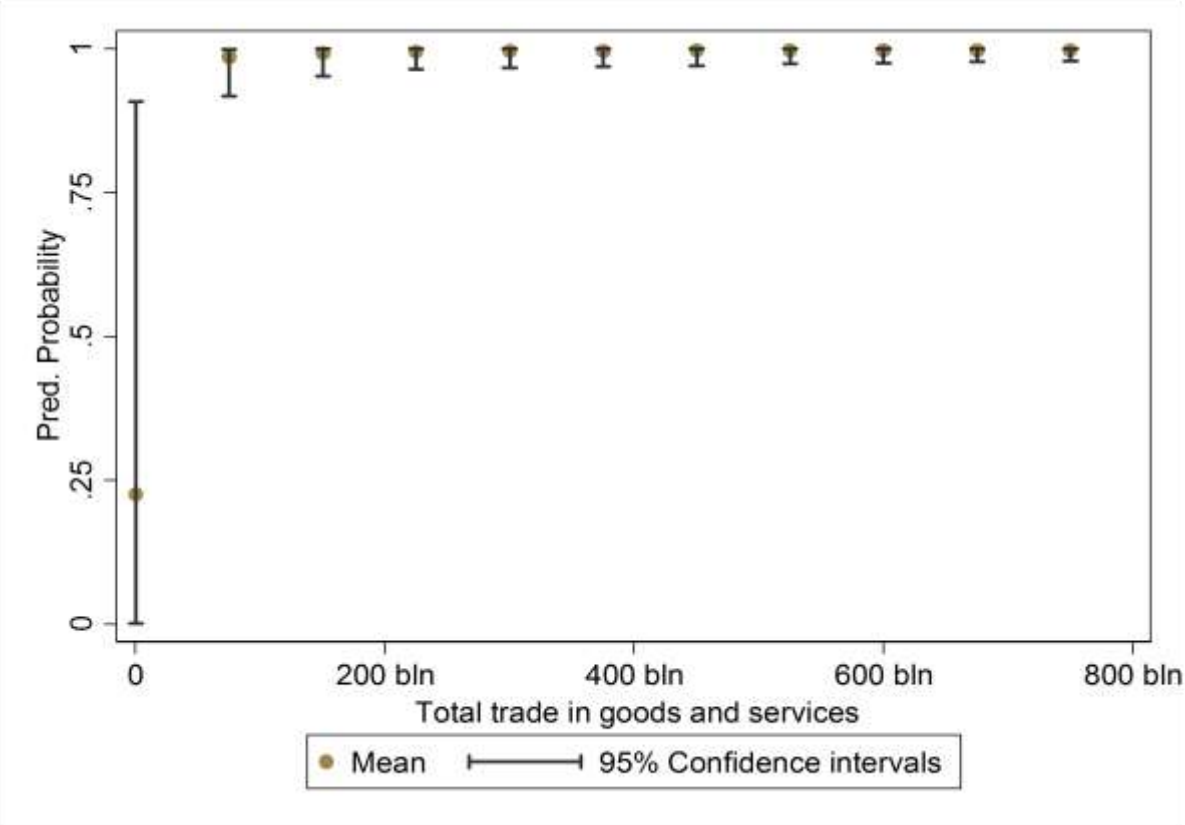
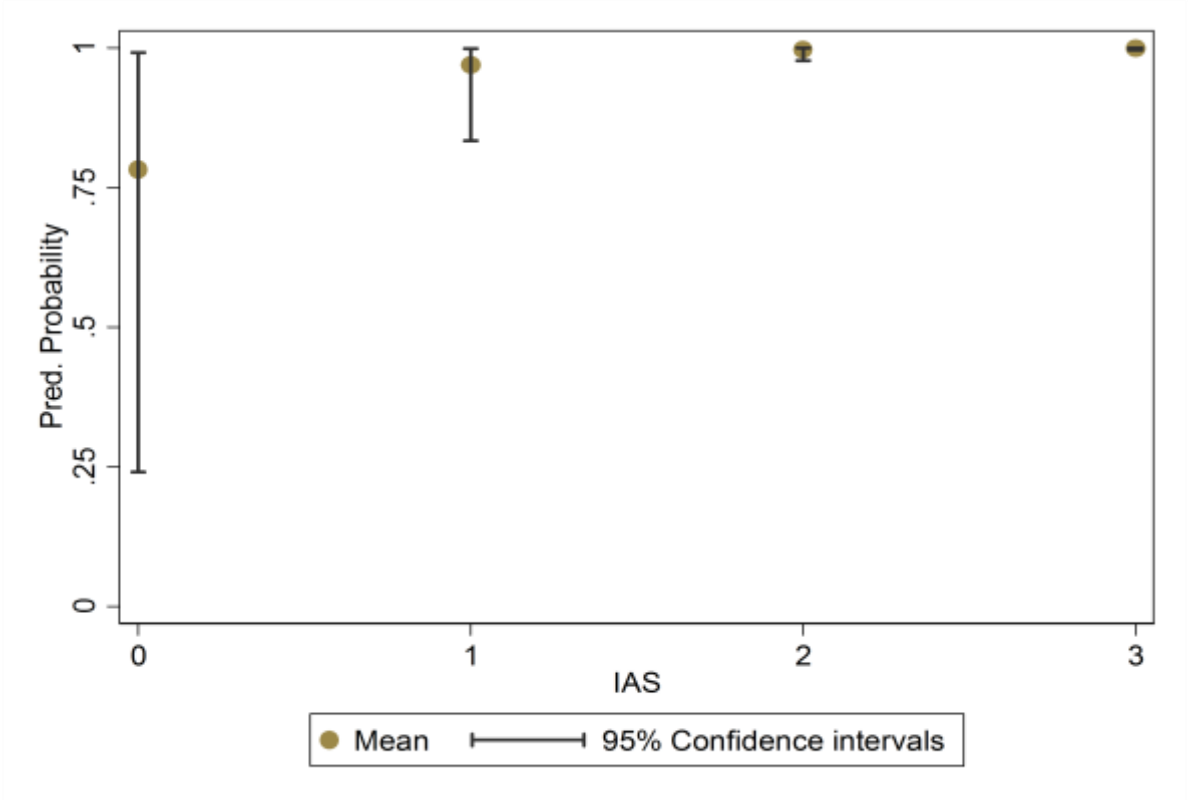


Figure 13 presents confidence intervals of total trade between the European Union and Mercosur. Generally, as total trade increases, predicted probability grows up and uncertainty shortens. When there is overall trade cost 80 billion dollars, predicted probability ranges between 0.90-0.98 meaning that uncertainty level is 0.08. Meanwhile, if there is 150 billion dollars in total trade, confidence intervals are located between 0.95-0.99, which implies that uncertainty level is equal to 0.04 approximately. In following values we observe a gradual growing tendency of probability and a considerable decreasing trend of uncertainty conditional on amount of total trade.

Figure 14. Substantive Effects of IAS Score in EU-Mercosur Cooperation



A predicted probability of integration between the European Union and Mercosur is shown by Figure 14. At 0 IAS score confidence interval varies between 0.25-0.98, consequently we are uncertain in this for 0.74 about. In following value, 1 IAS score, predicted probability shortens considerably and ranges from 0.80 to 0.99 approximately. Also, uncertainty level decreases and equals to 0.19. At the highest score, 3, a probability is almost about 1 without uncertainty. This tendency evidently supports the argument claiming that as integration of bloc deepens, a chance to form cooperation goes up.

Figure 15. Substantive Effects of GDP Per Capita in Current Dollars in EU-Mercosur Cooperation

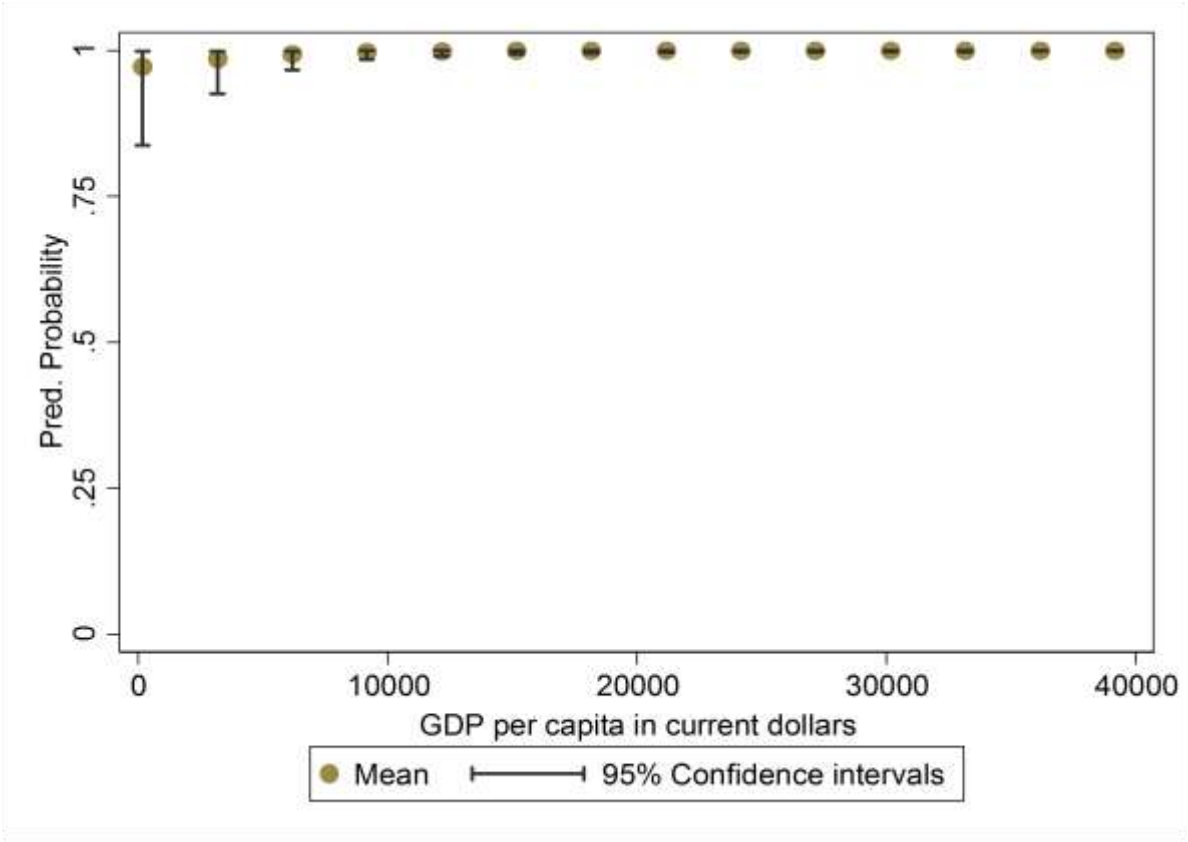
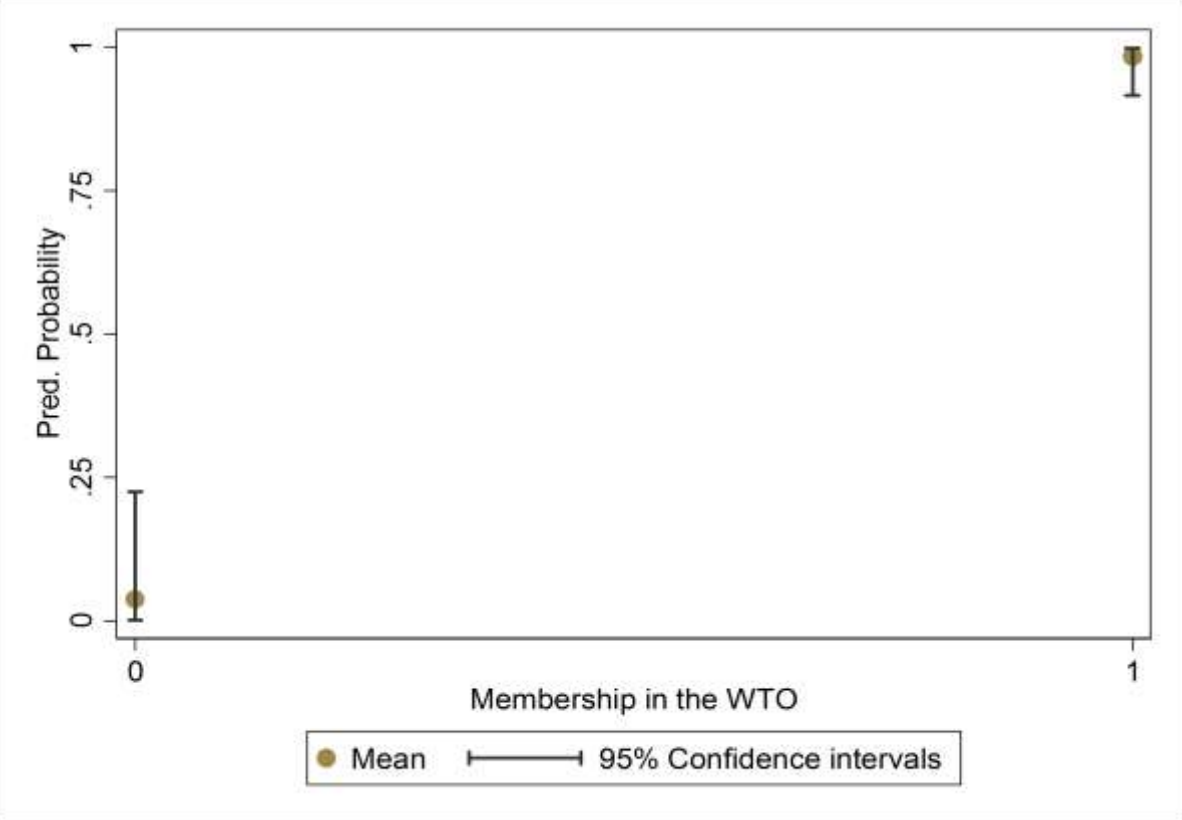


Figure 15 is supposed to show predicted probability of development level on interregional cooperation between the European Union and Mercosur. As seen from the graph, if there is 3000$ GDP per capita, then predicted probability varies between 0.91-0.96, while if there is 9000$ GDP per capita, probability slightly diminishes to 0.97-0.99. In the former uncertainty level is only 0.05, while in the latter it is 0.02 approximately. In following values, probability reaches almost 1 and uncertainty decreases to 0. As hypothesized earlier, as a level of development grows up, a probability of the interregional agreement increases.

Figure 16. Substantive Effects of WTO Membership in EU-Mercosur Cooperation



Predicted probability on the effect of membership in the WTO shows a supportive evidence for the theory in Figure 16. If there is no membership in the WTO, then predicted probability ranges from 0 to 0.23. So, there is approximately 0.23 uncertainty. Meantime, if there is 1 score of membership, then predicted probability varies only between 0.90-1, which means that we are uncertain in this outcome for 0.10. Thus, it can be said that Mercosur has a high chance to cooperate with the European Union, if all its states are members of the WTO.

Figure 17. Substantive Effects of WTO Respondents in EU-Mercosur Cooperation

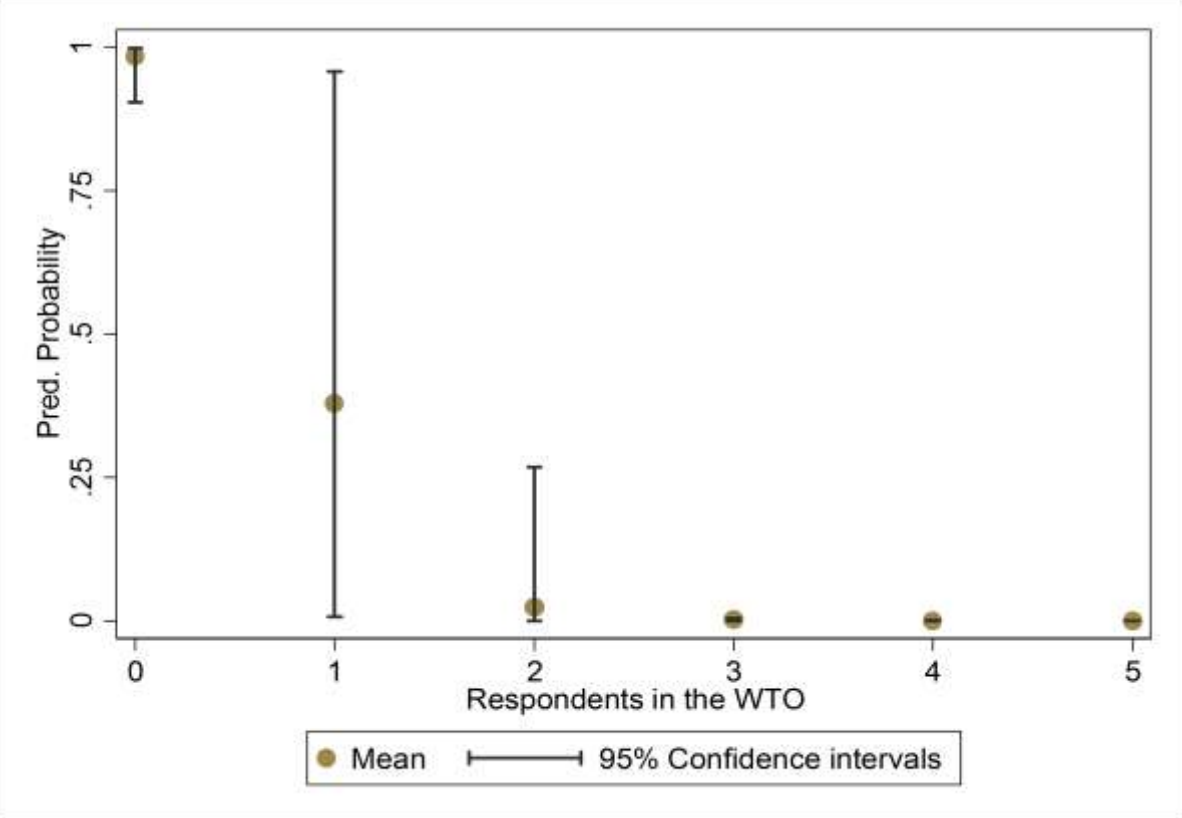
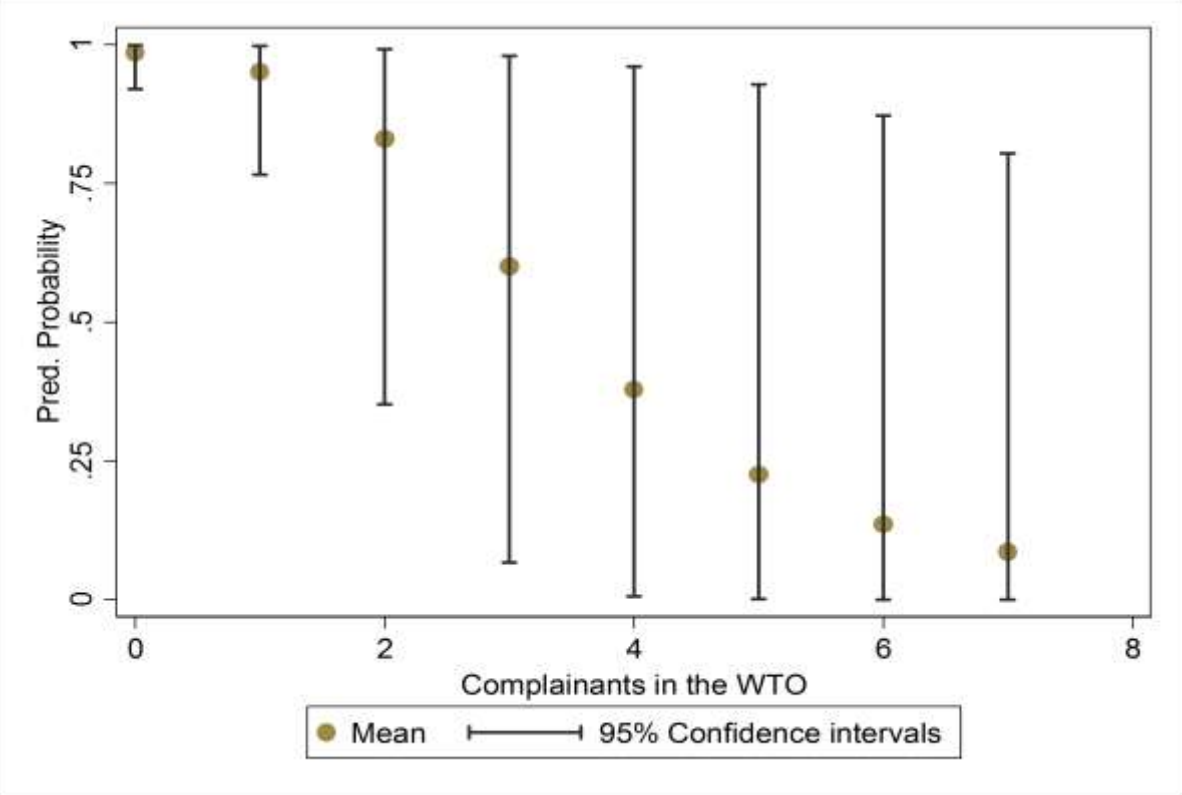


Figure 17 demonstrates predicted probability of participation in the WTO disputes as a respondent in case of the European Union and Mercosur cooperation. If there is no case of being respondents in the WTO, then a trade bloc as Mercosur has a probability ranged between 0.90-1 with 0.10 uncertainty level. Notably, if a trade bloc has 1 case of being respondent, then probability widely varies from 0.01 to 0.90. Uncertainty level is very high valued for 0.89. However, if there are 2 cases, then confidence intervals drastically shorten and varies between from 0 to 0.25 with 0.25 uncertainty approximately. In subsequent values as 3, 4 and 5 cases of participation as a respondent predicted probability equals almost to 0 without any uncertainty level. In so doing, this typical based on values of Mercosur underpins the overarching hypothesis on a negative influence of being respondents in the WTO on the formation of interregional trade agreement.

Figure 18. Substantive Effects of WTO Complainants in EU-Mercosur Cooperation



By Figure 18 I have objective to show a predicted probability of WTO complainants on interregional trade agreement between the European Union and Mercosur. If there is absence of complainants from a trade bloc as Mercosur, it is highly likely to form arrangement, because its predicted probability varies between 0.90-1 with 0.10 uncertainty. If there are 2 cases of being complainant, then, confidence intervals widens from 0.40 to 0.99 with 0.59 uncertainty level. If there are 4 complainants in WTO dispute history, then probability is ranged between 0.03-0.92 with 0.89 uncertainty level. Meanwhile, if there are maximum participations as 7 times, then predicted probability is even more deteriorated, because confidence intervals determines them as from 0 to 0.80. Taken into account this gradual decreasing trend of the probability, I would say that it supports the theory.

APPENDIX B

Typical case –PICTA

After examination of Mercosur as a representative of more inclined regional bloc to cooperation, it is beneficial to analyze a case of less inclined one. Particularly, cooperation between the European Union and PICTA. PICTA is a regional trade bloc comprised of Fiji, Kiribati, Nauru, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu situated in the Pacific Ocean. Due to their low level of development and weak relationship with the European Union, there are only few chances for formation of interregional trade agreement.

Figure 19. Substantive Effects of Total Trade Flows in EU-PICTA Cooperation

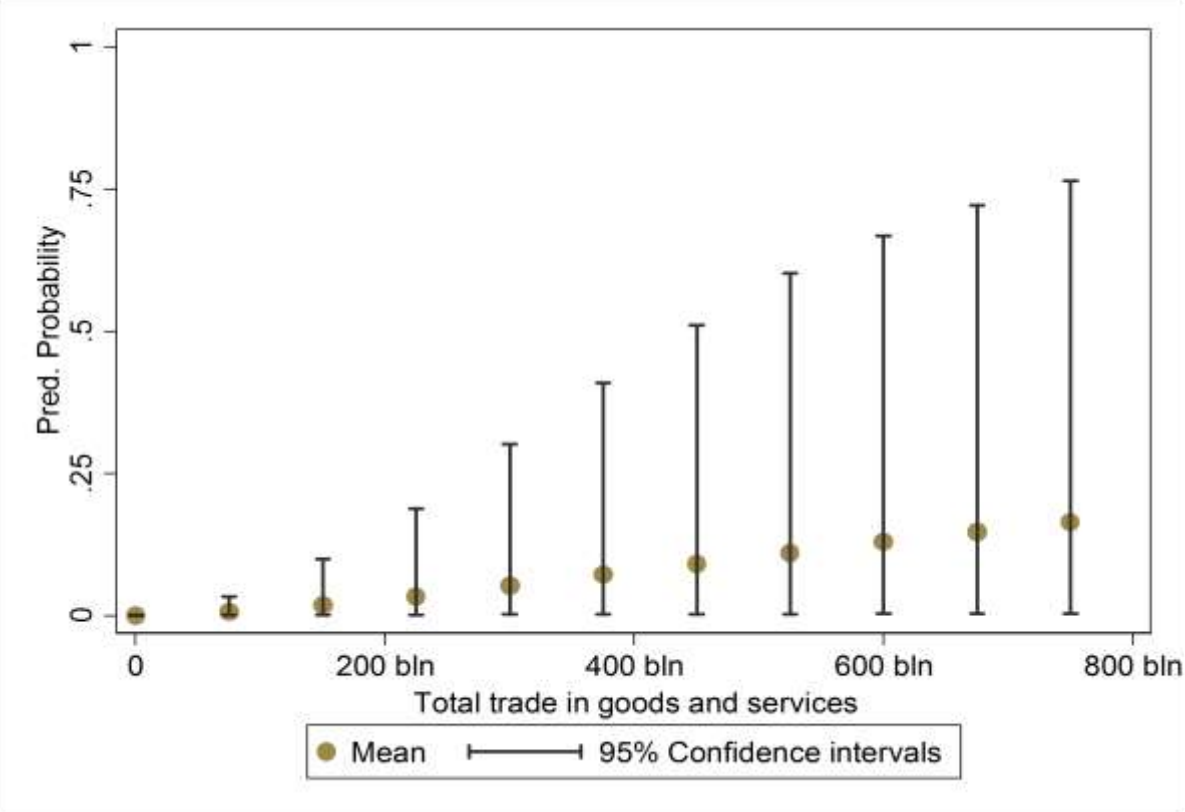


Figure 19 presents predicted probability of cooperation based on total trade between the European Union and PICTA. If there is total trade cost 80 billion dollars, then confidence intervals approximately vary between 0.01-0.05 with 0.04 uncertainty level. In case of 150

billion dollars bilateral trade, then probability ranges from 0.02 to 0.10 meaning that there is 0.08 uncertainty level. In subsequent value 210 billion dollars we observe slightly extending of uncertainty level to 0.17 between 0.03-0.20 confidence intervals. Generally, there is increasing trend of probability but with a huge degree of uncertainty. This implies that we cannot surely state that the European Union and PICTA will cooperate.

Figure 20. Substantive Effects of IAS Score in EU-PICTA Cooperation

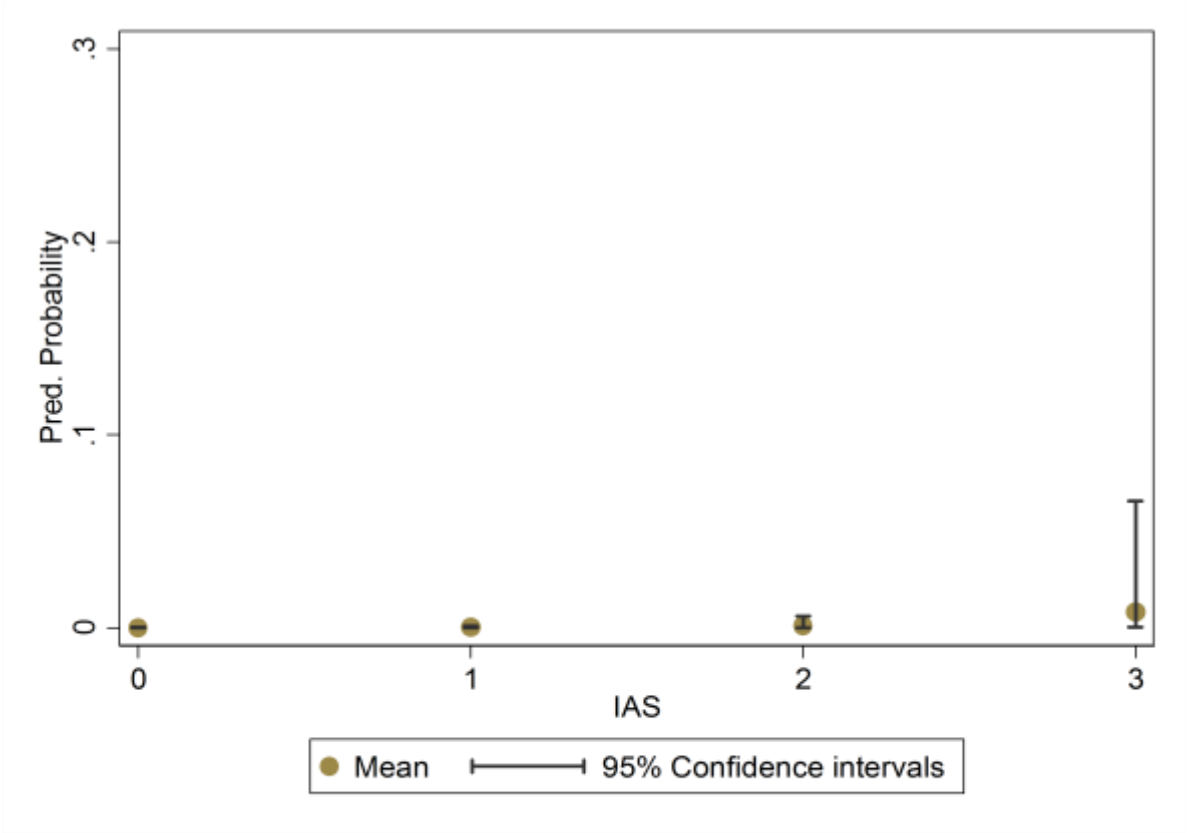
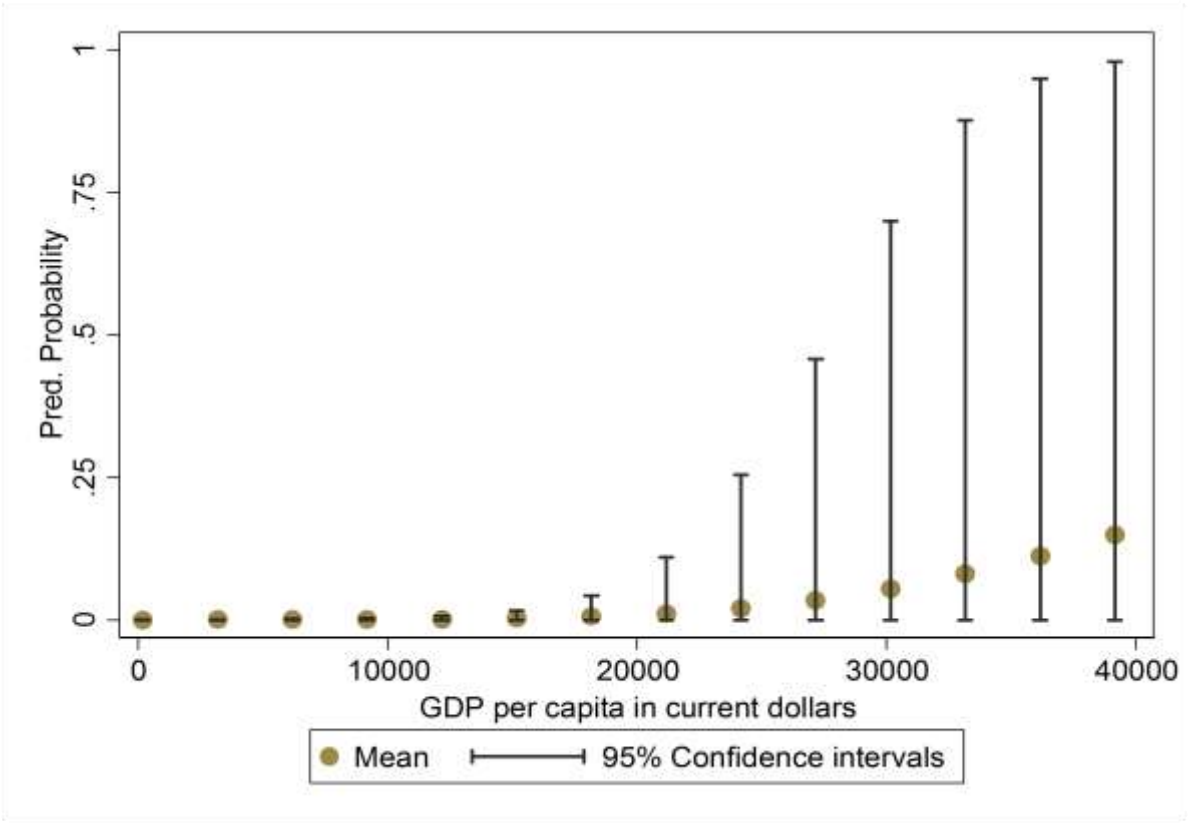


Figure 20 is constructed to show predicted probability of depth based on the case of collaboration between the European Union and PICTA. If there is 0 IAS score, then probability is equal 0, which can be said without uncertainty level. The same pattern is relevant, if there is an integration labeled by 1 IAS score. Meanwhile, if a trade bloc has integration equal to 2 IAS score, then there is a growth in probability varying between 0.01-0.03 about with 0.02 uncertainty level. At the highest point of IAS score, we observe confidence intervals varying between 0.02-0.07 with 0.05 uncertainty level. Although, in terms of whole scale, surely, these

numbers are very low, there is an increasing trend of probability conditioned on a growth of integration level as mentioned in the theory.

Figure 21. Substantive Effects of GDP Per Capita in Current Dollars in EU-PICTA Cooperation



There is a predicted probability of cooperation between the European Union and PICTA based on former's development level in Figure 21. A trade bloc as PICTA with 5000$ and 10000$ GDP per capita almost does not have a chance to form trade agreement with the European Union. A bloc with 18000$ has a slightly more probability ranging between 0.03-0.07 with 0.04 uncertainty. In following values, there is an increasing tendency in probability and uncertainty as well. For instance, at 30000$ probability varies from 0.03 to 0.73 with 0.70 uncertainty. Overall, as a level of development goes up, a probability of cooperation increases, however uncertainty increases as well.

Figure 22. Substantive Effects of WTO Membership in EU-PICTA Cooperation

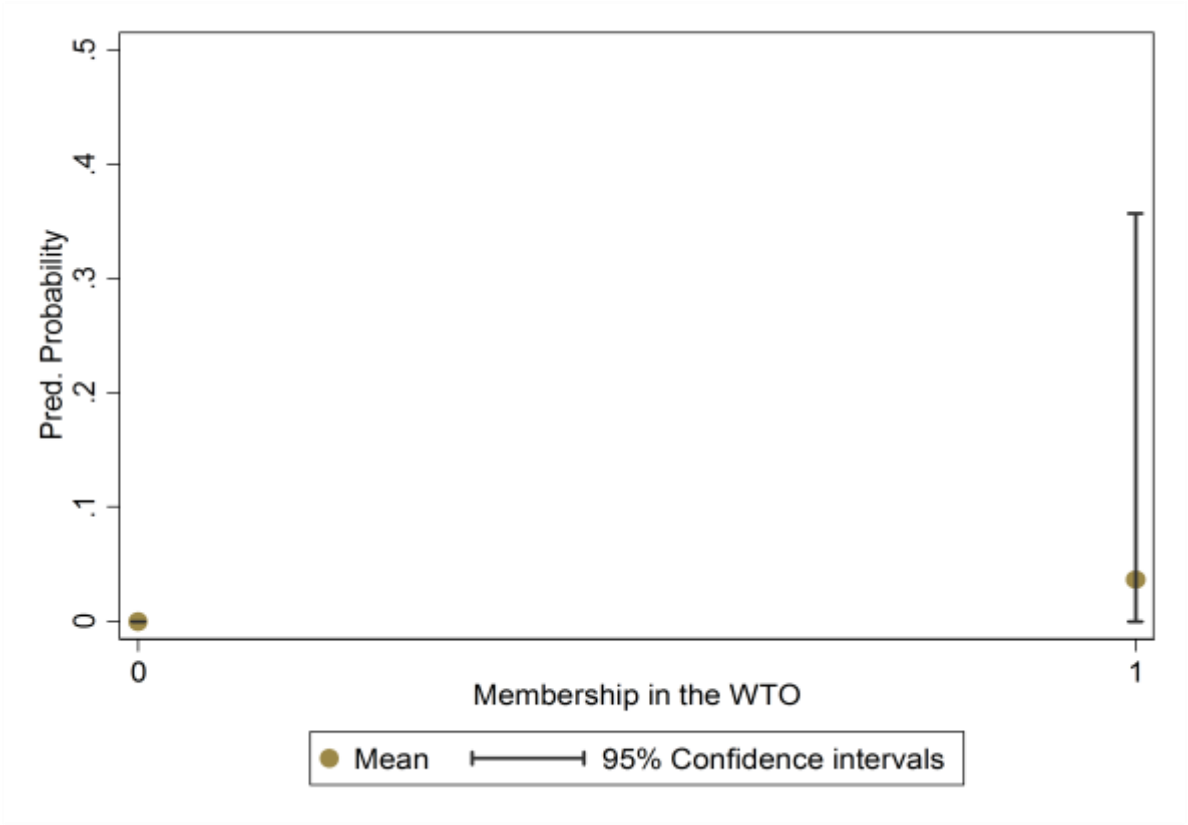
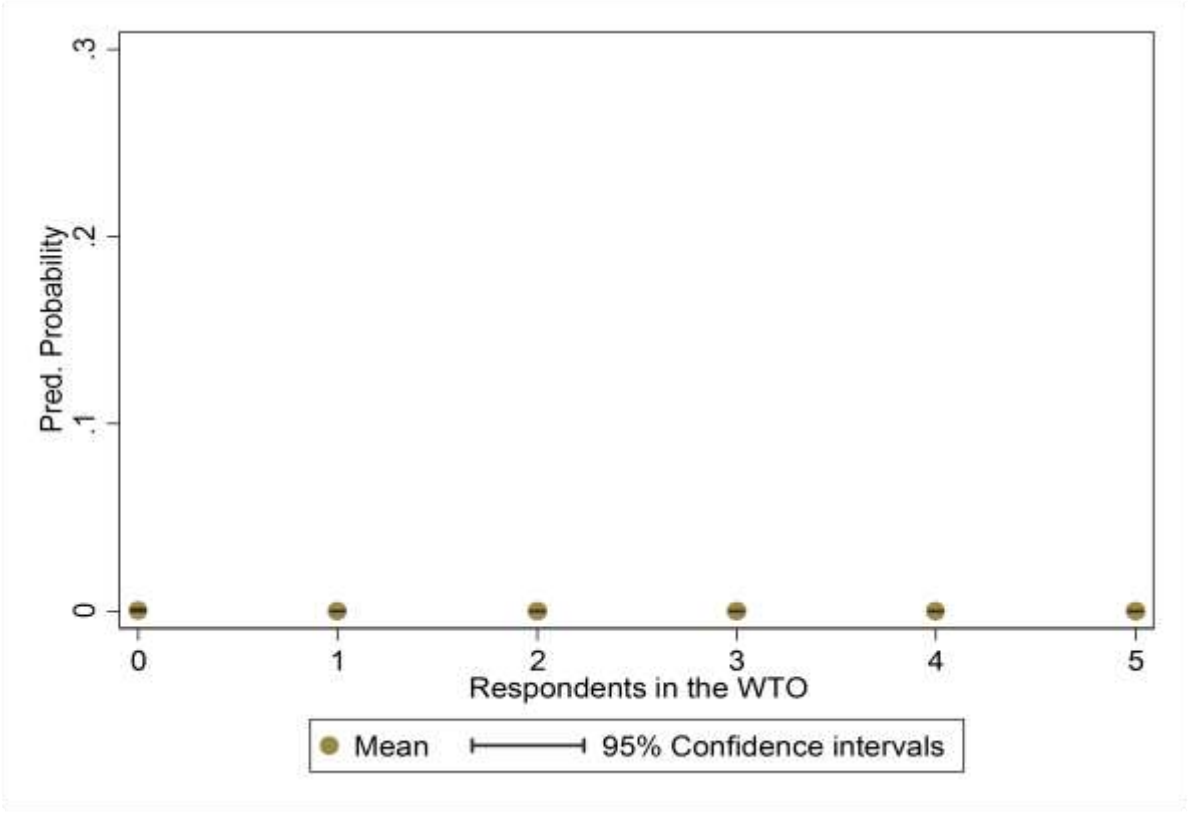


Figure 22 demonstrates predicted probability of cooperation between the European Union and PICTA based on membership of PICTA in the WTO. If no one state of PICTA is a member, then probability almost equals to 0 without uncertainty. If all members participate in the WTO, then observe a growth of probability but with increasing uncertainty level as well. Particularly, confidence intervals vary from 0.01 to 0.38 with 0.37 uncertainty. This observation is in compliance with the hypothesis claiming that as a membership in the WTO increases, cooperation increases.

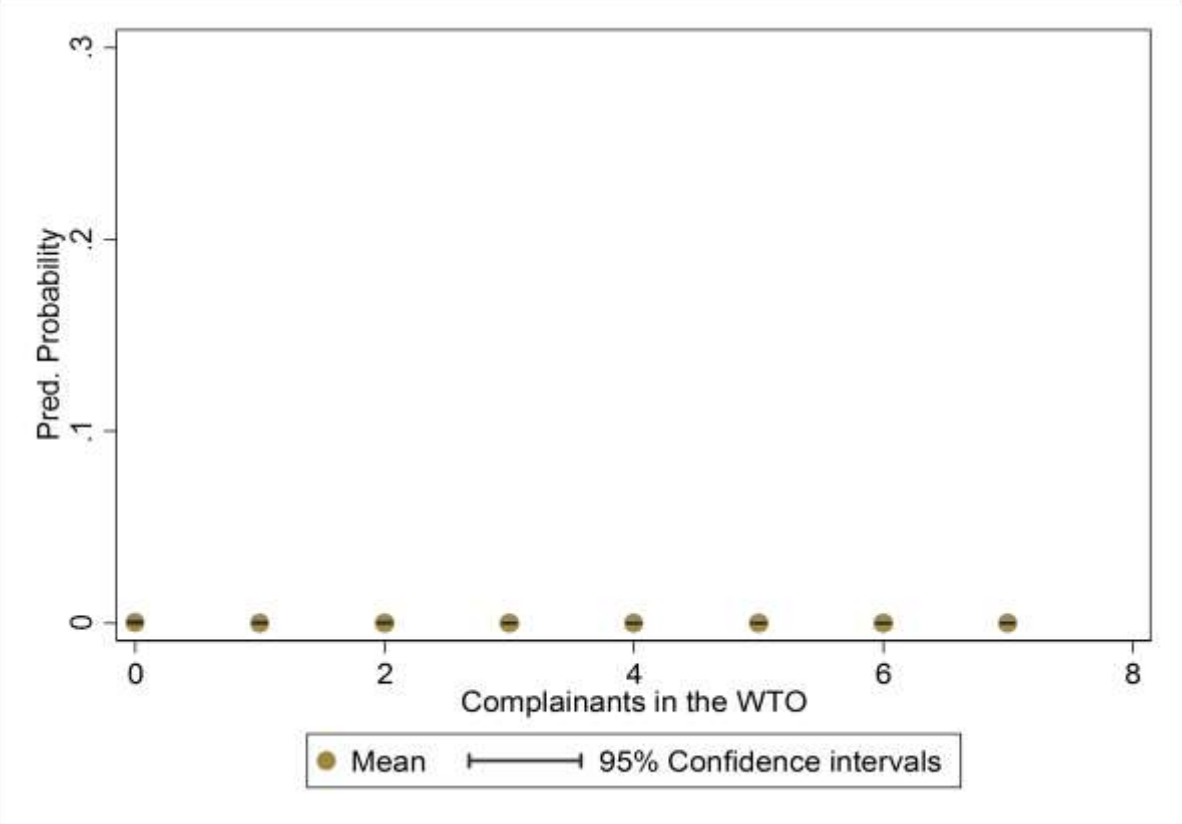
Figure 23. Substantive Effects of WTO Respondents in EU-PICTA Cooperation



Here I interpret a probability of the European Union and PICTA's bilateral cooperation based on PICTA's participation in the WTO disputes as a respondent in Figure 23. It is clearly shown that in all numbers of being respondents a trade bloc as PICTA does not have a chance to form agreement with the EU. Moreover, uncertainty level is absent in all values.

As in case of WTO respondents, participation in the WTO disputes equals to zero a chance of PICTA for formation of trade agreement with the European Union. Figure 24 shows a stable tendency on 0 predicted probability in all values of WTO complainants. Hence, this means that PICTA or other similar trade bloc certainly cannot cooperate with the European Union.

Figure 24. Substantive Effects of WTO Complainants in EU-PICTA Cooperation



I analyzed two cases, the Mercosur and PICTA, where the former is taken as most progressive bloc, while the latter represents least developed bloc. The comparison shows that the Mercosur has more chances to cooperate with the European Union in all components, while PICTA has considerably less chances to form interregional trade agreement. The effects of the explanatory variables in both cases evidently are demonstrated in significant way.

REFERENCES

Aggarwal, Vinod K., and Edward A. Fogarty. 2004. *Between Regionalism and Globalism: European Union Transregional and Inter-Regional Trade Strategies*. Houndmills: Palgrave Macmillan.

_____. 2005. "The Limits of Interregionalism: The EU and North America." *European Integration* 27(3): 327-346.

Baccini, Leonardo, and Soo Yeon Kim. 2012. "Preventing Protectionism: International Institutions and Trade Policy." *The Review of International Organizations* 7(4): 369-398.

Bajo, Claudia Sanchez. 1999. "The European Union and Mercosur: A Case of Inter-regionalism." *Third World Quarterly* 20(5): 927-941.

Baldwin, Richard, and Dany Jaimovich. 2012. "Are Free Trade Agreements Contagious?" *Journal of International Economics* 88(1): 1-16.

Beck, Nathaniel, Jonathan N. Katz, and Richard Tucker. 1998. "Taking Time Seriously: Time-Series-Cross-Section Analysis with a Binary Dependent Variable." *American Journal of Political Science* 42(4): 1260-1288.

Boyer, Ivan, and Andrés Schuschny. 2010. *Quantitative Assessment of a Free Trade Agreement between MERCOSUR and the European Union*. Vol. 69. Santiago de Chile: United Nations Publications.

Devlin, Robert, Antoni Estevadeordal, and Ekaterina Krivonos. 2000. *The Trade and Cooperation Nexus: How Does the MERCOSUR-EU Process Measure Up?* Occasional Paper ITD 22. Buenos Aires: BID-INTAL.

Dorrucci, Ettore, Stefano Firpo, Marcel Fratzscher, and Francesco Paolo Mongelli. 2004. "The Link between Institutional and Economic Integration: Insights for Latin America from the European Experience." *Open Economies Review* 15(3): 239-260.

Efird, Brian, and Gaspare M. Genna. 2002. "Structural Conditions and the Propensity for Regional Integration." *European Union Politics* 3(3): 267-295.

Efird, Brian, Jacek Kugler, and Gaspare Genna. 2003. "From War to Integration: Generalizing Power Transition Theory." *International Interactions* 29(4): 293-313.

European Commission. 2012. "EU Signs Comprehensive Trade Agreement with Colombia and Peru." June 26. http://trade.ec.europa.eu/doclib/press/index.cfm?id=810 (March 18, 2016).

European Commission. 2015. "Andean Community." *European Commission*. http://ec.europa.eu/trade/policy/countries-and-regions/regions/andean-community (March 18, 2016).

European Union External Action Service. 2016. "The EU's Relations with the Andean Community." *European Union External Action Service*. http://eeas.europa.eu/andean/index_en.htm (March 18, 2016).

Faust, Jörg. 2002. *The European Union's Trade Policy towards MERCOSUR*. Working Paper PEIF-7, http://ies. berkeley. edu/pubs/workingpapers/PEIF-7-MERCOSUR.pdf (March 18, 2016).

Fearon, James D. 1998. "Bargaining, Enforcement, and International Cooperation." *International Organization* 52(2): 269-305.

Feng, Yi, and Gaspare Genna. 2003. "Regional Integration and Domestic Institutional Homogeneity: A Comparative Analysis of Regional Integration in the Americas, Pacific Asia and Western Europe." *Review of International Political Economy* 10(2): 278-309.

_____. 2005. “Measuring Regional Integration.” Presented at the Claremont Regional Integration Workshop with Particular Reference to Asia, Claremont. February 25.

Frankel, Jeffrey A., Ernesto Stein, and Shang-Jin Wei. 1997. *Regional Trading Blocs in the World Economic System*. Washington, DC: Peterson Institute.

Gallagher, Kevin P. 2007. “Understanding Developing Country Resistance to the Doha round.” *Review of International Political Economy* 15(1): 62-85.

Geda, Alemayehu, and Haile Kebret. 2008. “Regional Economic Integration in Africa: A Review of Problems and Prospects with a Case Study of COMESA.” *Journal of African Economies* 17(3): 357-394.

Genna, Gaspare M. 2002. “Changing Power, Sovereignty, and Loyalty in the European Union.” Ph.D. diss. Claremont Graduate University.

_____. 2011. “Does North America Have the Right Stuff? An Analysis of Compatibility and the Potential Deepening of North American Integration.” *Politics & Policy* 39(1): 141-165.

Genna, Gaspare, and Taeko Hiroi. 2004. “Power Preponderance and Domestic Politics: Explaining Regional Economic Integration in Latin America and the Caribbean, 1960-1997.” *International Interactions* 30(2): 143-164.

Haas, Ernst B. 1961. “International Integration: the European and the Universal Process.” *International Organization* 15(3): 366-392.

Haftel, Yoram Z. 2004. “From the Outside Looking in: The Effect of Trading Blocs on Trade Disputes in the GATT/WTO.” *International Studies Quarterly* 48(1): 121-142.

Hufbauer, Gary Clyde, and Jeffrey J. Schott. 1994. *Western Hemisphere Economic Integration*. Washington, DC: Peterson Institute.

King, Gary, Michael Tomz, and Jason Wittenberg. 2000. "Making the Most of Statistical Analyses: Improving Interpretation and Presentation." *American Journal of Political Science* 44(2): 347-361.

Malamud, Andrés, and Philippe C. Schmitter. 2007. "The Experience of European Integration and the Potential for Integration in South America." IBEI Working Paper 2007/6, Barcelona: IBEI.

Mansfield, Edward D. 2013. "Regionalism in the Americas at the Turn of the Twenty-First Century: NAFTA and Mercosur." In *Handbook of Trade Policy for Development*, eds. Arvid Lukauskas, Robert M. Stern, and Gianni Zanini. New York: Oxford University Press.

Mansfield, Edward D., and Helen V. Milner. 1999. "The New Wave of Regionalism." *International Organization* 53(3): 589-627.

_____. 2012. *Votes, Vetoes, and the Political Economy of International Trade Agreements*. Princeton: Princeton University Press.

Mansfield, Edward D., and Jon C. Pevehouse. 2000. "Trade Blocs, Trade Flows, and International Conflict." *International Organization* 54(4): 775-808.

_____. 2013. "The Expansion of Preferential Trading Arrangements." *International Studies Quarterly* 57(3): 592-604.

Mansfield, Edward D., and Eric Reinhardt. 2003. "Multilateral Determinants of Regionalism: The Effects of GATT/WTO on the Formation of Preferential Trading Arrangements." *International Organization* 57(4): 829-862.

_____. 2008. "International Institutions and the Volatility of International Trade." *International Organization* 62(4): 621-652.

Marshall, Monty G., and Keith Jaggers. 2002. "Polity IV Project: Political Regime Characteristics and Transitions, 1800-2002." Dataset Users' Manual. College Park: University of Maryland.

Mattli, Walter. 1999. *The Logic of Regional Integration: Europe and Beyond*. New York: Cambridge University Press.

Mayer, Thierry, and Soledad Zignago. 2011. "Notes on CEPII's Distances Measures: The GeoDist Database." CEPII Working Paper 25. December. http://www.cepii.fr/PDF_PUB/wp/2011/wp2011-25.pdf.

Milner, Helen V. 1997. "Industries, Governments, and Regional Trade Blocs." In *The Political Economy of Regionalism*, eds. Edward D. Mansfield and Helen V. Milner. New York: Columbia University Press, 77-106.

Organization of American States Foreign Trade Information System. 2016. "Andean Countries-European Union." *Organization of American States Foreign Trade Information System*. http://www.sice.oas.org/TPD/AND_EU/AND_EU_e.ASP (March, 18, 2016).

Peruvian Times. 2012. "Peru and Colombia Sign FTA with European Union." *Peruvian Times*, June 27. http://www.peruviantimes.com/27/peru-and-colombia-sign-fta-with-european-union/16120.

Rose, Andrew K. 2004. "Do We Really Know that the WTO Increases Trade?" *American Economic Review* 94 (1): 98–114.

Rüland, Jürgen. 2001. *ASEAN and the European Union: A Bumpy Interregional Relationship*. Bonn: Zentrum für Europäische Integrationsforschung.

Söderbaum, Fredrik, Patrik Stålgren, and Luk Van Langenhove. 2005. "The EU as a Global Actor and the Dynamics of Interregionalism: A Comparative Analysis." *European Integration* 27(3): 365-380.

Szegedy-Maszák, Ildikó. 2009. “Association/Free Trade Agreement-Bi-regional Partnership between European Union and Andean Community.” *Revista de Derecho* 32: 218-245.

The International Monetary Fund, the Direction of Trade Statistics. 2015. [Data file]. Retrieved from http://data.imf.org/?sk=9D6028D4-F14A-464C-A2F2-59B2CD424B85.

The World Bank, World Development Indicators. 2016a. *GDP Per Capita (current US$)* [Data file]. Retrieved from http://data.worldbank.org/indicator/ NY.GDP.PCAP.CD.

The World Bank, World Development Indicators. 2016b. *GDP Per Capita (constant 2005 US$)* [Data file]. Retrieved from http://data.worldbank.org/indicator/ NY.GDP.PCAP.KD.

The World Trade Organization. 2015a. *Members and Observers.* https://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm (March 18, 2016).

The World Trade Organization. 2015b. *Disputes by Country/Territory.* Available from https://www.wto.org/english/tratop_e/dispu_e/dispu_by_country_e.htm (March 18, 2016).

Tomz, Michael, Jason Wittenberg, and Gary King. 2003. “CLARIFY: Software for Interpreting and Presenting Statistical Results.” *Journal of Statistical Software* 8(1): 1-30.

Tomz, Michael, Judith L. Goldstein, and Douglas Rivers. 2007. “Do We Really Know that the WTO Increases Trade? Comment.” *The American Economic Review* 97(5): 2005-2018.

Telò, Mario, ed. 2013. *European Union and New Regionalism: Regional Actors and Global Governance in a Post-hegemonic Era*. Burlington: Ashgate.

Van der Geest, Willem. 2004. “Sharing Benefits of Globalization through an EU-ASEAN FTA?” *Asia Europe Journal* 2(2): 201-219.

Whalley, John. 1998. “Why Do Countries Seek Regional Trade Agreements?” In *The Regionalization of the World Economy*, ed. Jeffrey A. Frankel. Chicago: University of Chicago Press, 63-90.