

Executive Summary

Greater than the sum of its parts?

Does Austria profit from a widening network of EU free trade agreements?

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With more than 40 free trade agreements (FTAs) in place, the European Union displays one of the vastest trade agreement networks in the world. There are reasons to assume that the impact of an FTA network goes beyond the positive trade effects expected from the conclusion of a single agreement. Most of the recently established FTAs do aim for the reduction of tariffs, but increasingly also focus on standards with respect to product quality, but also in areas such as labour, safety, climate or consumer protection. The more countries agree to adhere to international standards and rules, the greater should be the economic potential for companies, whose domestic regulations are already aligned with these internationally agreed upon standards. Furthermore, as free trade agreements lower trade costs between participating countries, they affect the productivity and competitiveness of firms who distribute various stages of production across different countries. As such, the effect of an FTA also depends on the network of agreements surrounding around it and on whether a country is a first mover to foster its standards in international fora.

The global network of free trade agreements has expanded extensively and become more interconnected over time. In Figures 1 and 2 we show a visual representation of the network of free trade agreements at two different points in time¹. In 1977, the EU members (depicted as a single node) formed the core of the global FTA network. Many connections rooted in former colonial ties. Some separate FTA networks existed in Latin America, Asia and Oceania. However, they were not connected

Figure 1 / FTA Network 1977

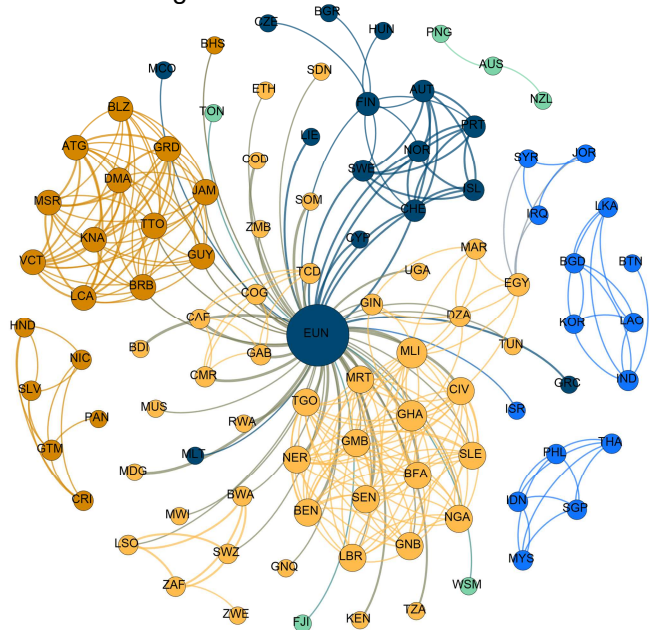
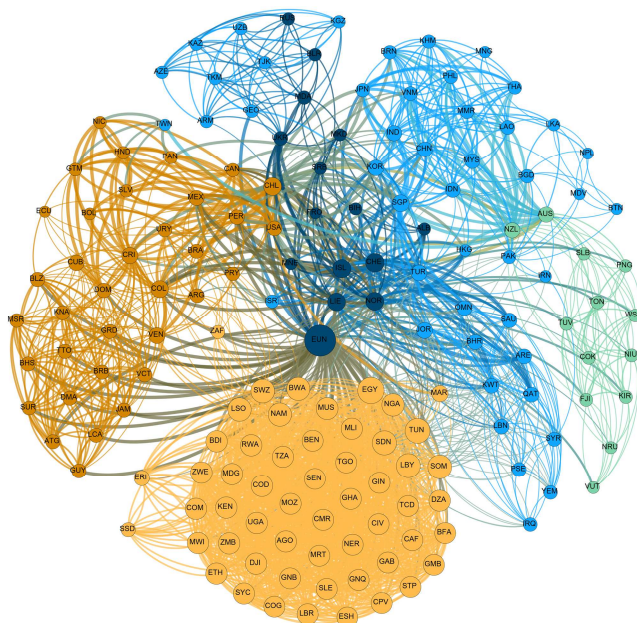


Figure 2 / FTA Network 2017



to each other.

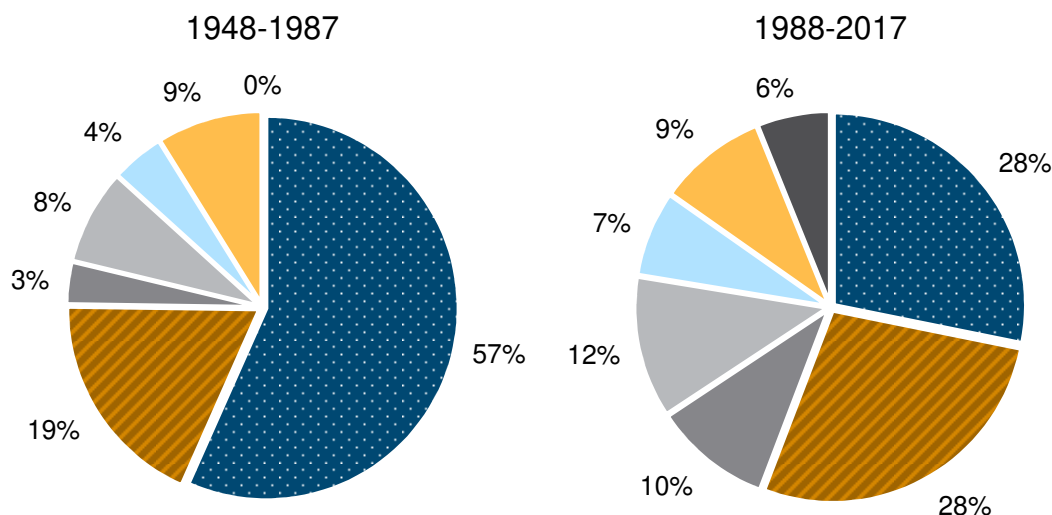
By 2017, the network had grown increasingly interconnected. Although the EU is still a major player, its relative position as a hub in the global network is visibly decreasing.

The effectiveness of an FTA also depends on its scope and depth. Agreement vary considerably in the topics they cover. Figure 3 shows how the composition of provisions in FTAs changed over time. In addition to tariff reductions on goods ('Full FTA') other dimensions such as standards, investments, trade in services, public

¹ The full report provides additional network graphs for the years 1987, 1997 and 2007, with descriptions on the evolution of regional FTA networks.

procurement, competition, and intellectual property rights (IPRS), became more prominent in recent years.

■ Full FTA ■ Standards ■ Investments ■ Services ■ Procurement ■ Competition ■ IPRS



Data source: Dür et al. (2014), DESTA update 2019.
 Note: Year of entry into force. wiiw aggregation and visualisation.

With information on the geographical and contentual evolution of FTAs at hand, we quantify the centrality of countries within the global FTA network. Four different measures of centrality used in network theory are applied to our trade policy analysis. They numerically summarise countries relative position as hubs or spokes in the FTA network. With many agreements in place, connecting multiple regions, the EU attains the high values in all of them, while the US and China often fall far behind. Furthermore, we define an indirect FTA measure, which captures the connectedness of two countries apart from the direct link between them (e.g. connections between Austria and Canada when ignoring the Comprehensive Economic and Trade Agreement, CETA). This allows us to disentangle the *direct* effect of the FTA from the *indirect* effect that comes from the surrounding web of trade agreements. The calculated centralities and the indirect FTA measure are subsequently used in gravity estimations to analyse how they influence the trade flows between trading partners.

The regression results confirm that FTAs on average increase trade. Since we also control for import tariffs (which exhibit an expected negative effect on trade), the positive effect associated with an FTA is attributable to all trade effects beyond current tariff reductions, including the channels of e.g. regulatory convergence, mutual recognition or harmonisation of standards.

Our results persistently suggest that overlapping FTAs (as represented by the indirect FTA variable) have a positive effect on bilateral trade flows. Thus, both direct and indirect links between two countries matter for trade. Centrality, too, shows mostly positive effects; an FTA appears to have a bigger positive effect if the exporting country has a more central position in the network of free trade agreements. The conclusions on for the importer are ambiguous.

Counterfactual experiments allow an inquiry into potential effects of FTAs on wealth.

Estimating a structural gravity model allows translating estimated effects of tariffs and measures of FTAs and centralities into changes of macroeconomic indicators such as GDP or employment for specified counterfactual scenarios. The two scenarios we consider are the EU-Japan Economic Partnership Agreement (EPA) and the EU-Mercosur Trade Agreement. The former entered into force in February 2019. For the latter, a political agreement with Argentina, Brazil, Paraguay and Uruguay was reached in June 2019.

New agreements of the EU substantially improve the centrality of its trading partners. This is due to the high geographical complementarity of their FTAs with EU FTAs. Other trading powers, such as the US or China, experience a decrease in their centrality, in particular in the case of the EU-Japan EPA.

Our results suggest an increase in Austrian exports by 1.9% and a rise in real GDP by 0.06% over the period of the implementation of the EU-Japan EPA. Estimated trade effects for Japan are higher at 7%, accompanied by an increase of real GDP by 0.06%. We find positive yet economically insignificant changes in employment for the trading partners.

Estimated economic effects of the EU-Mercosur agreement are substantially larger. Austria is expected to experience an increase of exports by 3.4% and a rise of real GDP by 0.13%. Trade effects for the Mercosur economies are five times higher (Paraguay 15.8%, Argentina 16.5%, Uruguay 17.6% and Brazil 19.0%). Likewise, potential effects on real GDP are significantly more pronounced for Mercosur economies than for European peers (Brazil 0.16%, Argentina 0.17%, Paraguay 0.29% and Uruguay 0.30%). Changes in employment are again found to be positive, but small.

Both graphical, numerical and econometric analysis on the evolution of the EU's free trade network suggest that its first-mover position as central hub in the global FTA network has resulted in positive effects on top of positive effects resulting from the conclusion of bi- and plurilateral FTAs. Given the ever denser growing global FTA network, the commitment on international standards will become crucial in pertaining a positive effect of additional FTAs and overlapping FTA networks.