

# Proliferation of Regional Trade Agreements: A Review on Empirical Studies

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**Abstract -** The debate of regionalism versus multilateralism is unresolved and remains unsettled despite a large number of theoretical and empirical studies. The results of the discussion have been divided between two arguments of regionalism i.e. 'building block' versus 'stumbling block'. The unprecedented surge in the number of regional free trade agreements have created a 'noodle bowl' effect on trade and have complicated the phenomenon of finding reliable quantitative estimates to assess the effect of FTAs on bilateral trade. After numerous FTAs countries are looking forward to "mega-regional" trade agreements to move towards deeper integration between the countries of the world. The paper reviewed the empirical studies that focused on the theoretical and empirical developments in the area of regional trade agreements. The review of the studies revealed that the countries are actively taking part in formation of regional trade agreements to gain benefits from trade and the extent of benefits for all the member countries of RTA are different. It also discusses that the welfare gains from trade agreements largely depends on the size of the economy, comparative trade advantage, the level of tariff and non tariff barriers imposed, and political relations among trading partners.

**Keywords:** Regional trade agreements, multilateralism, Free trade agreements, Economic integration, Regionalism, deep integration.

## I. INTRODUCTION

The free trade theories of international trade have been in place for centuries now and trade theorists have challenged the theories for their likely impact on the regional trade flows of goods and services. Even after so many theoretical expositions, the concept has lived up to the challenges. Over the last three decades, the impact of free trade has been adequately assessed over time through empirical and theoretical means and the analysis has undergone drastic changes since then. However, the impact of formation of RTAs on the welfare of regional members and the world as a whole lacks unanimity by economists. Another issue which economists have failed to resolve is whether RTAs stimulate or restrict the process of trade liberalization. Despite many studies, the magnitude and direction of trade flows and its impact has given mixed results.

The basic nature through which countries can be benefitted was given by Adam Smith in his theory of "Absolute Advantage". His arguments were strengthened by [1] by demonstrating the advantages of trade that countries can get over each other by measuring their comparative advantage through the concept of opportunity cost. The traditional notion in such theories was based on specialization of production in low cost countries that benefitted international trade. In a pioneering work 'The customs union issue' on theory of regional integration by

[2], he gave the idea of trade creation and trade diversion to measure and justify the involvement in RTA. The net welfare effect of the RTA for countries and the world at large depends on the size of trade creation and trade diversion taken together. The economic outcome of regional trade agreements could be positive or negative which depends on trade creation and diversion capacities. The concept of 'trade creation' means the low cost member country of the region exports goods to its member countries whose domestic cost of production is high. On the other hand, 'Trade diversion' effect takes place when preferential treatment is given to a member country which displaces the imports from a low cost non-member country by a high cost member country.

The modern theory which is a static analysis of regional economic integration is given by [3]. In his model, he has used a framework of trade between multi-countries involved in multi commodities trade which is necessary to determine equilibrium in international payment balance. The model abandons the assumptions of the Viner model which assumes constant cost of production. Meade's model recognized the possibility of impact of regional trade agreements on non partner countries termed as 'spillover' effects and international adjustments that take place due to economic integration on partner countries termed as 'feedback' effects.

The stability of equilibrium based on spillover effects and feedback effects was argued by [4] in which he delineated the effects of custom union as consumption effect and production effect to decide whether trade creation and trade diversion are good or bad. The formation of regional integration among countries may have a significant effect on international prices for goods and services and in turn affects the welfare of partner countries and non member countries as a whole. Studies such as [5]-[7] have given theoretical perspective on the changes in intra-regional and extra-regional trade effects on economic welfare. The reasons for the preference of countries to choose regional integration over multilateralism were discussed by Domino theory of Regionalism. The theory developed by [8] mentions idiosyncratic shocks which means that non members who were not part of RTA send requests to the existing blocks for deeper integration with them. Furthermore, the emergence of a big bloc is costly to non member countries because they compete with a big bloc. This is another reason for the increase in pro-regional political activity by non member countries. Thus, the growth of regionalism becomes fast across the globe. The link between FTAs signed between 'trade giants' (US, EU and Japan) and the outlook of other nations is termed as "bandwagon" or "emulation arguments" [9].

[10] developed Juggernaut theory which points out that liberalization is a process which once started is impossible or hard to stop. The theory is a political economy model in which tariffs are gradually eliminated to follow the principle of reciprocity because exporters force their government to reduce foreign tariffs. In some cases such as South-South free trade agreements, the domino theory and Juggernaut theory does not work. But these theories suggest that in most of the cases it is valid to say that regional trade blocs lead to free trade agreements.

In a critical survey of theoretical literature on regionalism, [11] suggests that there is a need to look deeper into the systematic impact of regionalism in the globalised world. Regional integration will remain and expand in future towards deeper multilateralism. Thus, the focus of literature should move towards issues of policy making for regional and multilateral trade mechanisms rather than focusing on theoretical issues of low levels of integration. Furthermore, there is a need to develop sophisticated ways to enhance liberalization at regional and multilateral level so that regional level agreements can converge and harmonize towards multilateral liberalization.

Various measures such as placing moratorium on RTA expansion, modification of GATT Article XXIV to maintain pre integration tariff level, alternation in anti dumping and safeguard measures and elimination of rules of origin laws, etc. can be used to reduce negative impacts of RTAs [12]. Factors such as trade complementarities, protectionist policies, degree of openness, Gross Domestic

Product, Population density, rule of origin, etc have strong influence on trade creation between countries. Similarly, the economies of similar size and degree of openness tend to become successful preferential trade partners and in turn reduce the risk of trade diversion because their trade flows are consistent and are a low cost producer to each other.

After numerous studies on regionalism versus multilateralism, the theoretical and empirical literature had been unable to resolve the debate of which one to prefer. Some see it as a stumbling block to the path to multilateralism and feel that trade liberalization in the form of multilateralism is the only best way in which countries can improve their welfare [13],[14]. While others feel that regionalism is supplementary and complementary with the process of multilateralism and see it as a building block to reach the path of multilateralism [15], [16]. They are of the opinion that RTAs may split the world into hostile groups with different political motives which create difficulty in negotiating at multilateral level which involves all countries rather than a group of countries. Thus, the recent researchers find regionalism a friend of to multilateralism.

## II. REVIEW OF EMPIRICAL STUDIES ON REGIONALISM

The theoretical expositions are refined and restated using empirical studies based on appropriate econometric models and sophisticated methodologies. Quantitative analysis on regionalism has answered some of the controversial issues that were not answered by the theoretical analysis. The actual data is simulated to various scenarios to validate the trade pattern predicted by the theories in the applied international trade literature.

Quantitative work on regional integration can be categorized broadly as empirical and analytical. Empirical studies include studies which are based on using historical data to extract parameter estimates using hypothesis testing and econometric modeling. Empirical studies can be further classified into ex post studies and anti-mode studies. The latter studies the effect of the RTA including error terms or residuals while the former studies are attributed to explaining the deviation in the past data i.e. based on actual values. On the other hand, analytical studies derive conclusions and analysis based on a priori estimates of important parameters which are based on theoretical framework. These studies are mainly compiled from empirical literature and hence may not specifically be meant for issues concerning FTAs and custom union. Such studies are ex-ante because they tend to happen with or without regional integration and the future estimates of variables are assessed based on some theoretical structure[17].

Even the study of economic variables can be done using different structures which have different properties and

provide different possibilities to modify and apply methodologies of estimation. Under static framework, the influence of trade policy on initial equilibrium of the economy can be analyzed while the deviation between the final and initial equilibrium due to endogenous variables can be analyzed under comparative static structure. To gain more insights into transition costs and other dynamic effects due to changes in policy variables such as competition, removal of tariff, etc. can be studied in dynamic economic structure. It examines the process of adjustment of initial equilibrium to final equilibrium and the nature of final equilibrium after the adjustment process.

The empirical studies in international trade especially regional trade agreements can also be conducted using partial and general equilibrium framework. In a partial equilibrium setting, one specific factor or market is studied keeping other factors constant. The spillover effects, interactions with other markets, and the income effect of price changes are not focused because it only focuses on a particular market under study. The policy analysis which involves study of one sector or measurement of price changes for one particular good *ceteris paribus* employs partial equilibrium analysis. A general equilibrium model links all the sectors of the economy taken together and studies the spill-over effects of changes in one sector over another. The model is constrained by the equation in which total spending equals total income so that expenditure does not exceed income.

The two most commonly and widely used models in the assessment of the effects of regional trade agreements are the gravity model of international trade and the Computable General Equilibrium (CGE) model. A lot of empirical studies have investigated the relationship between regional integration and economic growth of member countries. Studies such as [18]- [20] have found relation between them to be positive whereas the degree of trade openness per se is the factor which increases the economic growth [21]. However, the relationship between them is subject to a lot of investigations in the literature and results are mixed. A study by [22] investigated the different levels of economic integration and found that association to the trade bloc, openness and foreign investment flows stimulate economic growth. In their extensive survey, they also found that change in the income levels in the integration also attracts rapid growth in partner countries. [23] empirically investigated the presumptions whether preferential trade agreements induce economic integration or economic integration leads to economic growth. According to the study, the contribution of PTA in increasing growth is small while economic integration should be dealt with caution.

The international trade literature has been extensively focusing on the reasons behind the surge in bilateral and

regional trade agreements. The reasons behind rise in such trade agreements are tailor-made bilateral agreements, inclusion of non-trade issues, political motive to improve relations, limited yet slow success of multilateralism, manifestation of influence of large players in RTAs and involvement of negotiators to increase personal gains [24]. A survey by [25] on the effect of rise in RTA on multilateralism found that there is no consensus of the effect of RTA on multilateral trading systems. [26] point out that RTA should be designed and implemented carefully so that they ensure a path towards multilateralism and resolve the dichotomy that whether creation of RTA is a challenge or opportunity or both for WTO members. The proliferation and importance of RTAs has been questioned in the world trading system because the figures of the RTA have been misleading due to double counting, overstated trade shares and inclusion of non-operational and insignificant RTAs. There is an inherent bias in the RTA design towards trade diversion and strongly favours multilateralism for welfare considerations [27].

Lately, countries that are involved in an existing RTA or belong to different regions form bilateral trade agreements with other countries are termed as 'cross-border regionalism'. The emergence of this trend has resulted in the requirement to change norms for rules of origin (ROO) and parallel enforcement of agreements. In a study by [28], they have shown that intra-bloc trade increases by joining RTA without hampering trade with outside countries. [29] noticed an increase in regional agreements and the 'spaghetti Bowl' trade agreements which will regulate world trade. In his analysis of global free trade, he urges the need of multilateralism in the emerging and existing trading system. It has been argued that an individual country may independently have positive welfare gains but the overall economic welfare from cross-regionalism will be less [30]. The reason behind low cross-regional trade is the participation of countries in overlapping RTAs and multilateral trading systems is less likely to proliferate and move towards global free trade. To the contrary, [31] supports the argument of forming multiple trade agreements between countries and with other countries, irrespective of agreements made in the past. He suggests free trade to be unique Nash equilibrium in which every country is better off creating new bilateral trade agreements. These agreements will drive the way towards a multilateral world trading system.

A large number of studies have tried to identify the factors affecting RTAs. [32] observed proximity of trade partners, remoteness, similarity between economies, capital-labour endowment ratios are factors involved in proliferation of RTAs. [33] analysed that countries which share borders are more likely to create PTAs but he does not observe more trade creation and less trade diversion as suggested by 'natural trading hypothesis'. In addition, [34] observed that irrespective of significant trade between countries,



countries from the same continent have a high probability of entering into trade agreements with each other. The conditions which lead to gains from RTA toward multilateralism are transparent ROO, customized rules of accession, small transition periods, no anti-dumping laws, and inclusion of all sectors in PTAs [35]. [36] showed that the combination of 'North-South' is better for developing economies than choosing 'South-South' FTAs and also the choice of combination affects the distribution of cost and benefits among regional members.

Trade cost measured by distance between countries has attracted a lot of attention in the trade literature. With the decline in trade costs, the importance of distance in the study of regional trade agreements has declined. In a study by [37], he concluded that the distance has a positive influence on trade in the 'North-South' regional trade agreements. [38] studied Mercosur countries to study the magnitude of regional transportation costs. In their study, they found that intra-regional costs are lower than inter regional transportation costs but inter regional transportation costs are not large enough to reduce the net welfare gain for regional countries.

The studies have given insights to how old free trade agreements have been and their economic outcome over a period of time. [39] showed that for 'newer' developing RTAs such as MERCOSUR, NAFTA have positive trade and welfare effects in the initial years than the 'older' ones such as EU. The volatility in trade profiles and welfare gains is higher as they get old or the number of years of being in partnership increases. The joining of regional trade bloc changes the trade reorientation dynamics of that country and tends to follow an 'S-shaped path [40]. [41] found that the anticipatory effects of an average regional trade agreement lasts for 11 years from the time trade deal commences. In addition, the effects are seen in custom unions for a longer time than in free trade areas. [42] investigated the relationship between the extents of regional trade bias with the trade openness and observed that there exist inverse relationship between the regional trade bias and the size of the regional group.

There has been a lot of empirical research from researchers and policy analysts on the regionalism versus multilateralism discussion. [43] used [44] model of self-enforcing trade agreements to demonstrate that the understanding of trade policies such as anti dumping and safeguard tariffs can be explained by empirical framework by theory of cooperative trade agreements. The shift towards "multipolar" from "unipolar" framework has led to the change in authority and influence within multilateral organizations such as G20, the World Bank and IMF. However, the shift in the power is very less relative to the headlines [45]. [46] using theory based measure test contagion against different factors of regionalism. They found that the spread of regionalism is due to the reason

that FTA is negotiated by countries to reduce discrimination by member countries. [47] explored issues of RTAs and analyzed the new trade theory of international trade to draw implications for Pacific Island countries (PICs). They developed a conceptual framework with imperfect competition and scale economies to assess the benefits from adopting open trade policies with close countries and restrictive policy with the rest of the world. They found that gradual realization of benefits from unilateral trade based on comparative advantage will maximize welfare. On the other hand, [48] investigated the impact of formation of RTA such as ASEAN, EU, NAFTA, and MERCOSUR on India. They found that there is no impact of RTAs on Indian exports rather the impact of demand driven factors is more profound. The reciprocal trade liberalization in the form of RTAs has raised three issues of discriminatory nature. Firstly, trade diversion is inevitable because the influence of special interest groups encourage governments to form distortionary agreements. Secondly, the process of external trade liberalization would either stop or reverse and lastly, there is a possibility that the multilateral trading system would be undermined. In a review by [49], these concerns sustain theoretically but first two concerns are not seen in empirical testing. The third issue is not given much attention and needs more proper testing. [50] showed that regional trade agreements support multilateralism and points out that there is exaggeration of the negative impact of regional trade agreements on multilateral trading systems. The multilateral tariff on a product is lower when the tariff preference to the member countries is higher. [51] found the influence of borders on the country's trade depends on economic fundamentals rather than "red tape" or administrative barriers to trade. In order to resolve the debate between multilateralism and regionalism, a new approach is required which will adjust to the desire of WTO members and also maintain multilateral liberalization in the world trade or at least compensate non-partner countries [52].

According to a study by [53], RTAs are the 'third-best' and suboptimal option for the global trading system[54] shows that factors influencing trade creation and trade diversion of RTA are geographical proximity, borders, language and land area. Trade creation was prominent than trade diversion in East Asian RTAs. [55] found that global free trade is beneficial for all regions, especially Asian economies, Brasilia and developing nations. The Asian model of hub-and-spoke pattern of trade agreements was unable to drive to regional economic integration rather would take the world economy to regional economic disintegration [56]. [23] observed that countries which undertake reforms get distracted from multilateralism while those countries which avoid reforms take refuge under PTAs. The maximum income gains can be achieved by practicing non discriminatory trade reforms. [57] points

out the problems of multilateralism and the efficiency of regionalism to overcome them. In addition, the study highlights the best practices of RTAs and the use of such practices in RTA of Asia.

Many authors have contributed to the role and influence of political economy in regional trade agreements. [58] demonstrated the regional trade agreements of countries reduce the incentive to enter into a multilateral trading system. [59] study on European Union observed that the market access of varying levels offered by the union leads to trade diversion to developing countries but harms those countries which are less preferred. [60] focused attention on the design and functioning dispute settlement mechanism (DSMs). They demonstrate that most of the RTAs have adopted a quasi-judicial model of dispute settlement over political/diplomatic models. Institutions play a very important role in trade policy making and trade flows by increasing exposure to global markets and thereby increasing the terms-of-trade volatility. However, membership of countries in international institutions such as WTO and PTAs reduce volatility and increase trade volume. In addition, market participants prefer price stability as a result of association with international institutions [61]. [62] investigates the consistency of MFN tariff set by WTO with the terms-of-trade hypothesis by presenting a multilateral model of trade negotiations. The paper demonstrated strong support for the negative relationship between tariff level of importer and exporter concentration (Herfindahl-Hirschman index) and the importer's market power (inverse elasticity of export supply).

There has been extensive research on the gains from non-traditional areas in proliferation of regional trade agreements. [63] mentions that the countries enter into regional trade agreements especially with neighboring countries for security reasons and reduce conflict of interest. Trade relations build trust between neighboring countries. [64] discusses the importance of non-traditional gains which reduces uncertainties and increases credibility of partner countries. Non-traditional gains such as commitment, signaling and security provide direct gains of trade liberalization. [65] developed an empirical model to investigate the influence of new RTA membership on the trade structure. The endogenous fundamentals such as trade costs, country size, factor endowments and investment costs affect the new RTA members. The hypothesis supports the argument that these factors affect the new RTA members and may reduce inter-industry trade. [66] suggests a new setting which focuses on the cost and benefits of multi lateralisation of the provisions of RTAs which are deep and foster international output. This method works for those who are set to enter into mega RTAs such as Trans-Pacific Partnership (TPP).

Besides measuring the benefits from traditional and non-traditional gains from trade, the economic size of the countries have been of much importance to the researchers. The idea behind the interest in this topic is to answer questions such as whether a small country will benefit from large RTA or small RTA, the expected gains from entering into RTA for similar countries than other countries irrespective of their similarity. It is important for small and vulnerable countries to move towards multilateralism along with their regional trade agreements [67]. [68] demonstrates the use of distance to reach a unique equilibrium for regional agreements. Based on the standard theory, multiple equilibria of countries arise due to no distance and coordination failure between them. However, the study finds that with distance between countries and strategic interaction in the tariff framework, larger rent-seeking effects are generated by regional agreements than non-regional ones. This setting gives rise to unique equilibrium and RTAs are free trade under naïve best responses.

The participants in the regional trade agreements achieve dynamic gains over time with the depth of their regional integration. [15] test the potential of TPP to achieve 'multilateralising regionalism' in the Asia Pacific region. They believe that TPP will act as a template for negotiations and may incur attendant risks in this partnership agreement. [16] investigated variations in different international regimes in terms of multilateral, bilateral or a combination of the two. They devised a model to discuss the issue in four contexts namely, foreign direct investment, human rights, climate change, and international trade. They find that the choice between the "lateralism" is based on the tradeoff between each of their relative flaws.

Numerous studies in the area of regionalism seek to examine the effect of trade creation and trade diversion on regional trade agreements. In some studies, RTAs such as LAIA and MERCOSUR have shown trade creating effects [69]-[71] and some studies have shown them trade diverting [72],[73]. Recently, scholars such as [74],[75],[76], [72] have found their studies to have trade creating effect. The studies on the implications of RTAs for the world trading system have shown that most RTAs have trade-creation effects and are more advanced and sophisticated than the global trading systems. Measures such as "RTA Exchange" can be pursued to create synergy between the WTO system and RTA so that RTA can increase transparency and move towards multilateralism [77]. [78] concludes that the creation of RTAs is erosion of non discrimination principle and non feasibility of single undertaking which gives scope for sectoral agreements towards multilateralism. The RTAs can complement but not supplement multilateral trading systems.

The growing popularity of empirical studies on regional trade agreements has focused their attention to examine the links between trade volume and productivity. [79] studied the input-output linkages in a multi-sector structural gravity model framework. The paper shows the overall ratio of value-added to gross exports fell and there was a fall in the manufacturing sector while the ratio in non-manufacturing sectors increased. Although, the quantum of fall was different for different countries and trade members but fall was larger for fast growing countries, neighboring partners and among member countries of FTAs.

[80] reviewed the literature to see whether trade governance has reached a path towards stronger multilateralism and evolve different principles for the 21<sup>st</sup> century. The paper concludes that RTA's impact is based on the principles and objectives which govern the trading system. [81] discusses the implications for Northeast Asia of creation of FTA with China, Korea and Japan and mega FTAs. The paper mentions that the EU is the most advanced REI and has complicated the process of bilateral and multilateral FTA for Northeast Asian countries because their economic interest is segregated in terms of political and security issues.

[82] found that the effects of trade creation and trade diversion due to RTAs are narrow. Using the Michigan Model of World Production and Trade, [83] investigated the potential economic effects of trade liberalization on regional, bilateral and multilateral basis. Regional trade effects are stronger than those of bilateral trade agreements and the impact of multilateral trade agreements is significantly higher than other two forms of FTA. [84] found that in context of agricultural goods, the inter-industry and intra-industry trade increases trade volume and increases world trade. However, the trade volume is limited among non member countries. [85] observed that the benefits from EIA particularly in the 'new wave' phase of regionalism are bigger than the predictions of traditional ex ante analysis. [86] found the impact of FTA on trade volume to be positive in case of the European Union (EU-15) and the Central and Eastern European countries (CEEC-4) using gravity models. In an extensive survey and meta-analysis, [87] found positive effects of RTA on bilateral trade. Even in the 21st century, it cannot be seen with precision what multilateralism framework would be and the relationship between minilateralism (particularly the G-20) and multilateralism. As far as efficiency problems are concerned, G-20 serves as a best combination of inclusiveness, capacity and effectiveness [88].

The impact of depth and rigidity in trade agreements has a significant effect on the benefits of trade liberalization. It is seen that deep integration lowers the possibility of full compliance and steadiness of the trading system and high

level of rigidity increases full compliance and reduces steadiness. Lower tariffs can be achieved in both depth and rigidity but there exists a negative relationship between depth and rigidity keeping benefits of trade liberalization constant. Thus, flexibility is observed in deep agreements whereas rigidity is seen in shallow agreements [89]. [90] measured the nature and degree of bilateral and multilateral trade agreements which are endogenously determined. Countries which do not have symmetric endowments and prefer domestic interest than tariff earnings and consumer surplus will be better off in bilateral agreements. While those who are symmetrical and prefer tariff revenue and consumer interest will have stable equilibrium in the multilateral trading agreements. [91] focused on the importance of investment treaties of poor countries with rich countries such as North-South PTAs. They predicted a curvilinear trade relationship between investment treaties and North-South PTAs and too many PTA memberships reduced the possibility of negotiating other agreements. Thus, investment treaties are better than PTAs. [92] demonstrated that the higher chances of conflict and large trade gains have higher probability of signing RTAs using empirical estimation. The geography of RTAs is explained by the economical and political framework of countries into bilateral negotiations.

[75] demonstrated that if East Asian trade agreement takes a form of deep integration following the multilateral framework such as WTO, APEC then it will be a building block for the world trading system. [93] studied the volatility in growth trends using the shift-and-share methodology to show that ASEAN was trade creating for ASEAN-6 than diverting trade. [94] found that ASEAN trade pattern was different before and after creation of AFTA. After AFTA started, there was strong evidence of trade creation effect and trade diversion effect. However, data do not show trade diversion before AFTA was formed.

[95] studied China and ASEAN trade relations and observed that the agreement between them will benefit ASEAN as the imports of China are dependent on ASEAN and will open new avenues for both of them. A similar study which focuses on their exports was given by [96]. They investigated the export potential of China over ASEAN by using the Export Similarity Index and they found a positive effect on trade volume. [97] conducted the bilateral trade relations of BIMSTEC and Japan and found that the welfare gains to Japan are higher than the gains to BIMSTEC countries. In another study by [98] on India-Bangladesh trade relations using gravity model show that in an FTA exports from India to Bangladesh will be higher than imports to India from Bangladesh. Thus, the formation of bilateral trade agreement between them will benefit India. [99] studied the economic integration in Asia and argued that sub-regions such as East Asia and South



Asia need to start integrating among which China-India is the most favourable one. EU and NAFTA are agreements which are very broad and have led to a strongly integrated market whereas some agreements have been narrow and show meek commitments. Thus, scholars such as [100]-[103] have given attention to the scope and depth of the agreements.

[104] investigated the trade potential of India and Brazil using the Revealed Comparative Advantage (RCA) Index for three years. They found that there is very less potential for them to enter into FTA because the demand and supply of the two economies are not complementary. [105] examined the potential of India's export with Gulf Cooperation Council (GCC) and found that India's export volume is highest with Oman, Qatar, Bahrain, and Kuwait and no possibility of trade with UAE, and Saudi Arabia. [106] studied the possibilities of India-China FTA in the form of trade complementarities and found that in the short run benefits of India are lower but in the long run benefits are higher than China. The benefits will increase over time with the reduction in the tariffs. Thus, a free trade agreement is beneficial for both countries and is consistent with its growing importance in the international trade literature. However, the assessment of trade complementarities and quantitative analysis is important to measure ex ante and ex post benefits of regional trade agreements.

With the proliferation of regionalism since the 1990s, scholars have found various reasons why countries engage into PTAs and its effect on each other. Various explanations have been offered by the political economy literature on why countries negotiate and sign PTAs. Earlier literature has focused on competition effects, mobilization of interest groups and features of industry and market ([8], [107]-[110]). Recently, others have focused on motives to use international trade institutions, role of democracy, power sharing, bureaucratic interests, FDI, veto players within political systems, as the reasons which slow the process of multilateralism [111]-[115], [103]. The effects of PTAs have been studied overtime which has effects on economic, political, social processes which have implications on the trade flows of the states. The reasons for the multitude of phenomena range from trade volatility, introduction of economic reforms, inclusion of non-trade effects such as human rights protection, or dealing with behind-the-border protectionism [116], [61],[119]. [120] contributed to the reason for variation in results in the literature by focusing on content and design of international trade agreements. They concluded that the data set is a very important metric to measure the impact of PTAs and found that PTAs on an average increase trade flows and the impact is driven by deep agreements.

### III. CONCLUSION AND DISCUSSION

The review of literature has shown that there is no consensus on the trade creation and trade diversion effects of RTA on the member countries. The debate on regionalism versus multilateralism and their issue of complementarity and substitutability towards each other is still inconclusive. The experience of RTA in different countries is different and the magnitude of its impact depends on various other factors such as political system, historical and cultural background, etc. The rising importance and influence of regionalism, multilateralism, trade negotiations, collective bargaining, political systems, etc. is becoming extremely important for developing countries especially for developing countries. Numerous studies have discussed the impact of RTA on its member countries but the impact of such agreements on non member countries like India is very limited and need further exploration. The change in the trading pattern of India with major trading blocs is missing.

The review of literature identified that the measurement of the impact of regional trade agreements on the participating countries using gravity model might be a reason for mixed results. The literature also highlighted that in order to enter into mega trade agreements like countries should negotiate by preparing itself by eliminating tariff level, provide common market access schedule and address WTO-plus issues related to investment, labour standards, environment protection, financial services, defining the rules of origin for its trading products, establishment of standards and regulation etc. There is a need to bring domestic structural reforms and paying attention to private sector interests. Moreover, underdeveloped and developing countries have to work on improving 'behind the border' reforms such as increasing road connectivity, dealing with bottlenecks at port services, custom delays, reducing trade and investment barriers, etc.

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