

# **The WTO Promotes Trade, Strongly But Unevenly**

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**ABSTRACT**

This paper furnishes robust evidence that the WTO has had a powerful and positive impact on trade, amounting to about 120 percent of additional world trade (or US\$ 8 trillion in 2003 alone). The impact has, however, been uneven. This, in many ways, is consistent with theoretical models of the GATT/WTO. The theory suggests that the impact of a country's membership in the GATT/WTO depends on *what* the country does with its membership, with *whom* it negotiates, and *which products* the negotiation covers. Using a properly specified gravity model, we find evidence consistent with these predictions. First, industrial countries that participated more actively than developing countries in reciprocal trade negotiations witnessed a large increase in trade. Second, bilateral trade was greater when both partners undertook liberalization than when only one partner did. Third, sectors that did not witness liberalization did not see an increase in trade.

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## I. INTRODUCTION AND MOTIVATION

The General Agreement on Tariffs and Trade (GATT) and its successor, the World Trade Organization (WTO), were set up to promote world trade. That trade increased courtesy of this institution may seem self-evident. However, in one of the first and very few careful empirical analyses of this question, Rose (2002 and 2004a), concludes that there is no evidence that the WTO has increased world trade.

We aim to reconcile the apparent inconsistency between the well-entrenched belief in the benefits of the WTO and the conclusion of Rose's analysis. This reconciliation relies on examining several asymmetries in the GATT/WTO system that are implied by the economic theory of the GATT/WTO (Bagwell and Staiger, 2002 and 2004), and on utilizing a properly specified empirical framework.

According to the theory, the GATT/WTO system, by design, focuses on mutually-agreed reductions of trade barriers (the reciprocity principle) and nondiscriminatory treatment between countries (the most-favored nation or MFN principle). These design features are geared to help governments escape from the Prisoner's dilemma stemming from the adverse terms-of-trade effects associated with unilateral tariff reductions. Furthermore, with trade negotiation occurring through time, these design features preserve the value of concessions that a government wins in a current negotiation against erosion in a future negotiation to which it may not be a party.

This theory has important implications for formulating and testing the impact of membership in the GATT/WTO. In particular, a country that actively negotiates reciprocal MFN tariff cuts with other countries is more likely to enjoy expanded bilateral trade than one that does not. By the same token, the reciprocity principle of the GATT/WTO should be reflected in different trade values between members and non-members, and also within GATT/WTO members between those that actively negotiate tariff reductions and those that do not. Furthermore, the less a sector is covered by trade liberalization efforts, the less likely that GATT/WTO membership will have significant impacts in the sector in terms of trade volume.

Based on our understanding of the history of the recent world trading system, and motivated by the theory, this paper examines four asymmetries: (a) between developed and developing members; (b) between developing countries that joined the system before and after the Uruguay Round; (c) between member countries' imports from other WTO members versus imports from non-members; and (d) between sectors that are largely exempted from liberalization efforts and those that are not.

In addition to these asymmetries, we also refine the existing literature methodologically by applying a theory-consistent specification of the gravity model. With these changes, we find robust evidence that the WTO (and its predecessor, the GATT) has promoted world trade in an economically and statistically significant way. By our estimate, world imports are higher by about 120 percent or about US\$8 trillion in 2000 alone (relative to the counterfactual of a world without the WTO). Thus, not only is Rose's (2004a) verdict on the ineffectiveness of

the WTO overturned, but in a manner consistent with the design of the GATT/WTO system. In short, this paper questions Rose's conclusions but at the same time offers empirical evidence supportive of the underlying theory of the GATT/WTO.<sup>1</sup>

The rest of the paper is organized as follows. Section II discusses the four asymmetries in more detail. Section III explains what our econometric specification is, and how it differs from that of Rose. It also explains our data and their sources. Section IV reports the core empirical results and various extensions and robustness checks. Section V concludes.

## **II. Four Asymmetries in the GATT/WTO System**

### **II.1 Developed versus Developing Country Members**

It is well-recognized that the WTO, and more especially its predecessor the GATT, has been a two-tier organization, with far greater liberalization obligations imposed on its developed than its developing country members. As Table 1 shows, developed countries, under successive rounds of trade negotiations, have successfully reduced their tariff barriers. These numbers suggest that industrial countries, under the aegis of the GATT, reduced their average tariffs from over 15 percent in 1947 to about 4.5 percent today.

This, combined with the fact that the rules have required that developed countries not impose nontariff barriers (especially quantitative restrictions), has meant that the WTO should have been a motor of overall trade liberalization by industrial countries. Of course, during the post-war era industrial countries did seek recourse to nontariff barriers, in violation of the spirit if not the letter of WTO rules. They included voluntary export restraints (in cars and steel), explicit quantitative restrictions (agriculture and clothing), and antidumping. Although many of these barriers were sectoral in nature, their imposition could have offset the effects of the tariff liberalization. Whether they did so is an empirical question that we allow the data to settle.

In contrast, and since the early days of the GATT, developing countries have had far fewer obligations to liberalize. This reluctance of developing countries to take on obligations to liberalize under the WTO was codified under the principle of special and differential treatment (S&D), which has defined the terms of developing country participation or rather virtual non-participation. In terms of developing countries' own liberalization, S&D consisted of two elements.<sup>2</sup>

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<sup>1</sup> For different reasons, Tomz et. al. (2004) also find a positive impact of the WTO if certain political entities (colonies, newly independent states, and others that applied the GATT provisionally) that de facto applied WTO rules are included in GATT/WTO membership.

<sup>2</sup> S&D also had another pillar, the grant of preferential market access by developed countries to their developing country trading partners, which led to the institution of GSP and similar schemes (see Wolf, 1986, for an excellent analysis of the rationale and consequences of S&D).

First, developing countries have not, until the Uruguay Round, really participated in tariff liberalization in the various rounds. This is reflected in Table 2 which illustrates that until the Uruguay Round developing countries had “bound” less than a third of their tariff lines compared to nearly 85 percent for industrial countries.<sup>3</sup> That is, developing countries had no commitments as regards their tariffs for over two-thirds of their imports. And even on the 30 percent of the bound lines, the commitments to liberalize were weak because the bound rate was well above the applied, the prenegotiation rate, typically by over 10 to 15 percentage points.

Second, the permissiveness of the GATT toward developing countries extended not just to tariff liberalization but also the basic rules on nontariff barriers, particularly their use of quantitative restrictions for balance of payments reasons that was sanctioned under Article XVIII:B of the GATT.<sup>4</sup>

Indeed, a number of the large developing countries invoked the right to use quantitative restrictions on their imports for the major part of the post-war period; in some instances this right extended to over five decades. This is illustrated in Table 3. In practice, the right to use quantitative restrictions generally coincided with their actual use. This use of quantitative restrictions was a crucial aspect of special and differential treatment.<sup>5</sup>

## **II.2 New Versus Old Developing Country Members**

With the Uruguay Round and the creation of the WTO, this permissiveness toward developing countries started to change. As the Uruguay Round progressed, it became clear that one of its objectives was to narrow the gap between developed and developing countries in terms of their respective obligations to liberalize trade barriers. This objective was particularly important in defining the terms of accession of new WTO members, namely those that joined after the Uruguay Round negotiations had commenced. Table 4 illustrates this most clearly. It compares key post-WTO liberalization commitments of developing countries that were members before the WTO’s establishment and of those that joined afterwards. The former undertook fewer obligations to bind tariffs in the industrial sector (58

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<sup>3</sup> When a country “binds” its tariffs in the GATT/WTO (or undertakes tariff “bindings”), it commits not to raise its tariffs above the level at which the tariff is “bound.” Note that these numbers relate to the late 1980s; for much of the post-war period, the proportion of bindings was even smaller.

<sup>4</sup> For a fuller discussion of the history and consequences of Article XVIII:B, see Eglin (1987) and WTO (2003).

<sup>5</sup> In the context of a gravity model, uniform reduction in trade barriers need have no impact on trade volumes as shown in Anderson and van Wincoop. Disaggregating industrial and developing country membership allows non-uniform reductions by these groups of countries to be explicitly captured.

percent versus 94 percent for the post-WTO acceders), bound tariffs at much higher levels in both the industrial sector (33 percent versus 17 percent) and the agricultural sector (63 percent versus 28 percent). The Chinese accession in 2001, of course, was the most extreme example of greater liberalization being demanded of post-Uruguay members. The accession came at the end of a 13-year process in which the list of liberalization obligations imposed on China grew steadily. China was given a shorter phase-in period to complete the liberalization obligations than earlier developing country members. At the end of the phase-in period, China's trade regime will be more open than most of the existing developing country members of the WTO today. The Chinese case has its special features, but as Table 4 illustrates, the more demanding nature of liberalization obligations applied to other new WTO members as well.

### **II.3 Imports of members from other members versus imports from non-members**

To the extent that WTO members engage in reciprocal trade liberalization and that the MFN principle imposes an obligation to apply equal tariff treatment only to GATT/WTO member countries, we should see a differential volume effect in imports by members from other members versus non-members. This would be a natural hypothesis to make and one that is consistent with the theoretical model.

On the other hand, it is possible that when a GATT/WTO member commits to reduce its trade barriers, it does so across all trading partners by extending the benefits to non-members. For the United States, the Jackson-Vanek amendment of 1993 provided for the extension of MFN even to communist countries provided they allowed emigration. If this is generally true, there should be no difference between the volume of imports by members from other other members and that from non-members. This would not be entirely consistent with the prediction of the Bagwell and Staiger (2004) model, although adding domestic political economy considerations to the model may explain it.<sup>6</sup>

### **II.4 Liberalized versus Exempted Sectors**

Over the many rounds of multilateral negotiation to reduce trade barriers, there has been asymmetry across sectors. While developed countries brought down progressively many of their trade barriers, they exempted a number of key sectors—agriculture, textiles and clothing—from their liberalization efforts. In fact, sixty years after the establishment of the GATT, tariffs remained high in these sectors. The rules on the prohibition of quantitative restrictions were themselves bent to allow their use in these sectors. The Multi-Fiber Arrangement, which was a vast system of bilateral quantitative restrictions imposed by developed countries on their imports from developing countries, was a violation of the basic rules of the GATT. The same was true of agriculture. Table 5 confirms that the food,

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<sup>6</sup> The logic of treating all countries equally might be similar to the rationale for uniformity of tariffs across products (Panagariya and Rodrik, 1993). Under a uniformity rule, since the benefits of any lobbying spillover to other (non-lobbying firms), the collective action problem among firms result in less lobbying and hence a lower average tariff.

clothing, and footwear sectors are indeed highly protected, with average tariffs well above the average for the industrial sector as a whole, and with significant peak tariffs, particularly in agriculture.

These four asymmetries are intuitive and easy to understand. The question is whether they actually show up in the data on the patterns of trade. Furthermore, once these asymmetries are taken into account, would the data reveal that the WTO has promoted trade substantially and in the way it has been designed? The next section explains the methodology and the data that are used to examine these questions.

### III. ECONOMETRIC SPECIFICATION AND DATA

#### III.1 Model and Estimation Issues

The theory of the GATT has clear implications for bilateral trade impacts, as noted above, and thus naturally lends itself to the use of the gravity model of trade that has enjoyed empirical success in terms of its ability to explain a relatively large fraction of variations in the observed volume of trade.<sup>7</sup> In theory, the gravity model can be justified by a variety of theories, including monopolistic competition (Helpman and Krugman, 1995) and a Heckscher-Ohlin model with specialization (Anderson, 1979; Deardorff, 1998; and Anderson and van Wincoop, 2003).

Empirically, it has been used to analyze the effects of regional trade blocs (see Frankel, 1997 and the references cited therein) and currency unions (Frankel and Rose, 2000; Glick and Rose, 2002; Rose, 2000; and Persson, 2001) among other subjects. In contrast to a majority of earlier studies (and to Rose, 2004a), we adopt the version of the gravity model suggested by Anderson and van Wincoop (2003) that includes country fixed effects in the regression. More precisely, our specification is of the following form:

$$\text{LogImport}(j,k,t) = Z(j,k,t) \gamma + \sum \alpha_i M_{it} + \sum \theta_{ht} X_{ht} + \beta_1 \text{FTA}(j,k,t) + \beta_2 \text{GSP}(j,k,t) + \beta_3 \text{WTO-DVED}(j,k,t) + \beta_4 \text{WTO-DING}(j,k,t) + e_{j,k,t}$$

where  $Z(j,t)$  is a list of variables, including log GDP, log per capita GDP, log land area of importers and exporters, greater circle distance between  $j$  and  $k$ , dummies for common

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<sup>7</sup> There is the question of whether multilateral trade data should also be used to assess the role of the WTO. The problem is that there is no theoretically well-founded empirical framework for estimating multilateral trade in contrast to the gravity model for bilateral trade. Moreover, the theory of the GATT/WTO makes direct predictions about bilateral trade.

language and colonial links, shared borders, and currency, and a dummy for landlocked and island countries. Essentially, the list includes all the covariates in Rose (2004a).<sup>8</sup>

$M_{it}$ 's are a list of time-varying importer dummies (that take the value of one if  $i=j$ , and zero otherwise).  $X_{it}$ 's are a list of time-varying exporter dummies (that take the value of one if  $h=k$ , and zero otherwise). The  $M_{it}$ 's and  $X_{it}$ 's are essentially dummies that serve to proxy for "multilateral resistance" in Anderson and van Wincoop (2003).<sup>9</sup> These dummies were not included in most of the regressions in Rose (2004a).

$FTA(j,k,t)$  is a dummy variable that takes on a value of 1 if  $j$  and  $k$  belong to a common free trade area or common market in year  $t$ .<sup>10</sup>

$GSP(j,k,t)$  is a dummy variable that takes on a value of 1 if the *importing* industrial country grants preferences under the generalized scheme of preferences (GSP) to exporting country  $k$  in year  $t$  and where  $j$  and  $k$  are not members of a free trade area or common market in year  $t$ .

$WTO-DVED(j,k,t)$  is a dummy variable for *importer*  $j$  that is a developed country WTO member and where  $j$  and  $k$  are not in a common free trade area or customs union and where  $j$  does not grant GSP preferences to  $k$  in year  $t$ .

$WTO-DING(j,k,t)$  is a dummy variable for *importer*  $j$  that is a developing country WTO member and where  $j$  and  $k$  are not in a common free trade area or customs union and where  $j$  does not grant GSP preferences to  $k$  in year  $t$ .

$e_{j,k,t}$  is a normally distributed random error term that has a zero mean and a constant variance.

There are several important differences between our specification and that in Rose (2004a) that are worth making clear at the outset. First, we focus on imports by  $j$  from  $k$  as the regressand, whereas Rose focused on the average of  $j$ 's imports from  $k$  and  $j$ 's exports to  $k$ . All theories that underlie a gravity-like specification yield predictions on unidirectional trade rather than total trade. Hence, our specification is more closely grounded in theory.

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<sup>8</sup> Because we include importer and exporter fixed effects (see below), we drop other country-specific covariates.

<sup>9</sup> Trade between two countries depends not just on the policy and physical barriers between them but also on the barriers between these countries and the rest of the world (hence the term "multilateral resistance"). Importer and exporter dummies proxy for the latter kind of barriers. Our specification takes the Anderson and Van Wincoop (2003) results (developed and applied for the cross-section) to its logical conclusion by incorporating time-varying importer and exporter fixed effects.

<sup>10</sup> The FTAs included in our analysis are those reported in Rose (2004a) and updated through 2000. Appendix Table 6 lists all the FTAs used in our study.



Moreover, the trade effects of the WTO (an exception is noted below) and the GSP really relate to imports. When a country  $j$  grants GSP preferences to  $k$ , or when  $j$  liberalizes its imports under the WTO, there is reason to expect  $j$ 's imports from  $k$  to increase but there is no theoretical reason why  $j$ 's exports to  $k$  should also increase by the same proportion. Even if Abba Lerner symmetry were to hold—that is, removal of import barriers serves to raise exports as well as imports—it would only do so at the level of a country's aggregate rather than bilateral trade.

There is one important exception. The theory of the GATT/WTO (Bagwell and Staiger, 2004) does predict that if countries  $j$  and  $k$  liberalize not unilaterally but reciprocally then imports of  $j$  from  $k$  *and* exports of  $j$  to  $k$  would increase by the same proportion. This case can be easily tested in our imports-based specification as exports from  $j$  to  $k$  are the imports by  $k$  from  $j$ . Indeed, by focusing on imports, we can test whether imports are greater when the partner country is also a WTO member than when it is not. This serves as a natural way of testing the MFN principle and reciprocity. If members import more from other members than from non-members it could be because barriers are higher against non-members as the benefits of tariff cuts are not extended to non-members. But even if members and non-members are treated alike, average barriers can be higher on non-members because *products* of interest to the latter have not been the subject of reciprocal negotiations in the WTO. In many ways, this de facto exclusion or discrimination by way of this product composition effect has been acutely felt not just by non-members but also by developing countries, who until the Uruguay Round saw very little liberalization on products (agriculture and textiles) of export interest to them. Finally, a specification with trade as regressand would be particularly problematical if we also want to compare the effects of GSP, which are essentially unidirectional, to those of the WTO and FTAs.

For these reasons, Rose's (2004a) specification of using the sum of imports and exports as the left-hand-side variable would be unnecessarily restrictive. It is interesting to note that Rose (2004b), which is subsequent to and in fact cites the working paper version of this one, adopts a specification that has one directional imports rather than total trade as the left-hand side variable.

The argument in favor of trade (exports plus imports) rather than imports could be based on the view that the WTO also regulates export taxes and export subsidies. In practice, export taxes have rarely, if ever, been the subject of liberalization negotiations, in part because industrial countries have seldom used them. Export subsidies, on the other hand, have been the focus of WTO rules and negotiations, but elimination of these subsidies would tend to *reduce* exports. The impact of the WTO on a measure of trade (regressand) that included exports would even in theory be ambiguous.

Second, a more important difference between this paper and Rose (2004a) relates to the country fixed effects. As Deardorff (1998), Anderson and van Wincoop (2003), and Wei (1996) emphasized, the standard gravity model might have been misspecified in ignoring a "multilateral resistance" or "remoteness" term. Anderson and van Wincoop (2003) suggest that empirically, the inclusion of country fixed effects captures "multilateral resistance" reasonably well and thus corrects this misspecification. We would stress here that the

Anderson and van Wincoop (2003) model requires fixed effects for both importers and exporters: trade between any two countries depends on the multilateral resistance of both importers and exporters (see also Helpman, Melitz and Rubinstein, 2004, for a different rationale for including both importer and exporter fixed effects). In Rose (2004a), the benchmark regression and indeed all specifications, save one, do not include country fixed effects. In the illustrative application, Anderson and van Wincoop (2003) use fixed effects in a pure cross-section context. Here, to be more general, we adopt time-varying importer and exporter fixed effects.<sup>11</sup>

Third, our definition of the GSP and WTO dummies is different from that in Rose. We rely on the fact that FTAs, the GSP, and the WTO involve different degrees of liberalization, and hence define them mutually exclusively in order to be able to isolate the impact of each, purged of any “contamination” from the other.<sup>12</sup> Therefore, the WTO dummies in our analysis are coded to exclude country pairs belonging to the same FTA/customs union agreement or involved in GSP relationships. Similarly, the GSP dummy is coded to exclude country pairs belonging to an FTA or customs union.

To highlight the differences in our versus Rose’s specifications of the dummies, consider the possible combinations of FTA and WTO membership. Any country pair ((j,k) has to fall into one of the following four categories:

1. Both are members of the WTO, but not members of a common FTA. We assume that there are  $n$  such pairs and that the “pure WTO effect” on trade is  $x$ ; that is, trade would go up by  $x\%$  if both are members of the WTO holding other factors constant.
2. Both are members of a common FTA, but at least one of them is not a member of the WTO. We assume that there are  $m$  such pairs, and that the pure FTA effect on trade is  $y$ .
3. Both are members of the WTO, and at the same time, members of a common FTA. We assume that there are  $l$  such pairs and that trade for such pairs would go up by  $z$ .
4. All other cases which represent the benchmark scenario.

Our paper and Rose (2004a) would classify cases 1, 2 and 4 above in exactly the same way. The only difference would be case 3, for which we would assign a value of 1 for the FTA dummy and 0 for the WTO dummy. Rose (2004a), on the other hand, would assign a value of 1 for both the FTA and WTO dummies.

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<sup>11</sup> In Rose (2004b) which cites this paper, most of the specifications include country or country-pair fixed effects.

<sup>12</sup>We also report the results when these variables are defined as in Rose (2004a). It turns out that the GSP coefficients are affected much more than the WTO coefficients.

It is worth noting, at this stage, that the definition of the dummies in both our paper and Rose (2004a) are *exhaustive* in the sense that any country pair will be placed in one of the four categories. Our definition, however, is *mutually exclusive* in the sense that every country pair would fall into only one of the four categories, whereas under the definition in Rose (2004) some country pairs would fall in two categories.

The implications of these definitions are as follows. Under our approach, the estimated effect of WTO =  $x$ , which is the true WTO effect by assumption. Under Rose's (2004a) definition, the estimated effect of WTO on trade is a weighted average of  $x$  and  $(z-y)$  which is equal to  $[\frac{n}{n+1}]x + [\frac{l}{n+1}](z-y)$ .

The term  $(z-y)$  reflects the assumption that in case 3, one needs to control for the effect of the FTA. Now, if one assumes that  $z = x+y$ , that is, the effects of an FTA and the WTO on trade are additive, the estimated effect of WTO on trade using Rose's definition =  $x$ , the same as ours.

However, there is no reason to think that the effects of FTA and WTO are additive: indeed, between any two countries FTAs represent the culmination of trade integration, whereas the WTO represents some intermediate way station. In other words, if two countries are both members of the WTO and members of a common FTA, they would not be expected to trade more with each than if they are simply members of a common FTA but not members of the WTO.

Therefore, generally speaking, we expect that  $y \geq x$ , and  $z = y$ . Then, the estimated effect of the WTO on trade using Rose's (2004a) definition would be  $[\frac{n}{n+1}]x$ , which is less than  $x$ , the true impact of the WTO. Thus, the larger the number of country pairs that fall under case 3, i.e., the larger is the value of  $l$ , the greater would be the downward bias in the Rose (2004) estimate of  $x$ , the WTO effect.

### III.2 Data and Sources

The data that we use and their sources are explained in detail in Appendix 1. Most of our data are from Rose (2004a) which are posted on his website. The main difference is our use of imports rather than total trade as the dependent variable which we obtain from the IMF's Direction of Trade Statistics. We deflate imports by the US consumer price index. Also we update all the Rose variables to the year 2000. Our panel data set consists of observations for every 5 years beginning in 1950 and ending in 2000.

The tariff and import data we use for the disaggregated estimations are obtained respectively from the TRAINS (Trade Analysis Information Systems) and COMTRADE databases of the United Nations (See the Appendix for details). Descriptive statistics for the basic data are in Appendix Table 1. The list of countries in the aggregate and disaggregate estimations is presented in Appendix Table 2. Consistent with WTO practice, but unlike Rose, we exclude South Africa, Turkey, and Yugoslavia from the category of industrial countries. The list of sectors used in the disaggregate estimations is in Appendix Table 3. The list of free trade areas is described in Appendix Table 4, while Appendix Table 5 provides data on the number of observations falling into the different categories (WTO, FTAs, GSP etc.).

## IV. EMPIRICAL RESULTS

### IV.1 Industrial versus Developing Country Members

We now turn to the regression analysis. The basic gravity model, reported in Table 6, works well, yielding plausible estimates for the standard covariates—GDP, GDP per capita, distance—which are highly significant and very much in line with typical estimates from the literature. Tables 6 and 7 contain the core results for aggregate trade in panel and cross-section contexts, respectively. The basic Rose result about the ineffectiveness of the WTO in increasing trade is illustrated in column 1. Indeed, if membership in the WTO is undifferentiated, with all countries treated alike, our result is a more damning indictment of the WTO than even that in Rose (2004a). He found that membership in the WTO had no significant effect on trade. We find that membership has a significantly *negative* effect on trade: the average WTO member trades about 22 percent [ $\exp(-0.252)-1$ ] less than the average non-WTO members in the sample (Column 1 in Table 5).

But as we explained in the earlier section, the evolution of the WTO and its precursor the GATT, most notably involving the special treatment of developing countries, makes it essential to treat this group differently from industrial countries. Once this is done as in column 2, we see that the average result of undertrading obscures a significant difference between the behavior of industrial country members of the WTO and its developing country members. The coefficient on the former is positive and highly significant. As will be seen, this is a result that is robust to a large number of changes in specification, estimation procedure, and sample.

On the other hand, the coefficient on the developing country WTO importer dummy is negative and significant.<sup>13</sup> This negative sign, as it turns out, is not robust; indeed, it is quite fragile. For example, when we exclude observations with values of trade less than \$500,000, the negative coefficient turns positive and significant (column 4 of Table 6). There are plausible reasons to believe that small-valued observations are subject to more sampling and measurement errors. In particular, idiosyncratic shifts in the behavior of a single importer or even a single shipment may dominate the variations in the reported import value.<sup>14</sup>

Table 7 reports a sequence of cross-sectional estimations every five years from 1950 to 2000. Running separate regressions for different years has two advantages. First, it effectively permits the “multilateral resistance” in Anderson and van Wincoop (2003) to be time-

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<sup>13</sup> It is worth noting that t-statistics for the industrial country WTO dummy is almost always above 10, signifying that the coefficient estimates have a high degree of precision.

<sup>14</sup> For these reasons, the remaining results reported in the paper will exclude observations with trade values less than \$500,000, although we would emphasize that not doing so does not alter the basic nature of the results.

varying, as in our core specifications in Table 6. Second, it does not restrict the coefficients on other control variables to be the same over time. The chief disadvantage of this approach is a possible loss of efficiency which, given the large size of the data set, is not a crucial loss. In any case, the coefficients on the industrial country WTO dummy are positive, and significant for all years beginning in 1960. The coefficient on the developing country dummy is less stable: it is positive and significant in the early years but negative and usually insignificant for the rest of the estimations. These results thus serve to validate the results we obtained in the core specifications.

This result is consistent with the history of asymmetric trade liberalization in the WTO that we described earlier. Industrial countries reduced their tariff barriers under successive trade rounds while developing countries were accorded the freedom to maintain their trade barriers under the principle of special and differential treatment. The known asymmetry in tariff reductions shows up nicely in the data. Changes in nontariff barriers are apparently not large enough to completely offset the tariff reductions.

If these results are interpreted causally, we can quantify the contribution of the WTO to increasing global trade. The coefficient for the industrial country dummy in the panel regression reported in column 4 of Table 5 is 1.01.<sup>15</sup> This implies that industrial countries' bilateral imports has on average been about 175 percent more [ $\exp(0.52)-1$ ] by virtue of their membership in the WTO. Taken literally, our results would imply that in 2000 alone, aggregate imports of industrial countries would have been higher by about \$8 trillion than a world without the WTO, representing an increase in the world trade by about 120 percent.

This estimate is probably overstated because it does not take into account a substitution effect: if one country joined the WTO its aggregate trade would increase as we have estimated it; but if all countries joined the WTO there would be some displacement of imports from non-WTO members by those from WTO members. Having said that, we note that there are also reasons that our estimates may have understated the true impact of the WTO membership in raising world trade if there is positive feedback from higher trade to higher economic growth (see Frankel and Romer, 1999), which in turn spurs even more trade (the gravity equation examines trade for a given level of income). Of course, if the WTO had not accorded the freedom to developing countries to maintain trade barriers, and had required trade liberalization of them, the positive impact on global trade could have been greater still.

We put our core specification through the usual hoops—the robustness-checks exercise, which is displayed in Table 7, including the use of Rose's definitions of GSP and WTO

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<sup>15</sup> It is worth noting that this estimate is substantially greater than the estimate we reported in the working paper version of this paper (Subramanian and Wei, 2003), which incorporated time-invariant importer and exporter fixed effects. Evidently, the more general specification serves to *increase* the impact of the WTO. It is reassuring that this larger estimate is consistent with the cross-sectional regressions we report in Table 6: the simple average of the WTO coefficients across these regressions is 1.10, compared with 1.01 in Column 4 of Table 5.

dummies, the addition of country-pair random effects with and without importer and exporter fixed effects, and the exclusion of outliers.<sup>16</sup> As anticipated in the previous section, the WTO effect becomes smaller with the Rose definitions of FTA and WTO. However, as long as we retain the rest of our specification, even his definitions produce a positive and statistically significant effect of WTO on trade volume.

Based on the recent work of Helpman, Melitz and Rubinstein (2004), the last robustness check reported in Table 7 is to correct for a possible data selection bias arising from excluding zero-trade observations and to account for a possible omitted variable arising from firm-level heterogeneity in productivity. In this case, the value of the WTO coefficient for industrial countries is significant, and surprisingly, much greater than the value in the core specification. Aside from that, our core result—particularly the positive impact of the WTO on industrial countries' imports—remains broadly unchanged.

The only case in Table 7 where the industrial country coefficient declines significantly is in the specification with country-pair fixed effects estimations, where the coefficient value declines to 0.27, while remaining statistically significant. Conceptually, the specification that includes the country-pair fixed effects asks a “within” question: what does joining the WTO do to the import pattern? The specifications that exclude country-pair fixed effects but otherwise include importer and exporter fixed effects ask a different, “between” question: do WTO members exhibit a different trade patterns from non-members? Our paper has been focusing mostly on the “between” question and demonstrates that industrial country WTO members are significantly more open than non-members. On the “within” question, the effect is smaller numerically but still positive and non-trivial in economic term. The developing country dummy is generally positive and significant but the magnitudes are typically very small.

#### **IV.2 New versus Old Developing Country Members**

The next question we address is whether there has been any change in the trading patterns of WTO members in the recent past. There is a priori reason to expect changes since the Uruguay Round is widely perceived to mark a watershed in the status of developing countries in the GATT/WTO system. Specifically, special and differential treatment came under attack in the Uruguay Round. A concerted effort was supposedly made to ensure that developing countries were integrated into the trading system, most notably by requiring them to take on more obligations to liberalize their trade regimes. In this regard, more progress has been made on the front of new entrants to the WTO. A non-member country that aspires to become a member has to make concessions and obtain approval from every existing member country. As a result, it is easier to demand that these new entrants reduce trade barriers to a greater extent than to do the same to the existing members. As Table 4 illustrates, post-Uruguay Round accessions have indeed been qualitatively different in the sense of extracting more trade liberalizing concessions from prospective entrants. But does the trade volume

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<sup>16</sup> Specifically, we discard values of the dependent variable that are three and two standard deviations away from the mean, respectively.

data support the proposition that the Uruguay Round really marked a watershed for developing countries?

Table 9 attempts to shed light on this question. For the purposes of this table, developing country members are disaggregated into those that were members prior to the Uruguay Round (“old members”) and those that joined after it (“new members”). Given that the Uruguay Round negotiations lasted eight years, the question arises as to what is the appropriate cut-off date that distinguishes a possible regime change in the way the WTO treated its old and new members.

One possibility would be to make 1995—the date of the formal creation of the WTO—as the cut-off point. But this would be too legalistic; indeed the creation of the WTO with its notion of a single undertaking—whereby all countries adhered to all the Uruguay Round agreements—was the *culmination* of the process of integrating developing countries into the trading system.<sup>17</sup> In the absence of a strong justification for any one particular date, we allow the data to tell us whether and when there was a regime shift. Therefore, in our regressions, we successively define new members as those that joined after 1990, 1991, 1992, 1993, 1994, and 1995. We then test the hypothesis that WTO membership had a different impact on trade for these new members compared with the old ones.

These results are reported in Table 9. Regressions for the year 2000 are reported in columns 1–6 while those for 1995 are in columns 7–11. Three features stand out. First, the regressions for 2000 indicate that the coefficient on the new WTO member dummy is positive and significant for all definitions of new members except when 1995 is used as the cut-off date for defining new members. The average coefficient value is about 0.28, representing extra trade of about 30 percent for new members.

Second, in the regressions for 2000, the coefficients of the new and old dummies are significantly different from each other except when 1995 is used as the cut-off date for defining new members.<sup>18</sup> This is suggestive of a regime change associated with the Uruguay Round.

But how is one to reconcile regime change with the fact that the coefficient on new members becomes smaller in size and statistically insignificant when 1995 is used as the cut-off date? A plausible explanation is that the lag between the start of WTO membership and detectable liberalization efforts is longer than 5 years. Indeed, developing countries are often given very long periods, sometimes up to 15 years, to phase in their liberalization.

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<sup>17</sup> In private correspondence, Patrick Low of the WTO suggests that a date as early as the Mexican accession to the GATT in 1986 could be seen as the beginning of the process of integrating developing countries into the trading system.

<sup>18</sup> As Table 9 shows, the null hypothesis for equality of coefficients is rejected by the F-tests at the 1 or 5 percent level in 5 of the 6 regressions.

Columns 7–11 shed some light on this issue by reporting regressions for bilateral imports in 1995, when little time has elapsed for the new WTO members. The coefficients on new members that were significant in the 2000 trade equation become small and insignificant. These results are consistent with the practice of having the liberalization obligations phased in over a period of time. Countries that joined in the early 1990s experienced no significant increase in openness in 1995 but by 2000 they appear to have done so that was worth about an extra 30 percent of trade.

We would note, however, that the coefficient on old developing country members is still not positive and statistically significant. This suggests that their obligations to liberalize even after the Uruguay Round have not become stringent enough to actually lead them to be more open than non-WTO members. Evidently, eliminating special and differential still has a long way to go, and the creation of the WTO per se did not force radical changes on old developing country members.

These are important findings because they sit at odds with the popular view that developing countries were actually integrated into the trading system in the aftermath of the Uruguay Round. In trade terms this did not happen for the old members of the WTO. Although developing countries' *bound* tariffs may have come down in the Uruguay Round, actual tariffs barely budged.

Table 10 shows that, although the percentage of tariff lines for which bindings (commitments) were taken on by developing countries increased by 50 percentage points due to the Uruguay Round, the actual tariff reductions brought about by the Round were much smaller: only 27 percent of tariff lines involved reductions in applied tariffs, and on these, the reduction was 8 percent. In other words, if tariff reductions are calculated on all tariff lines, the reduction would be about 2 percent. This lack of reductions in applied tariffs appears to be reflected in our result that old WTO members continued to be no more open than non-members even after the Uruguay Round. The irony relating to S&D in the Uruguay Round was that it was eliminated in areas—such as TRIPs—where maintaining it may actually have been welfare-enhancing. But S&D was preserved in the conventional area of trade liberalization in goods where its dilution would have been unambiguously welfare-enhancing.

### **IV.3 Imports by Members from Other Members versus Imports from Non-members**

We now highlight another feature of the world trading system brought out by the results, including whether the key rationale of reciprocity underlying the GATT/WTO (Bagwell and Staiger, 2002) are supported by the data. Members of the WTO are obliged to extend trade privileges granted to any country (member or non-member) to all other members of the WTO under the MFN principle. But members are not obliged to extend the same privilege to non-members of the WTO. They can do so if they wish but there is no legal obligation to do so. If they did, it would suggest that countries were undertaking unilateral rather than reciprocal trade barrier reductions.

In column 5 of Table 6, each of the two WTO dummies (for importers that are developed and developing country members, respectively) is disaggregated into two dummies, depending on



whether the exporter is also a WTO member. For industrial country importers that are WTO members, imports from WTO members are greater than from non-members (with point estimates of 1.031 versus 0.866), and this difference is statistically significant.<sup>19</sup> It appears that non-members do not seem to benefit equally from the liberalization by member countries under the WTO. This difference, which highlights the benefits of WTO membership, could arise for two reasons. The first is explicit discrimination; that is, statutory barriers could be higher against imports from non-WTO members than from members.. The second is a *de facto* discrimination via a product composition effect: though the statory barriers are the same for all exporters, barriers are higher on *products* of greater interest to non-members because these products have not been the subject of the reciprocity negotiations in the WTO.<sup>20</sup> Being out of the WTO can thus have two types of disadvantages.

Another way of testing whether unilateral or reciprocal liberalization dominates is to check trade between industrial countries and between industrial and developing countries, even those that are members of the GATT/WTO. The hypothesis is that since developing countries in the GATT did not engage in tariff cutting, industrial countries did not in turn cut tariffs on products of interest to developing countries so that trade between industrial and developing countries was lower as a result. Column 6 of Table 6 sheds light on this question. The coefficient of the dummy relating to industrial country imports from other industrial countries is greater than that relating to imports from developing countries (where both types of exporters are WTO members) and this difference is statistically different.<sup>21</sup> In other words, industrial countries do appear to trade more amongst themselves than with developing countries, *ceteris paribus*. The magnitudes of the coefficients suggest that trade with developing countries is about 40 percent less than trade with other industrial countries.

These results, however, could also seen from another perspective, which qualifies the reciprocity rationale to some extent, and highlighting the public good benefit of the GATT/WTO. Take, for example, the results in column 5 of Table 6. The fact that imports of industrial countries from non-WTO members is positive and significant rather than zero could arise from WTO members extending *some* (even a substantial portion) of their WTO-induced liberalization to non-members, even though the latter may not reciprocate. In our results, the public good benefit amounts to about 136 percent [ $\exp(0.86)-1$ ] additional exports for non-members to industrial country WTO members. This is substantial.

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<sup>19</sup> The F-test (with a value of 10.7) suggests that the null hypothesis of the equality of coefficients is rejected.

<sup>20</sup> We are grateful to Alan Winters for drawing our attention to this point. Indeed, it is possible that if countries know that sectors of interest to them will not be liberalized, they might be less inclined to join the WTO.

<sup>21</sup> The F-test (with a value of 8.3) suggests that the null hypothesis of equality of the two coefficients is rejected at the 5 percent level.

#### IV.4 Asymmetry between Sectors

We now turn our attention to the asymmetry in the trade liberalization across sectors. The proposition that we wish to test is whether WTO membership has a differential impact on the import volumes of the industrial countries between protected and unprotected sectors. If WTO membership is a proxy for trade liberalization, then it should have had a greater impact on trade volumes where barriers came down compared with sectors where barriers have remained high.

To explore this issue, we go to a recently available data set on disaggregated bilateral trade (disaggregated at the Harmonized System (HS) 4-digit level) that was not used by Rose or anyone else on this subject.<sup>22</sup> We adopt a two-step strategy. In the first step, we identify sectors that are commonly considered to be highly protected by developed countries and sectors that are supposed to have been liberalized. In the second step, we fit a variation of the augmented gravity model to these data. The objective is to see whether actual patterns of trade volume reflect the reported difference in trade barriers.<sup>23</sup>

We begin by describing how we select disaggregated tariff categories into the highly protected and liberalized sectors. First, we sort United States (ad valorem) *MFN* tariff rates at the HS 4-digit level (on imports from other developed WTO members) in 1990 and 2001 in descending order. We do the same for the European Union's tariff rates.

Second, we identify the set of 4-digit sectors in which both the United States and the EU have had very little liberalization (defined as, agriculture, textiles and clothing, footwear, and other sectors with less than 2 percentage point tariff reduction from 1989 to 2000, and tariff rates in excess of five percent in both 1989 and 2000). Note that these sectors may have additional specific tariffs. We call this the protected manufacturing sector. A complete list of these products is presented in Appendix Table 3. For each country pair and year, we then sum up the 4-digit imports within each of these categories. Note that the data base does not have information on non-tariff barriers at this level of disaggregation. Therefore, while we are confident that the sectors that we have chosen are highly protected and have not been liberalized during the sample by developed countries, we cannot be sure if we have left out some other highly protected sectors (due to nontariff barriers).

Finally, we also collect the set of 4-digit sectors in which both the United States and the EU have reduced tariffs significant (defined as sectors that started with tariffs greater than 5 percent in 1989 and ended with zero tariffs in 2000). We take out agricultural products and raw materials from this list on the ground that there may be various non-tariff barriers that

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<sup>22</sup> Rose (2004a) does suggest that a sectoral analysis could shed further light on the impact of WTO membership.

<sup>23</sup> For details of the data used in this part of the analysis see the Appendix, while Appendix Table 2 provides the list of countries covered.

the information in the data base does not capture. We label the remaining set of zero-tariff 4-digit sectors as liberalized manufacturing sectors.

We specify a system of five equations, one for each of the following sectors: (i) liberalized manufacturing; (ii) clothing; (iii) footwear; (iv) agriculture; and (v) other highly protected manufacturing.

$$\text{LogImport}(j,k,S,t) = Z(j,t) \gamma_1 + \sum \alpha_i M_{it} + \sum \theta_h X_{ht} + \beta_{1l} FTA(j,k,t) + \beta_{2l} GSP(j,k,t) \\ + \beta_{3l} WTO-DVED(j,k,t) + \beta_{4l} WTO-DING(j,k,t) + e_{j,k,l,t}$$

where S is an index representing the 5 sectors for which this equation is estimated. The regressors are common for all the equations. The equations have the standard gravity formulations and are identical to that described in Section II. Since the error terms in the five equations are potentially correlated, we estimate the five equations jointly using the Seemingly Unrelated Regression (SUR) technique. Allowing such cross-equation error correlations makes SUR more general than OLS. Each of the five equations has time-varying importer and exporter fixed effects and year effects. To allow for maximum flexibility, we do not restrict the parameters on similar regressors in different equations to be the same.

The hypothesis that we test is a simple one, and is consistent with the theory: sectors with the highest protection in industrial countries would have seen least reciprocal tariff reductions under the WTO. Hence, WTO membership should have less impact in these sectors than in sectors with greater liberalization.

The United Nations WITS trade database has disaggregated data beginning in 1989. Consistent with our aggregate estimations reported earlier, we use data for 1990, 1995, and 2000 and discard observations with import values less than US\$500,000.

Table 11 presents the results for these estimations. The results for the sector with greater liberalization (column 1) are consistent with the prediction: for example, the industrial country WTO dummy is positive and highly significant. The developing country WTO dummy is also positive and significant. In other words, where industrial country liberalization has been greatest, there has been a modicum of response by developing countries in terms of their own liberalization.

For three of the four protected sectors—clothing, footwear and food—the coefficients of the industrial country dummy are either negative or insignificantly different from zero. By extension, they are all significantly smaller than the coefficient in the liberalized sector.<sup>24</sup> In the protected manufacturing sector (which excludes clothing, footwear and food), the

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<sup>24</sup> The hypothesis that the coefficient of the industrial country WTO dummy in the liberalized sector is equal to that in each of the protected sectors is rejected in all instances at the 1 percent level (the chi-square values are reported in Table 11).

industrial country WTO dummy is positive and significant. But here too the coefficient is significantly lower than that in the liberalized sector. This provides confirmation that the WTO has not had any significant impact on trade in clothing, footwear and food.<sup>25</sup> In agriculture, for example, the coefficient on the industrial country WTO dummy is -1.4. It appears that the exemption of agriculture from WTO disciplines has provided the freedom to industrial countries to throttle trade by introducing very high levels of protection. The permissiveness toward agriculture has proved very costly indeed because the coefficient estimates suggest that the typical industrial country imports of agricultural products is about 75 percent [ $\exp(-1.4)-1$ ] less than that of the average importer in our sample.

#### **IV.5 Industrial Country Effect or WTO Effect?**

One of our main and robust findings is that industrial country WTO membership is associated with greater trade. In most years in our sample, however, all industrial countries are WTO members. How can we be sure that we are picking up a WTO effect rather than an industrial country effect?

In response we would make a number of points. First, insofar as industrial countries have several distinguishing characteristics collectively and individually we control for them respectively through our various covariates—GDP, per capita GDP, proximity etc.—and our importer and exporter fixed effects. In other words, the results on the WTO dummy do not follow simply because they are richer or larger than other countries or in some ways geographically or historically distinctive. Nevertheless, it is still possible that there are residual characteristics of industrial countries that are unobservable and therefore omitted from our set of regressors, biasing our results.

Second, we also obtain and report some more direct evidence in favor of a WTO rather than an industrial country effect. It turns out that in the early years of our sample (1950-1965), a number of industrial countries (Germany, Austria, and Iceland among others) were not WTO members. We run panel and cross-section regressions for these years and, in addition to the usual industrial country WTO variable, add an industrial country WTO non-member variable. The results are reported in Table 12.<sup>26</sup> The panel regression (column 1) shows that the while both industrial country WTO member and industrial country non-member coefficients are positive and significant, the two are significantly different from each other.<sup>27</sup> The difference in the values of the coefficients suggests that an industrial country WTO

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<sup>25</sup> The developing country WTO dummy is also insignificant in three of the four protected sectors.

<sup>26</sup> We would note that unlike in the core specification, the importer and exporter fixed effects in column 1 of Table 12 are time-invariant. Introducing time-varying fixed effects induces perfect collinearity with the dummy for industrial country non-members.

<sup>27</sup> The F-test (value of 41.7) rejects the hypothesis of the equality of the two coefficients.

member importing 200 percent more than an industrial country non-member.<sup>28</sup> The year-by-year results (columns 2-5), also confirm, in all 4 time periods, that industrial country WTO members imported significantly more, economically and statistically, than industrial countries that were not WTO members.

#### **IV.6 Other Results**

An additional finding of our paper relates to the role of the GSP. As in Rose (2004a), GSP imparts a positive fillip to trade. The GSP coefficients are always positive and statistically and economically significant. But there is a disparity in the magnitude of the effects, with our results suggesting that the WTO has a greater economic impact than the GSP.

The proper comparison is between industrial country imports under the GSP and under the WTO. Columns 4-6 of Table 6 allow us to answer this question. Column 4 suggests that, in terms of industrial country imports, the GSP effect (coefficient value of 0.81) is smaller than the WTO (1.01) effect. Even if we compare industrial country imports from developing countries under the GSP and the WTO (Column 6), we find that the GSP (coefficient value of 0.79) has a smaller effect than the WTO (0.92). In principle, these coefficients should be different from each other because the GSP provides for duty-free access for certain sectors whereas under the WTO the access is subject to the MFN tariff which is always non-negative. The smaller GSP coefficient suggests that product exclusions and the other restrictions under the GSP mitigate its benefits to an extent that makes it not very different from liberalization under the WTO.

Another finding relates to the evolution in the various coefficients over time (Table 7). It is interesting that the magnitude of the coefficients on the FTA, GSP, and WTO dummies declines over time. The FTA dummy declines from 2.0 in 1970 to 0.7 in 2000 while the GSP dummy declines from 2.2 in 1975 to 0.5 in 2000. One reason for the decline in the FTA and GSP coefficients could be the reduction in average MFN tariffs—brought about by liberalization under the WTO—which reduces the value of preferential access under the GSP and free trade agreements. The temporal behavior of these coefficients could either be a testimony to the benefits of the WTO or to unilateral liberalization around the globe.

### **V. SUMMARY AND CONCLUDING REMARKS**

Rose (2004a) has seriously called into question the effectiveness and hence the usefulness of the GATT/WTO as a multilateral institution. His analysis implies that the GATT/WTO, whose *raison d'être* is to promote trade, has failed to do so. Our paper shows, however, that the GATT/WTO has done a splendid job of promoting trade. The GATT/WTO has served to

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<sup>28</sup> The absolute value of the industrial country coefficients is high and greater than the average of the cross-section values possibly because of the fact that the fixed effects in the panel regression are not time-varying. But even the difference in the WTO member and non-member coefficients in the cross-section results point to a large WTO effect.

increase world imports substantially, possibly by about 120 percent of world trade (about US\$8 trillion in 2000 alone). But this trade promoting role of the GATT/WTO has been uneven. This unevenness is related to four asymmetries in the system, which can be rationalized by the recent economic theory of the GATT/WTO. Our empirical investigation has found evidence consistent with these asymmetries.

Finally, it is useful to note that the empirical results do not imply that developing countries have not benefited from WTO membership. A distinction needs to be made between developing country WTO members as exporters and importers. Our results suggest that there has been little impact of WTO membership on developing countries' imports. But the positive impact of WTO membership on industrial country imports meant that imports from developing countries from developing countries (namely, developing country exports) also increased significantly. Developing country exports to industrial countries, on our estimates, were at least one and a half times greater because of the GATT/WTO. In other words, despite not liberalizing themselves sufficiently, they enjoyed the benefits of industrial country liberalization, notwithstanding the exclusion of agriculture, clothing, and a few other sectors from GATT liberalization. While clearly beneficial for them, these unreciprocated benefits pose a challenge to the theory of the GATT/WTO, which merits further research.

## Appendix. Data Description and Sources

### *Aggregate estimations*

Estimating the model requires data on bilateral aggregate trade, incomes, population, distance, as well as geographical, cultural, and historical information. The study uses a panel data set which covers 172 Fund member countries during the five-year periods from 1950 to 2000. The list of countries in the sample is presented in Appendix Table 1.

Our data set is a slightly modified and updated version of Rose's (2002a) data set, which is downloadable from Andrew Rose's web-site. That paper describes the data set in detail, and we will only comment on a few data issues here. We use bilateral imports rather than trade as the regressand which we obtain from the IMF's *Direction of Trade Statistics*. Bilateral imports are those reported by the importing country and measured in U.S. dollars and deflated by US CPI (1982–1983 prices) for urban areas (available from [freelunch.com](http://freelunch.com)). Real GDP, per capita GDP and population data for 2000 come from the World Bank's *World Development Indicators* (WDI). WTO and FTA dummies for 2000 are extended based on the information available from the WTO official web site ([wto.org](http://wto.org)).

### *Data and sources for disaggregated estimations*

The TRAINS (Trade Analysis Information System) of the UNCTAD contains information on tariff and nontariff barriers at the most detailed commodity level. We utilize the US and EU MFN tariff schedules for 1989 and 2001 that are reported in 8-digit HS 1988/1992 and HS 1996 classifications, respectively.<sup>29</sup>

Our objective is to determine the list of industries subject to high and zero protection both in the US and EU for 1989 and 2001 respectively.<sup>30</sup> We use ad valorem rates for these purposes.<sup>31</sup> For each product at 4-digit disaggregation level we calculate a simple average of ad valorem rates applied to all 8-digit subsections within that product. We treat a given industry as protected if its average ad valorem tariff rate both in the US and the EU exceeded 10 percent. Similarly, a given 4-digit industry is considered to be unprotected if all the 8-digit subsections have zero tariffs (both ad valorem and non-ad valorem).

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<sup>29</sup> The 1989 EU tariff lines do not have MFN rates but instead conventional and autonomous rates are reported. We treat conventional tariff rates as MFN rates since they apply to the imports originating in WTO member countries. When conventional tariff rates do not exist for a product the autonomous rates are applied.

<sup>30</sup> The last two decades witnessed gradual decline in trade barriers. For industries with no protection we use 1989 data since industries that were not subject to trade barriers are also likely to be so in 2001. Applying the same logic we use 2001 tariff schedules for the list of highly protected industries.

<sup>31</sup> We cannot make use of non-ad valorem tariff rates since their use requires information on prices.

There are thirty three and forty one 4-digit industries that qualify as protected and unprotected, respectively. For each protected and unprotected industry, we obtain bilateral import data in 1990, 1995, and 2000 which cover 147 countries. The import data which come from the United Nations' COMTRADE database are disaggregated at the HS 1988/1992, 4-digit level and are deflated by US urban CPI (1982–1984 prices).<sup>32</sup> We define four broad product categories—food, clothing, footwear, and miscellaneous manufacturing and, then, sort protected and unprotected industries by categories.<sup>33</sup> Not surprisingly, all unprotected industries fall into the miscellaneous manufacturing category. For a given year and country pair we obtain the value of imports in each broad category by summing bilateral imports of all products within that category. Thus, for protected industries our data contain bilateral imports in food, clothing, footwear, and manufacturing. All industries with zero tariff rates are aggregated into unprotected manufacturing. The remaining variables are the same as those used in the aggregate estimations.

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<sup>32</sup> Since the list of unprotected industries is obtained using tariff line for 2001 which is reported in HS 1996 classification, we use the concordance from HS 1996 to HS 1988/1992.

<sup>33</sup> See Appendix Table 3 for the list of industries by level of protection and broad category.



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Table 1: MFN Tariff Cuts by Industrial Countries 1/

Implementation Period	Round	Weighted Tariff Reduction	Implied Tariff Level at period beginning 2/
1948–63	First five GATT rounds (1947–62) a/	36 percent	15.4
1968–72	Kennedy Round (1964–67) b/	37 percent	11.3
1980–87	Tokyo Round (1973–79) c/	33 percent	8.3
1995–99	Uruguay Round d/	38 percent	6.2

Source: WTO website: [www.wto.org/english/thewto\\_e/minist\\_e/min99\\_e/english/about\\_e/22fact\\_e.htm](http://www.wto.org/english/thewto_e/minist_e/min99_e/english/about_e/22fact_e.htm)

1/ Industrial products excluding petroleum.

2/ Derived from column 3 and applied to the 2001 tariff level of 4.5 percent reported in Finger, Ingco, and Reincke (1996).

a/ US only.

b/ US, Japan, EC(6), and UK.

c/ US, EU(9), Japan, Austria, Finland, Norway, Sweden and Switzerland.

d/ US, EU(12), Japan, Austria, Finland, Norway, Sweden, and Switzerland.

Table 2: Percentage of Tariffs “Bound” in the GATT Prior to Uruguay Round 1/

	Industrial Countries 2/	Developing Countries 3/
Industrial Products	84.7	31.8
All Merchandise Trade	80.2	30.1

Source: Table G.2 in Finger, Ingco, and Reincke (1996).

1/ The term “bound” refers to the commitment by countries in the WTO not to raise tariffs beyond a certain level. The fewer the “bound” tariffs, the less the commitment to liberalize trade barriers. The percentages are weighted averages over all product groups and by each country’s MFN imports.

2/ Includes Australia, Austria, Canada, Switzerland, European Union, Finland, Hong Kong, Japan, Norway, New Zealand, Singapore, Sweden, and the U.S.

3/ Includes 21 countries for which data are available in the WTO’s Integrated Data Base (see Table 1 in Finger, Ingco, and Reincke, 1996).

Table 3. Use of Trade Restrictions for Balance of Payments Reasons in the GATT/WTO: Selected Examples 1/

	<i>Years of Invocation 2/</i>	<i>Duration 2/</i>
Argentina	early 1970s–91	Approx. 20
Bangladesh	early 1970s–	30+
Brazil	1949–95	46
Chile	1949–late 70s	Approx. 30
Colombia	1985–92	7
Egypt	mid-1960s–95	Approx. 30
Ghana	late 1950s–late 80s	Approx. 30
India	1949–2000	51
Indonesia	late 1950s–early 80s	Approx. 30
Korea	1968–late 80s	Approx. 30
Nigeria	1984–98	14
Pakistan	1949–2001	52
Peru	late 1960s–91	Approx. 30
Philippines	1980–95	15
Sri Lanka	1949–98	49
Tunisia	mid-1960s–97	Approx. 30
Turkey	mid-1950s–97	Approx. 40

Sources: GATT/WTO documents and Eglin, *World Economy* (1987).

1/ This table does not necessarily indicate how long countries have actually been using quantitative restrictions; rather, it refers to how long countries have sought legal cover for them in the GATT/WTO under Articles XII:B and hence escaped multilateral pressure to eliminate the measures. The table does not include all countries that have invoked the balance-of-payments exceptions to justify trade restrictions.

2/ The years of invocation and duration are not exact.

Table 4. WTO Liberalization Commitments for Pre- and Post-WTO Acceding Countries

Country	Year of joining GATT/WTO	Industry		Agriculture
		Percent of tariffs subject to WTO commitments (i.e.	Average bound tariff rate on products subject to WTO	Average bound tariff rate on products subject to WTO
<i>Countries that joined before creation of WTO 1/</i>				
Argentina	1967	100.0	30.9	34.6
Bolivia	1990	100.0	40.0	40.0
Brazil	1948	100.0	30.9	50.3
Burkina Faso	1963	29.9	13.2	98.1
Burundi	1965	9.9	26.8	95.4
Cameroon	1963	0.1	50.0	80.0
Central African Rep.	1963	56.8	37.9	30.0
Chad	1963	0.2	75.4	80.0
Chile	1949	100.0	24.9	25.0
Colombia	1981	100.0	35.2	106.0
Congo, Dem. Rep.	1971	100.0	95.9	98.2
Congo, Rep.	1963	3.1	15.2	30.0
Cote d'Ivoire	1963	22.9	8.6	14.9
Czech and Slovak CU	1993	100.0	3.7	19.0
El Salvador	1991	97.1	31.7	33.8
Fiji	1993	45.0	40.0	40.4
Gambia, The	1965	0.5	56.4	102.4
Ghana	1957	1.2	34.7	97.1
Guyana	1966	100.0	50.0	100.0
Haiti	1950	87.6	16.9	21.7
Hong Kong	1986	22.8	0.0	0.0
Hungary	1973	93.6	6.1	2.7
India	1948	69.3	34.2	106.5
Indonesia	1950	92.3	36.9	61.2
Jamaica	1963	100.0	42.5	97.4
Kenya	1964	1.6	54.1	100.0
Korea, Rep. of	1967	89.8	6.9	42.3
Lesotho	1988	100.0	60.0	200.0
Macau	1991	12.0	0.0	0.0
Madagascar	1963	18.9	25.3	30.0
Malawi	1964	14.9	43.3	121.3
Malaysia	1957	79.3	8.9	56.8
Maldives	1983	96.6	35.2	47.8
Mali	1993	31.6	14.2	59.2
Mauritania	1963	30.0	10.5	37.7
Mexico	1986	100.0	33.3	26.2
Mozambique	1992	0.4	6.6	100.0
Niger	1963	96.2	38.1	83.1
Peru	1951	100.0	29.4	35.5
Philippines	1979	67.4	21.3	46.2
Poland	1967	92.8	8.5	45.7
Romania	1971	100.0	34.4	129.0
Rwanda	1966	100.0	91.5	74.4
Senegal	1963	100.0	30.0	29.8
Sierra Leone	1961	100.0	48.4	40.2
Singapore	1973	74.7	6.9	8.4
Sri Lanka	1948	9.2	17.9	50.0
Suriname	1978	15.1	17.0	19.9
Swaziland	1993	96.0	15.8	38.4
Tanzania	1961	0.1	120.0	120.0
Thailand	1982	67.4	27.3	33.8
Tunisia	1990	67.9	38.4	24.1
Turkey	1951	49.3	16.3	98.2
Togo	1964	0.6	80.0	80.0
Uganda	1962	2.9	50.4	77.7
Uruguay	1953	100.0	27.9	40.4
Venezuela	1990	100.0	31.3	71.9
Zambia	1982	4.0	42.7	123.3
Zimbabwe	1948	8.9	11.0	143.5
<b>Average</b>		<b>58.6</b>	<b>32.9</b>	<b>62.7</b>
<i>Countries that joined after creation of WTO</i>				
Albania	2000	100.0	6.6	9.4
Armenia	2003	100.0	7.5	14.8
Benin	1996	30.1	11.4	61.8
Bulgaria	1996	n.a.	12.6	34.9
China	2001	100.0	8.9	15.0
Chinese Taipei	2002	100.0	4.8	17.5
Croatia	2000	100.0	5.0	10.4
Djibouti	1994	100.0	40.0	47.6
Ecuador	1996	99.8	21.1	25.5
Estonia	1999	100.0	6.6	17.7
Georgia	2000	100.0	6.5	11.7
Guinea	1994	29.5	10.0	39.7
Guinea-Bissau	1994	97.3	50.0	40.0
Honduras	1994	100.0	32.6	32.3
Jordan	2000	100.0	15.0	25.0
Kyrgyz Republic	1998	99.9	6.7	12.3
Latvia	1999	100.0	9.3	33.6
Lithuania	2001	100.0	8.2	15.6
Macedonia	2003	100.0	6.1	15.0
Moldova	2001	100.0	6.0	-
Mongolia	1997	100.0	17.3	18.9
Oman	2000	100.0	11.0	30.5
Panama	1997	n.a.	11.5	26.1
Papua New Guinea	1994	100.0	30.0	43.2
Solomon Islands	1994	100.0	79.9	70.2
<b>Average</b>		<b>93.8</b>	<b>17.0</b>	<b>27.9</b>

1/ This list, while not exhaustive, includes most developing countries, including all the large ones.

Sources: Finger, Ingo, and Reincko (1996), Mattoo and Subramanian (2004), and Evenett et. al. (2004)

Table 4. Tariffs in Highly Protected Sectors in the United States and European Union, 1989 and 2001

Sector	1989				2001			
	EU		US		EU		US	
	Max.	Average	Max.	Average	Max.	Average	Max.	Average
Clothing	23	16	36	17	13	12	33	13
Food	180	25	25	14	75	17	350	28
Footwear	20	13	48	25	17	17	48	22
Misc. manufactures	28	12	38	14	22	13	38	14

Sources: United Nations, WITS Trade Database.

The average and maximum tariffs are unweighted averages of HS-8 digit tariff lines that make up the corresponding HS 4-digit categories listed in Appendix Table 3 and grouped under the 4 categories in this table.

Table 6. Core Regression. Panel, 1950 -2000

	(1)	(2)	(3)	(4)	(5)	(6)
a Log distance	-1.259** (0.020)	-1.247** (0.019)	-0.969** (0.017)	-0.965** (0.017)	-0.960** (0.017)	-0.955** (0.017)
b Common language	0.302** (0.037)	0.283** (0.036)	0.153** (0.031)	0.143** (0.031)	0.141** (0.031)	0.141** (0.031)
c Common border	0.103 (0.085)	0.131 (0.081)	0.015 (0.066)	0.024 (0.065)	0.022 (0.065)	0.02 (0.065)
d Common colony	0.635** (0.057)	0.609** (0.056)	0.589** (0.050)	0.576** (0.050)	0.578** (0.050)	0.568** (0.050)
e Current colony	0.608** (0.185)	0.628** (0.187)	0.749** (0.145)	0.757** (0.145)	0.753** (0.145)	0.772** (0.144)
f Ever colony	1.351** (0.086)	1.331** (0.084)	1.172** (0.066)	1.164** (0.065)	1.167** (0.065)	1.167** (0.065)
g Common country	0.236 (0.677)	0.153 (0.677)	-0.49 (0.543)	-0.519 (0.544)	-0.532 (0.546)	-0.534 (0.545)
h Common currency	0.878** (0.106)	0.880** (0.105)	0.605** (0.082)	0.614** (0.082)	0.635** (0.082)	0.636** (0.082)
i Free trade area	0.661** (0.097)	1.650** (0.105)	0.672** (0.060)	1.165** (0.073)	1.156** (0.073)	1.153** (0.073)
j Industrial country importer granting GSP	0.234** (0.075)	2.149** (0.146)	-0.055 (0.059)	0.806** (0.096)	0.789** (0.096)	0.769** (0.097)
k Importer WTO member	-0.252** (0.044)		0.056 (0.036)			
l Industrial country importer WTO member		1.865** (0.144)		1.010** (0.092)		
m Developing country importer WTO member		-0.313** (0.043)		0.017 (0.036)		
n Industrial country importer and partner WTO member					1.031** (0.092)	
o Industrial country importer WTO member, but not partner					0.866** (0.104)	0.832** (0.104)
p Developing country importer and partner WTO members					-0.028 (0.036)	-0.048 (0.036)
q Developing country importer WTO member, but not partner					0.108** (0.054)	0.090** (0.054)
r Industrial country importer WTO member, partner industrial country and WTO member						1.081** (0.093)
s Industrial country importer WTO member, partner developing country and WTO member						0.923** (0.099)
Time-varying importer and exporter fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	76094	76094	55831	55831	55831	55831
Sample	All imports		All Imports excluding values less than \$500,000			
R-squared	0.74	0.75	0.75	0.75	0.75	0.75
Root mean square error	1.679	1.673	1.113	1.110	1.110	1.109
F-test <sup>1/</sup>	240	142,136, 7.3		125	10.7,8.2	8.3, 8.5, 65.6
Prob>F <sup>1/</sup>		0.00	0.00, 0.00, 0.01	0.00	0.00, 0.00	0.00, 0.00, 0.00

1/ Column 2 & 4:  $H_0: l=m$

Column 3:  $H_0: i=j, i=k, j=k$

Column 5:  $H_0: n=o, p=q$ .

Column 6:  $H_0: r=s, p=q, o=s$

Regressand: log real imports. Robust standard errors (clustered by country-pairs) reported below coefficient estimates.

\* significant at 10%; \*\* significant at 5%.

Table 7. Cross-Section Results

	1950	1955	1960	1965	1970	1975	1980	1985	1990	1995	2000
Free trade area	n.a.	n.a.	n.a.	1.20**	1.99**	1.81**	1.96**	1.01**	1.08**	0.84**	0.72**
	n.a.	n.a.	n.a.	(0.25)	(0.21)	(0.17)	(0.17)	(0.16)	(0.15)	(0.12)	(0.09)
Industrial country importer granting GSP	n.a.	n.a.	n.a.	n.a.	1.14**	2.18**	2.18**	0.84**	0.52**	0.53**	0.52**
	n.a.	n.a.	n.a.	n.a.	(0.34)	(0.20)	(0.19)	(0.19)	(0.17)	(0.15)	(0.11)
Industrial country importer WTO member	1.30**	0.10	0.47**	1.38**	1.90**	2.18**	2.28**	1.11**	0.87**	0.65**	0.71**
	(0.32)	(0.50)	(0.13)	(0.27)	(0.24)	(0.19)	(0.18)	(0.19)	(0.17)	(0.15)	(0.10)
Developing country importer WTO member	-0.57**	-0.59**	-0.47**	0.04	0.38	0.02	0.08	-0.02	-0.13**	-0.10*	0.07
	(0.28)	(0.27)	(0.22)	(0.45)	(0.23)	(0.07)	(0.07)	(0.06)	(0.06)	(0.05)	(0.05)
Importer and exporter fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1502	1989	3166	3995	4738	5688	5968	6316	6715	7674	6638
R-squared	0.74	0.74	0.73	0.74	0.74	0.72	0.73	0.74	0.77	0.78	0.81
Root mean square error	1.021	1.044	1.057	1.050	1.055	1.174	1.172	1.125	1.093	1.093	1.062

Regressand: log real imports.

Robust standard errors reported below coefficient estimates. Intercepts and other (standard) covariates not reported for ease of presentation. \* significant at 10%; \*\* significant at 5%.

Table 8. Robustness Checks: Panel, 1950-2000

<i>Specification</i>	<i>FTA</i>	<i>GSP</i>	<i>Industrial member</i>	<i>WTO Developing member</i>
Rose definition of GSP and WTO dummies (i.e. not defined mutually exclusively)	0.755** (0.046)	-0.097** (0.032)	0.336** (0.058)	0.017 (0.025)
Country-pair random effects without importer and exporter fixed effects	1.076** (0.036)	0.287** (0.028)	0.401** (0.024)	0.070** (0.015)
Country-pair random effects with importer and exporter fixed effects	0.945** (0.039)	0.188** (0.038)	0.306** (0.032)	0.137** (0.016)
Country-pair fixed effects	0.894** (0.059)	0.142** (0.063)	0.271** (0.054)	0.175** (0.027)
Excluding values of log imports 3 s.d. away from mean	1.162** (0.073)	0.820** (0.096)	1.022** (0.092)	0.016 (0.036)
Excluding values of log imports 2 s. d. away from mean	1.151** (0.074)	0.721** (0.098)	0.916** (0.094)	0.02 (0.036)
Helpman - Melitz - Rubinstein (2005) regression (correcting for non-zero trade selection and for firm heterogeneity)	1.693** (0.142)	2.113** (0.154)	1.808** (0.145)	-0.349** (0.045)

Regressand: log real imports

Robust standard errors (clustered by country-pairs) reported below coefficient estimates. Intercepts and coefficients for standard covariates not reported for ease of presentation. All regressions include time effects and, with the exception of the regression with country-pair random effects, also include importer and exporter fixed effects. As noted, the specification in the first row includes time-varying exporter and importer fixed effects.

\* significant at 10%; \*\* significant at 5%.



Table 9. New and Old Developing Country Members in the WTO <sup>1/</sup>

	2000						1995				
Free trade area	0.716**	0.704**	0.706**	0.708**	0.709**	0.712**	0.851**	0.854**	0.853**	0.853**	0.846**
	(0.085)	(0.086)	(0.086)	(0.086)	(0.086)	(0.086)	(0.123)	(0.123)	(0.123)	(0.123)	(0.122)
Industrial country granting GSP	0.514**	0.502**	0.505**	0.508**	0.510**	0.514**	0.541**	0.543**	0.541**	0.542**	0.537**
	(0.114)	(0.115)	(0.114)	(0.114)	(0.115)	(0.115)	(0.153)	(0.153)	(0.153)	(0.153)	(0.153)
Industrial country WTO member	0.710**	0.697**	0.700**	0.702**	0.703**	0.706**	0.659**	0.662**	0.661**	0.661**	0.655**
	(0.104)	(0.104)	(0.104)	(0.104)	(0.104)	(0.104)	(0.146)	(0.146)	(0.146)	(0.146)	(0.145)
Old member (1990)	-0.012						-0.116**				
	(0.058)						(0.057)				
New member (1990)	0.295**						-0.024				
	(0.079)						(0.082)				
Old member (1991)		0.011						-0.114**			
		(0.058)						(0.056)			
New member (1991)		0.282**						0.002			
		(0.087)						(0.095)			
Old member (1992)			0.026						-0.116**		
			(0.057)						(0.055)		
New member (1992)			0.264**						0.034		
			(0.096)						(0.105)		
Old member (1993)				0.032						-0.114**	
				(0.057)						(0.055)	
New member (1993)				0.252**						0.028	
				(0.098)						(0.108)	
Old member (1994)					0.047						-0.104*
					(0.056)						(0.055)
New member (1994)					0.210**						-0.011
					(0.107)						(0.131)
Old member (1995)						0.061					
						(0.056)					
New member (1995)						0.171					
						(0.126)					
Importer and exporter fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Number of observations with new members	712	595	531	512	360	217	568	433	388	374	204
F-test for equality of coefficients <sup>2/</sup>	14.76	9.19	5.97	4.84	2.26	0.75	1.28	1.55	2.13	1.77	0.53
Prob>F	0.000	0.002	0.015	0.028	0.133	0.387	0.258	0.213	0.145	0.183	0.468
R-squared	0.81	0.81	0.81	0.81	0.81	0.81	0.78	0.78	0.78	0.78	0.78
Observations	6638	6638	6638	6638	6638	6638	7674	7674	7674	7674	7674
Root mean square error	1.062	1.062	1.062	1.062	1.062	1.093	1.093	1.093	1.093	1.093	1.093

1/ Old and new members refer to developing countries in the WTO; cut-off date for defining these in brackets.

2/ Between old and new members.

Regressand: log real imports. Robust standard errors reported below coefficient estimates. Intercepts and coefficients for standard covariates not reported for ease of presentation. \* significant at 10%; \*\* significant at 5%.

Table 10. Tariff Bindings and Reductions of Developing Countries in the Uruguay Round 1/

Percent of lines bound pre-Uruguay Round	30.1
Percent of lines bound post-Uruguay Round	80.8
Percent of lines unaffected by tariff reductions in Uruguay Round	72.3
Percentage tariff reduction on lines affected by tariff reductions	8.1
Post-Uruguay Round applied rate	13.3
Post-Uruguay Round bound rate	25.2

Source: Finger, Ingco, and Reincke (1996).

1/ Includes 21 countries for which data are available in the WTO's Integrated Data Base (see Table 1 in Finger, Ingco, and Reincke, 1996).

Table 11. Sectoral Results, Panel, 1990-2000  
(Seemingly Unrelated Regressions)

	Liberalized manufacturing <sup>1/</sup>	Protected manufacturing <sup>2/</sup>	Clothing	Footwear	Food
Free trade area	0.958** (0.150)	0.413** (0.149)	0.534** (0.172)	0.191 (0.225)	-0.13 (0.240)
GSP, excluding FTA	1.012** (0.199)	-0.109 (0.197)	0.539** (0.228)	-0.988** (0.298)	-0.543* (0.318)
Industrial country WTO member	1.065** (0.176)	0.352** (0.174)	0.095 (0.201)	-0.475* (0.263)	-1.387** (0.281)
Developing country WTO member	0.277** (0.103)	-0.277** (0.101)	-0.14 (0.117)	-0.392** (0.154)	-0.933** (0.164)
Time-varying importer and exporter fixed effects	Yes	Yes	Yes	Yes	Yes
Chi-square test for equality of coefficients <sup>3/</sup>		13.2	18.34	32.42	66.46
Prob>Chi-square		0.00	0.00	0.00	0.00
Observations	4044	4044	4044	4044	4044
Root mean squared error	1.247	1.234	1.428	1.869	1.993
R-square	0.829	0.824	0.810	0.684	0.631

1/ Sectors with tariff rates higher than 5 percent in 1989, and zero in 2000 for both US and EU.

2/ Sectors with tariff rates higher than 5 percent in both 1989 and 2000, and tariff rates decreased by less than 2 percentage points between 1989-2000, excluding clothing and footwear.

3/ Between industrial country dummy in unprotected manufacturing and that in each of the other sectors.

Regressand: log real imports. Robust standard errors (clustered by country-pairs) reported below coefficient estimates.

Intercepts and coefficients for all the standard covariates listed in Table 5 are not reported for ease of presentation.

Table 11. Sectoral Results, Panel, 1990-2000  
(Seemingly Unrelated Regressions)

	Liberalized manufacturing <sup>1/</sup>	Protected manufacturing <sup>2/</sup>	Clothing	Footwear	Food
Free trade area	0.958** (0.150)	0.413** (0.149)	0.534** (0.172)	0.191 (0.225)	-0.13 (0.240)
GSP, excluding FTA	1.012** (0.199)	-0.109 (0.197)	0.539** (0.228)	-0.988** (0.298)	-0.543* (0.318)
Industrial country WTO member	1.065** (0.176)	0.352** (0.174)	0.095 (0.201)	-0.475* (0.263)	-1.387** (0.281)
Developing country WTO member	0.277** (0.103)	-0.277** (0.101)	-0.14 (0.117)	-0.392** (0.154)	-0.933** (0.164)
Time-varying importer and exporter fixed effects	Yes	Yes	Yes	Yes	Yes
Chi-square test for equality of coefficients <sup>3/</sup>		13.2	18.34	32.42	66.46
Prob>Chi-square		0.00	0.00	0.00	0.00
Observations	4044	4044	4044	4044	4044
Root mean squared error	1.247	1.234	1.428	1.869	1.993
R-square	0.829	0.824	0.810	0.684	0.631

1/ Sectors with tariff rates higher than 5 percent in 1989, and zero in 2000 for both US and EU.

2/ Sectors with tariff rates higher than 5 percent in both 1989 and 2000, and tariff rates decreased by less than 2 percentage points between 1989-2000, excluding clothing and footwear.

3/ Between industrial country dummy in unprotected manufacturing and that in each of the other sectors.

Regressand: log real imports. Robust standard errors (clustered by country-pairs in the case of the panel estimation) reported below coefficient estimates. Intercepts and coefficients for all the standard covariates listed in Table 5 are not reported for ease of presentation.

Appendix Table 1: Descriptive Statistics

Variable	<i>Mean</i>	<i>Std. Dev.</i>	<i>Min</i>	<i>Max</i>
Log imports	11.97	2.18	8.52	21.01
Log distance	8.09	0.84	3.78	9.42
Log real GDP importing country	24.37	2.10	17.31	29.41
Log real GDP partner country	24.61	1.96	17.31	29.41
Log real per capita GDP importing country	8.15	1.19	4.33	10.56
Log real per capita GDP partner country	8.19	1.15	4.33	10.71
Common language	0.22	0.42	0	1
Common land border	0.04	0.20	0	1
Common colony	0.07	0.26	0	1
Current colony	0.00	0.05	0	1
Ever colony	0.03	0.18	0	1
Common country	0.00	0.02	0	1
Common currency	0.01	0.12	0	1
Free trade area	0.03	0.17	0	1
GSP (excl. FTAs)	0.14	0.35	0	1
Developing country WTO member (excl. FTAs and GSP)	0.19	0.39	0	1
Industrial country WTO member (excl. FTAs and GSP)	0.27	0.45	0	1

55831 observations, spanning every five years between 1950 and 2000

Sources: Rose (2002a) and IMF's Direction of Trade Statistics (see Appendix).

Appendix Table 2. List of Countries in the Sample  
(Dates of GATT/WTO accession in parenthesis)

Industrial Countries		
<sup>D</sup> AUSTRALIA (1948)	<sup>D</sup> GREECE (1950)	<sup>D</sup> NORWAY (1948)
<sup>D</sup> AUSTRIA (1951)	<sup>D</sup> ICELAND (1968)	<sup>D</sup> PORTUGAL (1962)
<sup>D</sup> BELGIUM (1948)	<sup>D</sup> IRELAND (1967)	<sup>D</sup> SPAIN (1963)
<sup>D</sup> CANADA (1948)	<sup>D</sup> ITALY (1950)	<sup>D</sup> SWEDEN (1950)
<sup>D</sup> DENMARK (1950)	<sup>D</sup> JAPAN (1955)	<sup>D</sup> SWITZERLAND (1966)
<sup>D</sup> FINLAND (1950)	<sup>D</sup> LUXEMBOURG (1948)	<sup>D</sup> UNITED KINGDOM (1948)
<sup>D</sup> FRANCE (1948)	<sup>D</sup> NETHERLANDS (1948)	<sup>D</sup> UNITED STATES (1948)
<sup>D</sup> GERMANY (1951)	<sup>D</sup> NEW ZEALAND (1948)	
Developing Countries and Territories		
<sup>#</sup> <sup>D</sup> ALBANIA (2000)	<sup>D</sup> GHANA (1957)	<sup>#</sup> <sup>D</sup> PANAMA (1997)
<sup>D</sup> ALGERIA	<sup>#</sup> <sup>D</sup> GRENADA (1994)	<sup>#</sup> <sup>D</sup> PAPUA N. GUINEA (1994)
<sup>#</sup> ANGOLA (1994)	<sup>#</sup> <sup>D</sup> GUATEMALA (1991)	<sup>#</sup> <sup>D</sup> PARAGUAY (1994)
ANTIGUA AND BARBUDA (1987)	<sup>#</sup> <sup>D</sup> GUINEA (1994)	<sup>D</sup> PERU (1951)
<sup>D</sup> ARGENTINA (1967)	<sup>#</sup> <sup>D</sup> GUINEA-BISSAU (1994)	<sup>D</sup> PHILIPPINES (1979)
<sup>D</sup> ARMENIA	<sup>D</sup> GUYANA (1966)	<sup>D</sup> POLAND (1967)
<sup>D</sup> AZERBAIJAN	<sup>D</sup> HAITI (1950)	<sup>#</sup> QATAR (1994)
<sup>D</sup> BAHAMAS	<sup>#</sup> <sup>D</sup> HONDURAS (1994)	REUNION (1948)
<sup>#</sup> <sup>D</sup> BAHRAIN (1993)	<sup>D</sup> HONG KONG SAR (1986)	<sup>D</sup> ROMANIA (1971)
<sup>D</sup> BANGLADESH (1972)	<sup>D</sup> HUNGARY (1973)	<sup>D</sup> RUSSIA
<sup>D</sup> BARBADOS (1967)	<sup>D</sup> INDIA (1948)	<sup>D</sup> RWANDA (1966)
<sup>D</sup> BELARUS	<sup>D</sup> INDONESIA (1950)	<sup>D</sup> SAMOA
<sup>D</sup> BELIZE (1983)	<sup>D</sup> IRAN, ISLAMIC REPUBLIC OF	SAO TOME & PRINCIPE
<sup>#</sup> <sup>D</sup> BENIN (1996)	IRAQ	<sup>D</sup> SAUDI ARABIA
BERMUDA (1948)	<sup>D</sup> ISRAEL (1962)	<sup>D</sup> SENEGAL (1963)
BHUTAN	<sup>D</sup> JAMAICA (1963)	<sup>D</sup> SEYCHELLES
<sup>#</sup> <sup>D</sup> BOLIVIA (1990)	<sup>#</sup> <sup>D</sup> JORDAN (2000)	SIERRA LEONE (1961)
<sup>D</sup> BOTSWANA (1987)	<sup>D</sup> KAZAKHSTAN	<sup>D</sup> SINGAPORE (1973)
<sup>D</sup> BRAZIL (1948)	<sup>D</sup> KENYA (1964)	<sup>#</sup> <sup>D</sup> SLOVAK REPUBLIC (1993)
<sup>#</sup> <sup>D</sup> BULGARIA (1996)	<sup>D</sup> KIRIBATI	<sup>#</sup> <sup>D</sup> SLOVENIA (1994)
<sup>D</sup> BURKINA FASO (1963)	<sup>D</sup> KOREA(R)(1967)	<sup>#</sup> SOLOMON ISLANDS (1994)
<sup>D</sup> BURUNDI (1965)	<sup>D</sup> KUWAIT (1963)	SOMALIA
CAMBODIA	<sup>#</sup> <sup>D</sup> KYRQYZ REPUBLIC (1998)	<sup>D</sup> SOUTH AFRICA (1948)
<sup>D</sup> CAMEROON (1963)	LAO PEOPLE'S DEM. REP.	<sup>D</sup> SRI LANKA (1948)
CAPE VERDE	<sup>#</sup> <sup>D</sup> LATVIA (1999)	<sup>#</sup> <sup>D</sup> ST. KITTS&NEVIS (1994)
<sup>D</sup> CENTRAL AFRICAN REP. (1963)	LESOTHO (1988)	<sup>#</sup> <sup>D</sup> ST. LUCIA (1993)
<sup>D</sup> CHAD (1963)	LIBERIA	<sup>#</sup> <sup>D</sup> ST. VINCENT AND THE GRENADINES (1993)
<sup>D</sup> CHILE (1949)	LIBYAN ARAB JAMAHIRIYA	<sup>D</sup> SUDAN
<sup>#</sup> <sup>D</sup> CHINA (2001)	<sup>#</sup> <sup>D</sup> LITHUANIA (2001)	<sup>D</sup> SURINAME (1978)
<sup>D</sup> COLOMBIA (1981)	<sup>D</sup> MACEDONIA, former YUGOSLAV	
	REPUBLIC OF	
<sup>D</sup> COMOROS (1948)	<sup>D</sup> MADAGASCAR (1963)	<sup>#</sup> <sup>D</sup> SWAZILAND (1993)
CONGO, DEM. REP. OF (ZAIRE) (1971)	<sup>D</sup> MALAWI (1964)	<sup>D</sup> SYRIA
<sup>D</sup> CONGO, REP. OF (1963)	<sup>D</sup> MALAYSIA (1957)	TAJKISTAN
<sup>#</sup> <sup>D</sup> COSTA RICA (1990)	<sup>D</sup> MALDIVES (1983)	<sup>D</sup> TANZANIA (1961)
<sup>D</sup> COTE D'IVOIRE (IVORY COAST) (1963)	<sup>#</sup> <sup>D</sup> MALI (1993)	<sup>D</sup> THAILAND (1982)
<sup>#</sup> <sup>D</sup> CROATIA (2000)	<sup>D</sup> MALTA (1964)	<sup>D</sup> TOGO (1964)
<sup>D</sup> CYPRUS (1963)	MAURITANIA (1963)	<sup>D</sup> TONGA
<sup>#</sup> <sup>D</sup> CZECH REPUBLIC (1993)	<sup>D</sup> MAURITIUS (1970)	<sup>D</sup> TRINIDAD&TOBAGO (1962)
<sup>#</sup> DJIBOUTI (1994)	MYANMAR (1948)	<sup>#</sup> <sup>D</sup> TUNISIA (1990)
<sup>#</sup> <sup>D</sup> DOMINICA (1993)	<sup>D</sup> MEXICO (1986)	<sup>D</sup> TURKEY (1951)
<sup>D</sup> DOMINICAN REP. (1950)	<sup>#</sup> <sup>D</sup> MOLDOVA (2001)	<sup>D</sup> TURKMENISTAN
<sup>#</sup> <sup>D</sup> ECUADOR (1996)	<sup>#</sup> <sup>D</sup> MONGOLIA (1997)	<sup>D</sup> UGANDA (1962)
<sup>D</sup> EGYPT (1970)	<sup>D</sup> MOROCCO (1987)	<sup>#</sup> <sup>D</sup> UKRAINE
<sup>#</sup> <sup>D</sup> EL SALVADOR (1991)	<sup>#</sup> <sup>D</sup> MOZAMBIQUE (1992)	<sup>#</sup> <sup>D</sup> UNITED ARAB EMIRATES (1994)
EQUATORIAL GUINEA	<sup>#</sup> <sup>D</sup> NAMIBIA (1992)	<sup>D</sup> URUGUAY (1953)
<sup>#</sup> <sup>D</sup> ESTONIA (1999)	<sup>D</sup> NEPAL	UZBEKISTAN
<sup>D</sup> ETHIOPIA	<sup>D</sup> NICARAGUA (1950)	<sup>D</sup> VANUATU
<sup>#</sup> <sup>D</sup> FIJI (1993)	<sup>D</sup> NIGER (1963)	<sup>#</sup> <sup>D</sup> VENEZUELA (1990)
<sup>D</sup> GABON (1963)	<sup>D</sup> NIGERIA (1960)	<sup>D</sup> VIETNAM
<sup>D</sup> GAMBIA, THE (1965)	<sup>#</sup> <sup>D</sup> OMAN (2000)	<sup>D</sup> YEMEN, REPUBLIC OF
<sup>#</sup> <sup>D</sup> GEORGIA (2000)	<sup>D</sup> PAKISTAN (1948)	YUGOSLAVIA, SOCIALIST FED. REP. OF (1966)
		<sup>D</sup> ZAMBIA (1982)
		<sup>D</sup> ZIMBABWE (1948)

<sup>#</sup>: Accession after 1990.<sup>D</sup>: Countries used in the sector-level regressions (reported in Table 11)Sources: Rose (2002a) and WTO website on accession ([http://www.wto.org/english/thewto\\_e/acc\\_e/acc\\_e.htm](http://www.wto.org/english/thewto_e/acc_e/acc_e.htm))

Appendix Table 3. List of sectors by classification

HS 1988/1992	DESCRIPTION	HS 1988/1992	DESCRIPTION
<b>FOOD</b>		<b>PROTECTED MANUFACTURING</b>	
0704	Cabbages, cauliflowers, kohlrabi, kale..etc.	2823	Titanium oxides
0710	Vegetables, frozen	3202	Synthetic organic and inorganic tanning substan
1517	Margarine; edible preparations of aimal or veg	3601	Propellent powders
1901	Malt extract; food preparations of flour, etc.	3814	Organic composite solvents and thinners, nes
2002	Tomatoes prepared or preserved	3821	Prepared culture media for development of micro
2403	Other manufactured tobacco and subsitutes	3907	Polyethers and epoxide resins; polyesters
		3912	Cellulose and its chemical derivatives
		3922	Baths, shower-baths... and similar
		3925	Builders' ware of plastics, nes
5111	Woven fabrics of carded wool or of carded fine	6912	Ceramic table/kitchenware,household
5112	Woven fabrics of combed wool or of combed fine	7013	Glass articles used for indoor decorator
6101	Men's or boys' overcoats... and similar article	7608	Aluminium tubes and pipes
6102	Woman's or girls' overcoats and similar article	7609	Aluminium tube or pipe fittings
6103	Men's or boys' suits, ensembles, etc, knitted	7610	Aluminium structures(excluding of heading No.94)
6104	Women's or girls' suits, ensembles, etc, knitted	7613	Aluminium containers for compressed
6105	Men's or boys' shirts, knitted or crocheted	7614	Stranded wire,cables,etc.the like,of aluminium
6106	Women's or girls' blouses, etc, knitted or crocheted	8108	Titanium and articles thereof
6109	T-shirts, singlets and other vests, kitted or crocheted	8482	Ball or roller bearings
6110	Jerseys, pullovers, cardigans and similar articles	8704	Motor vehicles for the transport of goods
6111	Babies' garments and clothing accessories, knitted		
6112	Track-suits, ski-suits and swimwear, kitted or crocheted		
6114	Other garments, kitted or crocheted		
6115	Panty hose, tights, etc, and footwear, knitted		
6203	Men's or boys' suits, ensembles, jackets, blazers	2937	<b>LIBERALIZED MANUFACTURING</b>
6204	Women's or girls' suits, ensembles, jackets, blazers		Hormones; derivatives thereof used
6206	Women's or girls' blouses, shirts and shirt-blouses	3004	Medicaments of mixed or unmixed products
6209	Bables' garments and clothing accessories	3406	Candles, tapers and the like
6211	Track suits, ski suits and swimwear	3407	Modelling pastes; dental wax and impression com
6303	Curtains (incl. drapes) and interior blinds	8517	Electrical telephonic,telegraphic,for carriers
6308	Sets of woven fabric and yarn	8532	Electrical capacitors,fixed,variable or adjustable
		8533	Electical resistors(rheostats,potentiometers)
		8534	Printed circuits
		9018	Medical instruments,veterinary equipments,elect
		9021	Orthopaedic appliances,hearing aids,to compensation
<b>FOOTWEAR</b>			
6401	Waterproof footwear		
6402	Other footwear with outer soles and upper of rubber		
6404	Footwear with rubber, plastic, leather soles		

Source: United Nations' TRAINS database.

## Appendix Table 4. List of Free Trade Areas/Customs Unions

Data on free trade areas and customs union (FTAs) for the years 1950–1995 comes from Rose (2004a). For 2000, we use the WTO's website on regional agreements ([www.wto.org/english/tratop\\_e/region\\_e/regfac\\_e.htm](http://www.wto.org/english/tratop_e/region_e/regfac_e.htm)) by selecting all agreements notified to the WTO whose date of entry into force fell between 1996 and 2000. Thus, the FTAs covered in our sample include:

ASEAN	PATCRA
EEC/EC/EU	ANZCERTA
US-Israel	CACM
NAFTA	SPARTECA
CARICOM	Mercosur
Turkey - Slovenia	EC - Tunisia
EC - Slovenia	Estonia - Turkey
EC - Lithuania	Slovenia - Israel
EC - Estonia	Poland - Israel
EC - Latvia	Estonia - Faroe Islands
Chile - Mexico	Czech Republic - Estonia
Chile - Mexico	Slovak Republic - Estonia
Mexico - Israel	Lithuania - Turkey
Georgia - Armenia	Israel - Turkey
Georgia - Azerbaijan	Romania - Turkey
Georgia - Kazakhstan	Hungary - Turkey
Georgia - Turkmenistan	Czech Republic - Israel
Georgia - Ukraine	Slovak Republic - Israel
Latvia - Turkey	Slovenia - Croatia
Turkey - Former Yugoslav Republic of Macedonia	Hungary - Israel
EC - South Africa	CEFTA accession of Romania
EC - Morocco	CEFTA accession of Slovenia
EC - Israel	Poland - Lithuania
EC - Mexico	Slovak Republic - Latvia
Estonia - Ukraine	Slovak Republic - Lithuania
Poland - Turkey	Canada - Chile
EFTA - Morocco	Czech Republic - Latvia
Bulgaria - Former Yugoslav Republic of Macedonia	Czech Republic - Lithuania
Hungary - Latvia	Canada -Chile
Hungary - Lithuania	Slovenia - Estonia
Poland - Latvia	Slovenia - Former Yugoslav Republic of Macedonia
Poland - Faroe Islands	Slovenia - Latvia
Kyrgyz Republic - Moldova	Slovenia - Lithuania
Kyrgyz Republic - Ukraine	EC - Faroe Islands
Kyrgyz Republic - Uzbekistan	Canada - Israel
Bulgaria - Turkey	EC - Slovenia
Czech Republic - Turkey	EFTA - Estonia
EAEC	EFTA - Latvia
CEFTA accession of Bulgaria	EFTA -Lithuania
Slovak Republic - Turkey	EC - Turkey

Sources: Rose (2002a) and WTO's website on regional agreements ([www.wto.org/english/tratop\\_e/region\\_e/regfac\\_e.htm](http://www.wto.org/english/tratop_e/region_e/regfac_e.htm))

Appendix Table 5. Composition of Sample in Core Specification 1/  
(Corresponding to columns 3-6 in Table 6)

	Number of Observations
FTA	1,565
of which industrial country importers	823
GSP (excluding FTA)	7,895
Industrial country importing members of WTO (excl. GSP and FTA)	10,452
Developing country importing members of WTO (excl. GSP and FTA)	15,271
Other (=developing countries not members of the WTO)	19,825
Total	55,831
Memorandum items	
GSP including FTAs	8,053
Industrial country WTO importers	17,825
of which: in FTAs	823
in GSP	8,053
in FTAs and GSP	158
Developing country WTO importers	21,176
of which: in FTAs	518

1/ That is, for sample comprising trade values greater than \$500,000.

Appendix Table 6. Sensitivity of Core Specification of Rose (2002a)

Log distance	-1.111	-1.308	-1.108	-1.305
	<i>0.023</i>	<i>0.024</i>	<i>0.023</i>	<i>0.024</i>
Log product real gdp	0.928	0.183	0.926	0.164
	<i>0.010</i>	<i>0.055</i>	<i>0.010</i>	<i>0.056</i>
Log product real per capita GDP	0.268	0.378	0.269	0.401
	<i>0.014</i>	<i>0.052</i>	<i>0.014</i>	<i>0.052</i>
Common language	0.365	0.296	0.360	0.295
	<i>0.041</i>	<i>0.046</i>	<i>0.041</i>	<i>0.046</i>
Common border	0.504	0.256	0.501	0.253
	<i>0.111</i>	<i>0.111</i>	<i>0.110</i>	<i>0.111</i>
Landlocked	-0.333	-0.451	-0.333	-0.407
	<i>0.032</i>	<i>0.308</i>	<i>0.032</i>	<i>0.309</i>
Island	0.059	0.577	0.059	0.444
	<i>0.037</i>	<i>0.214</i>	<i>0.037</i>	<i>0.214</i>
Log product area	-0.097	0.504	-0.095	0.514
	<i>0.008</i>	<i>0.040</i>	<i>0.008</i>	<i>0.040</i>
Common colony	0.524	0.531	0.515	0.520
	<i>0.069</i>	<i>0.068</i>	<i>0.069</i>	<i>0.068</i>
Current colony	0.920	0.645	0.874	0.556
	<i>0.216</i>	<i>0.253</i>	<i>0.215</i>	<i>0.251</i>
Ever colony	1.168	1.268	1.179	1.280
	<i>0.117</i>	<i>0.115</i>	<i>0.117</i>	<i>0.116</i>
Common country	0.224	0.374	0.236	0.444
	<i>0.971</i>	<i>0.605</i>	<i>0.965</i>	<i>0.601</i>
Common currency	1.226	1.324	1.212	1.307
	<i>0.125</i>	<i>0.130</i>	<i>0.125</i>	<i>0.130</i>
Free trade area	0.858	0.739	1.031	1.078
	<i>0.092</i>	<i>0.102</i>	<i>0.109</i>	<i>0.115</i>
GSP 1/	0.800	0.605		
	<i>0.032</i>	<i>0.033</i>		
One country in WTO 1/	0.012	0.076		
	<i>0.052</i>	<i>0.047</i>		
Both countries in WTO 1/	0.026	0.131		
	<i>0.056</i>	<i>0.054</i>		
GSP 2/			0.838	0.840
			<i>0.063</i>	<i>0.062</i>
One country in WTO 2/			-0.025	0.100
			<i>0.053</i>	<i>0.049</i>
Both countries in WTO 2/			0.076	0.303
			0.058	0.054
Country fixed effects	No	Yes	No	Yes
Time effects	Yes	Yes	Yes	Yes
R-square	0.653	0.708	0.653	0.708
Number of observations	51400	51400	51400	51400
Root mean square error	1.961	1.802	1.960	1.801

1/ As defined in Rose (2002a)

2/ Defined mutually exclusively. That is, GSP excludes common FTA country pairs, and WTO dummies exclude common FTA and GSP country-pairs

Regressand log real trade. Robust standard errors (clustered by country pairs) reported below coefficient estimates. Columns 1 and 2 correspond to the specification in columns 1 and 4 in Table 1 of Rose (2004a).