# Who Benefits from Regional Trade Agreements?
## The View from the Stock Market

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## Abstract

The consequences of regional trade agreements (RTAs) on countries' welfare are disputed. In this paper, we assess these effects using stock returns from a recent data set that spans over two hundred RTA announcements, eighty economies, and twenty years. We measure the effects of news concerning RTAs on the returns of national stock markets, after adjusting these returns for international stock market movements. We then link these abnormal returns to features of the RTA members and the agreements themselves. We find strong evidence of the natural trading partner hypothesis; stock markets rise more when RTAs are signed between countries that already engage in high volumes of trade. Stock markets also rise more when poorer countries sign RTAs, and when RTAs are signed with smaller partners. We also find no evidence that capital markets expect significant trade diversion effects.

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## 1. Introduction and Motivation

The consequences of regional trade agreements (RTAs) on countries' welfare are disputed. In this empirical paper, we take a fresh look at the issue and assess RTAs using the lens of the stock market.

Almost all economists favor trade liberalization; they disagree on how to get there. Multilateral liberalization is better in principle, but more difficult in practice, especially lately. The alternative is regional liberalization; worse in theory, but at least feasible. Over the last fifteen years, there has been an unprecedented rise in the number of Regional Trade Agreements (hereafter RTAs). However, the consequences of RTAs on countries' welfare are controversial. Are RTAs indeed a viable and desirable alternative to multilateral trade liberalization?[1]

A large literature on RTAs has emerged; Freund and Ornelas (2009), Baldwin (2008) and Panagariya (2000) provide surveys. Some stylized facts emerge from the recent literature. RTAs tend to boost trade between their members, with small trade-diverting effects for non-members. RTA formation is not random, but depends systematically on economic and political factors. Further, there is evidence of considerable heterogeneity in the overall trade effect of RTAs.[2]

The "natural trading partner hypothesis" suggests that positive welfare effects stem from RTAs between countries with high trade volumes prior to the agreement. The strength of the theory is a matter of controversy. Baier and Bergstrand (2004), Magee (2008) and Egger and Larch (2008) find support for the hypothesis. In contrast, Krishna (2003) uses a general equilibrium model to argue that the welfare effects from potential RTAs with 24 trading partners of the United States are associated with neither trade volume between nor distance to RTA partners.

A few empirical studies go beyond the trade effects of RTAs. The welfare effects of the Canada-U.S. FTA and NAFTA on member and non-member countries have been assessed to be small and positive or close to zero, according to Trefler (2004) and Romalis (2007). Based on a structural model, Egger and Larch (2011) find that positive

welfare effects of the so-called Europe Agreements are more pronounced for Central and Eastern European countries than for the fifteen older members of the EU.

The theoretical impact of a RTA on the returns to capital (as measured by the stock market) depends crucially on the degree of capital mobility across sectors. Grossman (1983) offers a theoretical framework, where the Heckscher-Ohlin model and the specific-factor model emerge as two polar cases. With perfect capital mobility, overall stock market returns depend on a country's capital endowment relative to its RTA partners. However, Grossman and Levinsohn (1989) provide evidence in favor of limited short-run capital mobility (and a specific-factor model).[3] In this case, some industries (and the owners of their capital) might profit from a new RTA, while others potentially suffer. Finally, a recent Melitz-type trade model with heterogeneous firms as extended to stock market returns by Breinlich (2011) predicts that, even within the same industry, more productive exporting (rather than non-exporting) firms profit from trade liberalization, although Breinlich is silent on the impact of increased import competition.

Firm profits and RTAs can be generally related in different ways. On the one hand, profits may rise due: to 1) productivity gains within the firm or industry due to trade liberalization (e.g., Pavcnik, 2002; Melitz, 2003; Trefler, 2004; Lileeva and Trefler, 2010); 2) economies of scale and love of variety that can be exploited in a bigger market (e.g., Baier and Bergstrand, 2004), and/or 3) trade creation within the RTA (for given markups). On the other hand, RTAs can enable costly trade diversion (which is on average usually small, e.g., Magee, 2008), and profits for some industries might fall due to increased import competition (e.g., Baggs and Brander, 2006).[4]

In this paper, we are interested in the effect of important news about RTAs on the *overall* stock market. We examine national stock market reactions to RTAs for a number of reasons. First, stock prices should react quickly to news that changes the expected stream of discounted future dividends. Given that some firms might be expected to profit and others to suffer from lowering trade barriers, a country's stock market index captures the net effect on expected future profits of listed firms due to a RTA. Second, in case of trade liberalizations, short-term adjustments costs have to be

weighed against long-term gains (e.g., Trefler, 2004). Both effects are hard to measure individually, but the stock market represents a natural way to measure the net present value of these counteracting effects. Third, there is little empirical evidence on the effects of trade liberalization on capital owners; the effects of trade on labor outcomes have attracted most of the profession's attention. Fourth, profits are arguably the most important firm performance variable, crucial for a firm's innovation, employment and survival. Nevertheless, there are only a small number of studies on profitability, as Wagner (2012) concludes in his survey. Baggs and Brander (2006) are a notable exception showing that falling tariffs due to the Canada-US free trade agreement increased (decreased) profits for export-oriented (import competing) Canadian firms. Finally, our study relates to recent trade models stressing firm dynamics in response to news on trade liberalization (e.g., Bergin and Lin, 2012; Burstein and Melitz, 2013).

We provide the first systematic evidence on the effects of RTAs on stock market returns. Our data set encompasses a large number of RTAs, countries, and years. Since we have a relatively large number of observations, we are able to differentiate across the countries that sign RTAs and the RTAs themselves, enabling us to link the impact of RTA news on the stock market with the characteristics of both RTAs and countries. This enables us, for example, to examine whether poorer countries profit from RTAs. This is a matter of controversy to economists like Joseph Stiglitz, who are concerned that poorer countries face a "take-it-or-leave-it" attitude in negotiations with partners like the United States.[5] We can also check the natural trading partner hypothesis, since our data set includes variation in trade links across trading partners. The data confirm this hypothesis; indeed, this is our single strongest result.

The few empirical studies close to ours study the stock market reactions of individual firms. Thompson (1993, 1994), Rodriguez (2003) and Breinlich (2011) all exploit important news about the Canada-US free trade agreement and NAFTA. These papers use the stock market to study trade determination, and find evidence in favor of economies of scale, factor-intensity and heterogeneous firm models. Our work is complementary and distinct, focusing on the characteristics of RTAs and countries whose stock markets react to RTA news, rather than the nature of international trade.

Our approach remains unabashedly empirical, and uses standard empirical techniques. We find three results. Most significantly and robustly, RTAs tend to increase the stock market if they are signed with natural trading partners. This natural trading partner effect on stock markets is also quite persistent (as opposed to the other main findings). We also find that the stock markets of poor countries rise more on RTA news than those of the rich, and that returns are highest when RTAs are signed with smaller RTA partners.

## 2. The Data Set

We consider all RTAs that have been signed, reported and enacted into force as of end of October 2009. The universe of RTAs is drawn from the "Regional Trade Agreement Information System" (RTA-IS) database of the World Trade Organization (WTO), available at http://rtais.wto.org.[6] However, data limitations prevent us from using data on all RTAs, as we discuss below.

### News Announcements

A central component of our data set and identification strategy consists of a unique set of dates. These are days of important news releases concerning individual RTAs. We consider two important dates: a) the day when it was announced that negotiations on a RTA will commence at some future date (which we dub "Start"), and b) the day that agreement on the RTA was actually reached ("Deal").[7,8] We identify the exact announcement dates through a full-text analysis on LexisNexis, where we mainly focus on international newswires, press releases and well-established newspapers published in English.[9] Announcements of RTAs are usually made by prominent policy makers like the President, Prime Minister, or the Minister of Finance, Economics, or Trade. These dates often precede official signature dates (as reported by the WTO) by weeks or months.[10] Announcements that are made over the weekend are advanced to register on the next business day.[11]

**Stock Markets and Exchange Rates**

Over 130 countries in the world have signed RTAs.  Since we try to include as many observations as possible, one of the constraints on our data set is the fact that a number of countries either have no national stock market or have only opened one recently.  To the best of our knowledge, we include all countries for which any daily stock market data are available since 1970.

Our default measure is the daily closing rate of a broad national stock market index, denominated in local currency.  For example, we use: the S&P500 for the American stock market, the FTSE for the UK, the DAX for Germany, the Nikkei for Japan, and the TSX for Canada.  We search for these series from a number of different data providers, and use them in a sequential order determined mostly by the span of the data and (our perceived) accuracy of the data set: Global Financial Database (which we use wherever possible); MSCI/Barra (which we use when reliable GFD data does not exist); Freelunch.com and the Standard & Poors IFC (to fill in remaining gaps).[12]

While returns in local currency are those of greatest interest to local investors, they are not the only returns of interest.  Foreign investors may be more interested in local returns after taking into account any coincident exchange rate changes.  Accordingly, we add to our data set daily closing spot exchange rates vis-à-vis the U.S. dollar; these allow us to convert stock market returns from local currency returns into U.S.  dollar returns.  Once again, we gather data from a number of different sources and use them in sequential order.  We draw on exchange rate data from the U.S. Federal Reserve, and (via Datastream): Thomson Reuters, WM/Reuters, Global Treasury Information Systems (before 2000, these series come from Bankers Trust), and MSCI.

National stock markets sometimes move in synchronization with international stock prices; we wish to account for this feature.  We use a few global stock market aggregates to adjust domestic returns for international movements.  We primarily use the *MSCI World* index, though we also take advantage of the *EAFE* index (both measured in dollars).  The MSCI World index covers all important stock markets around

the world, while the EAFE focuses on developed stock markets outside the United States.

We restrict ourselves to trading days Monday through Friday. All series have been corrected after extensive checking for mistakes, transcription errors, jumps, the introduction of the Euro, and the like.[13]

We are left overall with a data set that covers 1002 country-RTA-events for 82 countries and 122 regional trade agreements.[14] Online Appendix Table 1 provides detailed information on the announcement dates, the type of news and the countries included for each RTA in the data set.

**Country Characteristics**

To measure national economic and financial characteristics, we gather data from the World Bank's *World Development Indicators* which provides measures of country income, size and stock-market size. We add bilateral trade data taken from the IMF's *Direction of Trade Statistics* in order to measure openness and importance of trade.[15]

**3. Empirical Methodology**

We use a two-step empirical methodology. First, we adopt a standard event-study methodology to generate abnormal returns for domestic stock markets around the dates of RTA announcements. Second, we study why these returns differ by comparing them to the features of both the RTAs and countries involved.

**3.1. Step 1: Creating Abnormal National Returns**

We are typically interested in a high-frequency return on the stock market around the time of RTA news, but only the idiosyncratic *national* component after adjusting for any common *global* stock market drift. We adjust national returns for international movement using the plain-vanilla "event study" methodology suggested by MacKinlay (1997). In particular, we regress daily national returns on daily global returns of the

MSCI-World index so as to be able to estimate a national beta (capturing the co-movement between the national and global stock markets) and an associated intercept (capturing any potential out- or under-performance of the national stock market relative to the world stock market). We do this separately for each country-RTA-event, using a window of time that starts thirteen months before the news event and ends a month before the announcement (in order to avoid allowing the estimation window to be influenced by the announcement itself). That is, we estimate over the relevant estimation window:

$$R_{it} = \alpha_i + \beta_i \cdot R_{MSCIt} + \varepsilon_{it} \qquad \text{over t=T-395 ... T-29} \tag{1}$$

where: $R_{it}$ is the one-day return on the national stock market index of country i realized at the end of day t, $R_{MSCIt}$ is the analogue for the MSCI-World index, $E(\varepsilon_{it})=0$, $Var(\varepsilon_{it})=\sigma^2$, and T is the day of the relevant RTA news announcement.

After we estimate the coefficients $\left\{\hat{\alpha}_i, \hat{\beta}_i\right\}$ with least squares, we can then use them to form one-day abnormal returns ($AR_{it}$) around the time of the RTA event. Our default measure of abnormal returns is thus the national return (measured in local currency) adjusted for global stock market drift as proxied by the MSCI dollar return:

$$AR_{it} \equiv R_{it} - \hat{\alpha}_i - \hat{\beta}_i \cdot R_{MSCIt} \tag{2}$$

We cumulate these abnormal returns over time around the dates of RTA announcements. Our default measure of cumulative abnormal return ($CAR_{it}$) aggregates abnormal returns starting a day before the news event, and continuing through five business days (one week) afterward. That is, we form

$$CAR_{iT} \equiv \sum_{T-1}^{T+5} AR_{it} \tag{3}$$

We test for robustness with respect to the exact window of time by cumulating for both fewer (one and three) and more (seven and ten) days after the RTA news event.

### 3.2. Step 2: Linking National Returns to Fundamentals

The first part of our methodology delivers a set of observations, each measuring the reaction of the stock market to a particular piece of RTA news for an individual country.  However, our primary interest is not the intrinsic characteristics of these cumulative abnormal returns (hereafter CARs).  Rather, we seek to understand why these returns vary across countries and RTAs; we ask why the stock market responds more to news about certain RTAs and/or countries than to others?  We estimate the following equation:[16]

$$CAR_{iT} = \delta \cdot RTA_{iT} + \gamma \cdot NAT_{iT} + u_{iT} \tag{4}$$

where: $RTA_{iT}$ is a set of characteristics describing the nature of the RTA signed by country i at time T, $NAT_{iT}$ denotes a set of national characteristics, $u_{iT}$ is the residual and $\{\gamma, \delta\}$ are the (vectors of) coefficients of interest to us.  We estimate (4) with least squares on the assumption that the disturbance represents a host of well-behaved terms that drive the national stock market independently of the included regressors.  We use standard errors clustered at the country-level.[17]

While the existing economic literature does not offer clear guidance with respect to the regressors in equation (4), our choice of variables is mainly motivated by the theory on RTAs and the gravity literature in trade and international finance.  We consider three groups of variables.

We are interested in whether RTAs between "natural" trading partners drive stock market reactions.  Trade agreements between nearby countries that already have significant bilateral trade are more (less) likely to be trade creating (diverting) and hence welfare enhancing.  We do this by including the following two regressors in (4):

1. the ratio of *bilateral exports to RTA partners/GDP,* since stronger existing export and trade ties reduce the likelihood of trade diversion for "natural" trading partners (e.g., Wonnacott and Lutz, 1989; Krugman, 1991b; Summers, 1991; Krishna, 2003).[18] We compute our variable of main interest according to the following equation: $EXP_{izt} = \frac{\sum_{i,j \in z} x_{ijt}}{GDP_{it}}$, whereby $x_{ijt}$ represents the bilateral exports from country $i$ to country $j$ that belong to the same prospective RTA $z$ in year $t$ (for countries $i$ and $j$ not already linked through a RTA). We carefully distinguish between new RTAs and enlargement of existing RTAs. We also use as an alternative measure for natural trading partners *exports to* and *imports from RTA partners*, both normalized by home country $i$'s GDP. These two measures capture the magnitude of existing trade links to and the importance of the RTA partner(s) as an export destination, respectively, with a positive coefficient indicating support for the natural trading partner hypothesis, and

2. the (log of the) average *distance to RTA partners*, since natural trading partners tend be closer to each other (e.g., Krugman, 1991a; Frankel et al., 1995; Baier and Bergstrand, 2004). In our context, this distance measure is clearly complementary to the export measure, since trade flows to more distant countries are lower due to higher trade costs; hence, we would not be surprised by an insignificant coefficient.[19]

We are also interested in the features of RTA partner countries and the home country, especially size and factor endowments (in absolute and relative terms):

3. the (log of the) sum of *real GDPs of RTA trading partners* is a classic bilateral trade gravity variable, measuring economic mass. We include the (log) of the real GDP of the RTA (after excluding the output of the home country). The sign of this effect is unclear. On the one hand, exporting firms could profit from economies of scale, when trade costs are falling for a larger market (e.g., Krugman, 1991b; Baier and Bergstrand, 2004). However, the benefits from any trade agreement might be tilted towards bigger countries due to greater bargaining power (as Joseph Stiglitz worries and Perroni and Whalley, 2000, argue), in which case the effect could turn negative.[20]

4. the (log of the) *real GDP* of the home country proxies for its economic size and is another key variable in traditional empirical gravity models. Furthermore, Baier and Bergstrand (2004) argue that RTA countries more similar in economic size profit from net welfare gains (and one of our extended regression models will include a corresponding similarity variable).

5. the (log of the) *RTA partner(s) real GDP per capita* proxies for the capital-labor ratio and hence factor endowment of the RTA partner and

6. the (log of the) *real GDP per capita* of the home country. We expect this coefficient to be negative, since poorer countries tend to be more protectionist and thus have more to gain from trade liberalization. Tariffs and non-tariff barriers as well as trade costs are higher for developing countries, depressing bilateral trade flows (e.g., Anderson and van Wincoop, 2004; Hoeckman and Nicita, 2011). Furthermore, RTAs might help poor countries lock in domestic reforms (see for instance Whalley, 1998). But these effects could, in principle, be offset by the fact that rich countries may have more bargaining power in negotiations and thus benefit more from RTAs. Once more, in an extension motivated by Baier and Bergstrand (2004) and Egger et al. (2011), we account for the relative capital endowment of RTA partners.[21]

Finally, our baseline regression includes two further characteristics of the home country that might influence the expected gains from a RTA:

7. the (log of the) *ratio of nominal trade to GDP* (openness), since countries that are already more open to trade tend to have lower trade barriers and less to gain from trade liberalization. Furthermore, the liberalization of a closed economy sends a stronger signal of economic reform, and

8. the (log of the) *ratio of stocks traded to GDP*, since capital market sophistication is a prominent control variable in the gravity literature in international finance explaining equity flows (e.g., Portes and Rey, 2001, 2005). Furthermore, it is well known from the finance literature that expected stock market returns and liquidity are positively related and stock markets tend to be less liquid in developing countries (e.g., Amihud, 2002; Karolyi et al., 2012).[22]

Thus in the second stage, we regress the CARs on four RTA and four national characteristics.  Throughout, we also include in (4): year fixed effects, an intercept and a dummy that differentiates RTAs that cover trade in goods and services (rather than simply goods).

## 4. Results

### 4.1. The First Stage: Evidence on Stock Market Returns around RTA news

We begin by presenting graphical evidence using the event study methodology which constitutes the first step of the methodology.  Graph 1 plots the average CARs around the RTA events as a black solid line (with the corresponding 90% confidence intervals as grey dashed lines).  The shaded area marks the baseline event window from t-1 to t+5.  For event days before the RTA announcement, we follow Dube et al. (2012) and aggregate from the beginning of the event window, t-1, backwards.

CARs are never significantly different from zero before the RTA events, but are small, positive and, for many time periods, statistically significant for up to two-and-half weeks after the event.  That is, RTA news matters in the sense that it affects stock markets.  But while Graph 1 offers insights into the dependent variable of equation (4) for different event windows, the main focus of this paper is on *explaining* the variation in abnormal returns.  We turn to the second stage of the event study now.

### 4.2. The Second Stage: Benchmark Results

We tabulate our default estimates of equation (4) in Table 1.  The middle column presents results for our default window, which begins one day before the news announcement and extends until five days afterwards.  To check for sensitivity we consider both longer and shorter windows; these are presented on either side of our default.

A country's output, openness, and stock market depth as well as the RTA partners' real GDP per capita and (in many specifications) the distance to these RTA

partners play little important role in explaining stock market returns across different RTA announcements. Still, we find three interesting results.

First, we find a strong effect for the impact of normalized exports to RTA members, consistent with the "natural trading partner hypothesis".[23] This effect is consistently statistically significant, and economically large; an increase in the RTA exports to GDP ratio of one standard deviation from the mean delivers annualized returns of around 10%.[24] How do our estimates of rising expected profits for natural trading partners relate to other measures and frameworks?[25] They are in line with the empirical literature on trade flows like Magee (2008) who demonstrates that natural trading partners enjoy the largest gains due to trade agreements (with an average rise in RTA-imports relative to a country's total imports of about 3 percent). Furthermore, the results of Baier and Bergstrand (2004) indicate that a one standard deviation in the closeness of trading partners increases the likelihood for net welfare increasing natural partners by 13 percent. On the other hand, based on a general equilibrium model and U.S. data, the (largely positive) welfare estimates in Krishna (2003) are not correlated with the bilateral trading volume.

The effect of RTA partner's log real GDP is statistically significant and negative, implying that annualized returns are depressed by about 10% for a change of one standard deviation from the mean. Even though this is the least robust of the three main results (and in part contradicts earlier findings like Magee, 2008), Stiglitz's concern about the negotiating power of large RTA partner(s) might be warranted (unreported results show that the United States and the European Union do not drive this result).[26]

Finally, there is a strong negative effect of per capita income; the stock markets of poor countries rise more with RTA news than do those of rich countries.[27] This effect is statistically significant at the 5 percent confidence level in four out of five specifications in Table 1. It is also economically large; for our default window of (t-1,t+5), an increase in per capita income of one standard deviation around the average level of real GDP per capita lowers abnormal returns by an annualized 10% (this effect is larger if we use a shorter window of time). We consider this result to be sensible;

poorer countries are more protectionist than richer ones, and thus have more to gain from trade liberalization.

Graphs 2 to 4 plot the coefficients for our three main results for each potential event window starting from (t-20, t-1) over our default window (t-1, t+5) marked as a grey shaded area up to the last event window considered (t-1, t+20).  While the effects on poorer countries and large RTA partners become insignificant after about two and a half weeks, the positive stock market effect for natural trading partners seems to persist for a longer period.

### 4.3. Second Stage: Sensitivity Analysis

To recap: we have found that the characteristics of RTAs seem to be more important than domestic macroeconomic features.  First, the stock market effects of news concerning RTAs between countries with more exports are bigger than those of "unnatural" RTAs.  Next, stock market returns fall with the size of RTA partners.  We also find that stock markets of poorer countries respond more to RTA news.  On the other hand, the economic size, openness and financial depth of the country signing the RTA seem irrelevant to the markets as does the standard of living of RTA partner countries and the average distance to these partners.

How much confidence should we have in these findings?  It would be worrying if our results were sensitive to minor perturbations in our econometric methodology.  In this section, we provide reassurance that our results are indeed robust.  In particular, we show that our key results are largely insensitive with respect to three phenomena: a) the methodology we use to adjust domestic returns for global returns in the first stage; b) exchange rate fluctuations; and c) fixed effects.

A number of assumptions are built into our default measure of abnormal returns, so it is appropriate to check whether these are delivering our findings.  Accordingly, in Table 2 we use four alternative techniques to adjust national for global returns.  First, we restrict $\beta_i$ in equation (1) to lie in the (plausible) range of (-1,1) in order to curb the responsiveness of the national stock market to international returns.  Second, we set

$\alpha_i=\beta_i=0$, and thus do not adjust for global returns at all; instead, we use raw domestic returns in local currency. Next, we substitute alternative MSCI and EAFE returns (both more narrow measures of the global stock market index with the first excluding the United States and the second excluding all developed countries) for those of the MSCI, a broader index. [28] Each of these perturbations is presented in its own column in Table 2. Reassuringly, none substantively changes our results, at least compared with our default results which are tabulated at the left.[29]

Our default measure of national returns is measured as a percentage change in local currency (LC). While this is of interest to most domestic investors, the choice of currency could, in principle, be significant. We first convert LC to US$ returns. We then consider three adjustments to these US$ returns for global stock market drift: a) no adjustment at all for global stock market movements; b) the standard MSCI adjustment outlined above in equations (1)-(3); and c) adjusting for movements in *both* the MSCI and the LC/$ exchange change in equation (1). The coefficients in Table 3 show, comfortingly, that our key results are insensitive to all these adjustments for currency risk. Interestingly, the evidence for the natural trading partner hypothesis here is reflected in the negative coefficient on distance, rather than in the bilateral trade measure. This effect stems from a depreciation vis-à-vis the U.S. dollar, if RTAs are signed with more distance partners.[30]

In Table 4 we check our results by varying the fixed effects. First, we exclude year-specific fixed effects that we have heretofore included. Another column reports adding dummy variable controls for the type of RTA to the baseline; we differentiate customs unions, free trade agreements, and preferential trade agreements. Next we include fixed effects for each RTA (e.g., NAFTA, which affects each of the stock markets of Canada, Mexico, and the USA). Finally, we add a fixed effect for each country. Only the inclusion of the last two fixed effects has a non-trivial effect; the export effect is unchanged, but there is too little variation within a RTA or within a country over time to identify the effects of national variables.[31]

Finally, we add the average applied tariff rate of both the home country and (separately) the RTA partners as additional control variables. We do this for two reasons. First, higher initial tariffs at home might depress stock market returns, since domestic firms have been shielded from competition in the past and trade diversion is more likely. Second, higher tariffs of RTA partners might boost domestic returns due to a higher preference margin vis-à-vis foreign competitors (e.g., Fugazza and Nicita, 2013; Freund, 2010). There are two takeaways from Table 5: The coefficients on tariffs have the expected sign (but are insignificant) and the results on the real GDP of RTA partners weaken once the RTA partners' tariffs are taken into account.[32]

We conclude that in particular our key results on natural trading partners are reassuringly robust to a range of minor perturbations in our empirical methodology.

## 4.4. Is there Evidence of (Expected) Trade Diversion?

Our analysis so far suggests that listed firms in RTA member countries are, on average, expected to profit from RTAs. While an analysis of potential winners and losers *within* RTA member countries is beyond this study, this section sheds some light on a related question of importance: Do the gains of RTA members come at the expense of countries outside the RTA? That is, do market participants expect measurable trade (or profit) diversion effects?

Outside countries with large existing trade flows with a RTA country are expected to be hurt most by a RTA formation (e.g., Egger and Larch, 2008). Our analysis will focus on exactly such cases. Consider the following: the United States has been one of Brazil's top export destinations over the last 20 years, but these two countries are not linked by a RTA. We ask: how did the Brazilian stock market react to important news about NAFTA (a RTA that involved the United States)? For such non-RTA member countries we compute abnormal returns and link them to the set of variables used in the main specification.[33] We expect the coefficient on the export variable to be negative in the case of serious expected trade or profit diversion effects of non-RTA members.

Column (1) of Table 6 replicates the baseline and columns (2) to (5) show the results for different definitions of an important export destination. The coefficient of main interest (on exports) is never significantly different from zero in any specification. That is, financial market participants do not seem to price in any negative spill-over effects to non-RTA members. This is in line with the empirical trade literature. Freund and Ornelas (2009) conclude in their excellent survey that trade diversion does not seem to be a major concern, even though it might matter for some RTAs or in certain sectors.[34]

Table 6 also includes a placebo test. Keep in mind that columns (2) to (5) refer to stock market reactions in countries without an important RTA-news on the very same day of other countries making such announcements. If on these event-days anything favorable to poor countries and unobservable to the econometrician (and hence not captured by the market model) happened to poorer countries, we would expect a negative and significant coefficient on *log real GDP p/c*.[35] This is never the case.

## 5. Summary

In this empirical paper, we have assessed the effects of Regional Trade Agreements (RTAs) from a new vantage point, that of the stock market. We use a two-step methodology to analyze a new comprehensive daily data set that includes 1002 observations spanning 82 economies, 197 announcements and 122 RTAs between 1988 and 2009. First, we measure the effects of RTA news on the returns of national stock markets, after adjusted for international stock market movements in a variety of ways using an event-study methodology. Then we link these abnormal returns to features of both the RTA participants and those of the agreement itself.

We find strong, robust evidence of the natural trading partner hypothesis; stock markets rise more for RTAs between countries that already engage in high volumes of trade. Stock markets also respond more to RTAs signed by poorer countries, and more to RTAs signed with small RTA partners. We do not find any evidence that expected trade or profit diversion effects are important to non-RTA members. A better

understanding of the underlying channels responsible for these effects is a fruitful field for future research.

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**Graph 1: First stage of Event Study (Cumulative Abnormal Returns)**
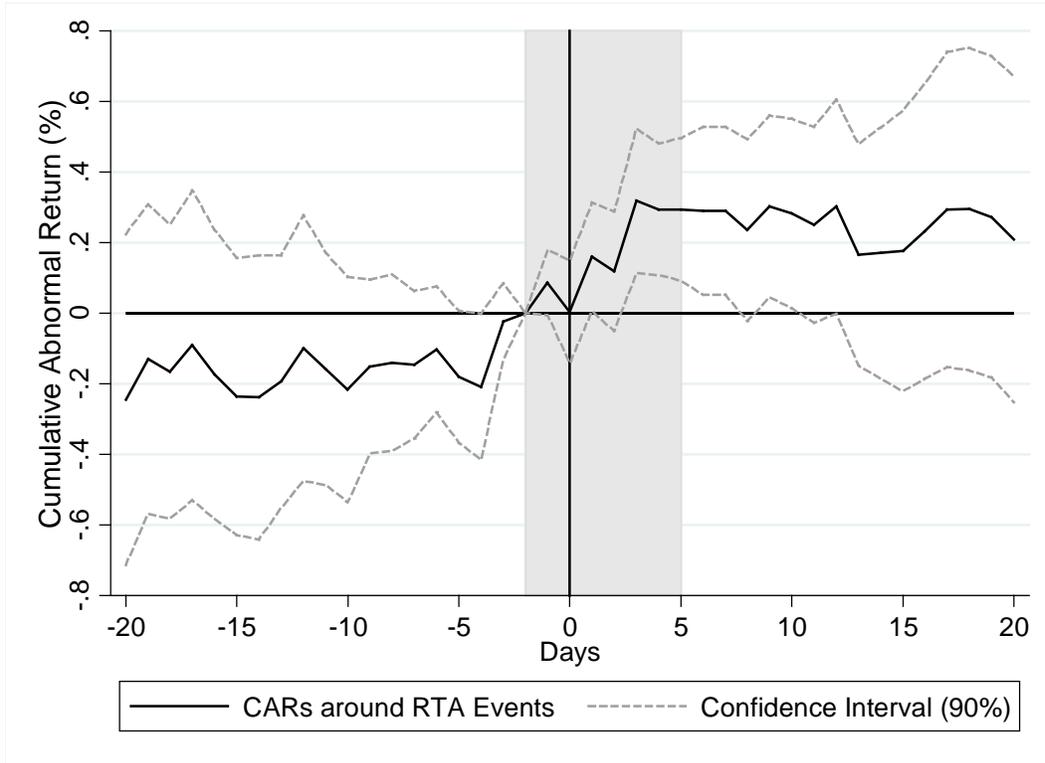


**Graph 2: Second stage, Effect of Exports to RTA Partners**
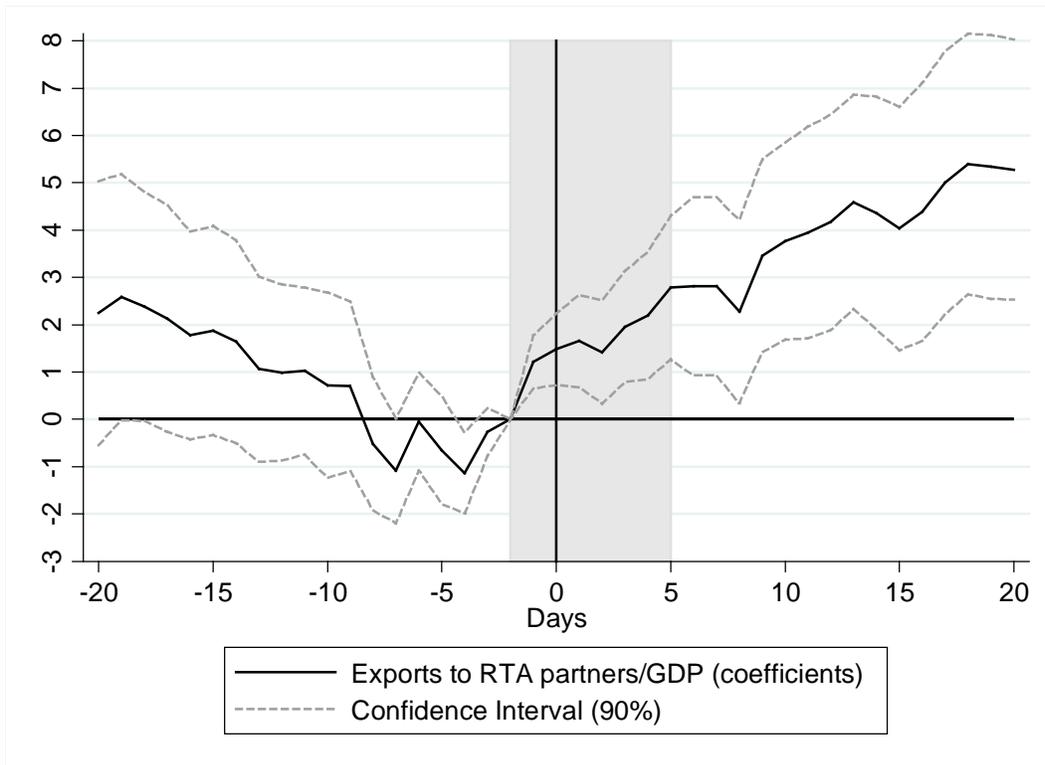
**Graph 3: Second stage, Effect of log real GDP for RTA Partners**
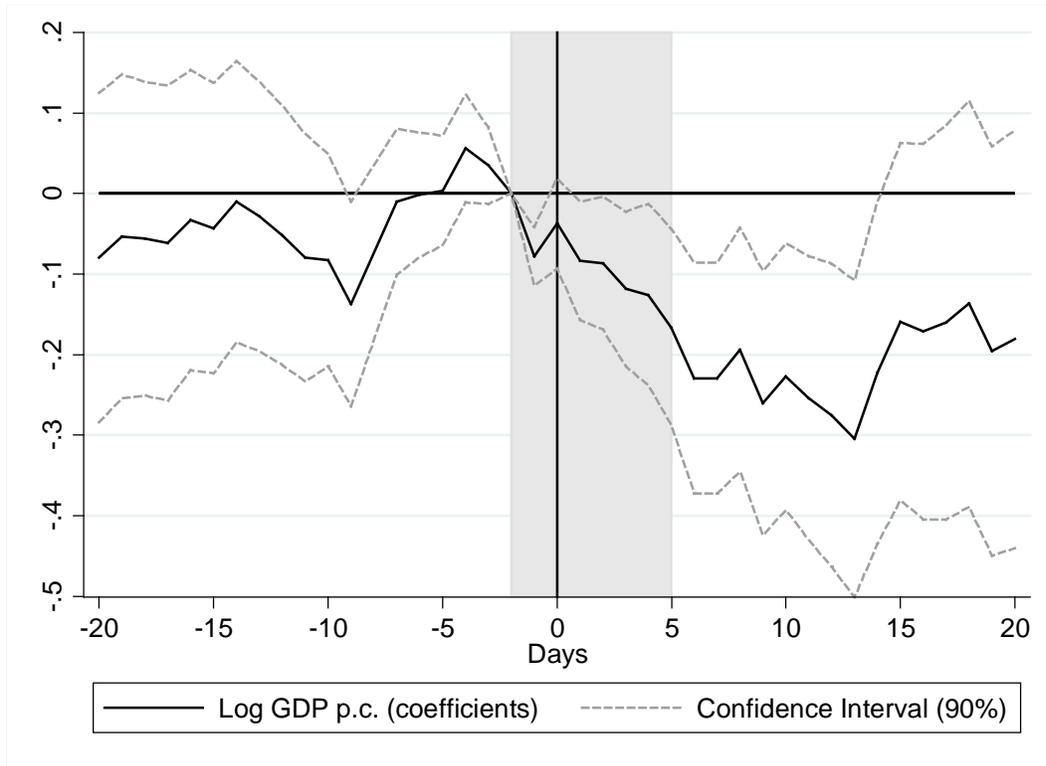


**Graph 4: Second stage, Effect of log real GDP p/c**
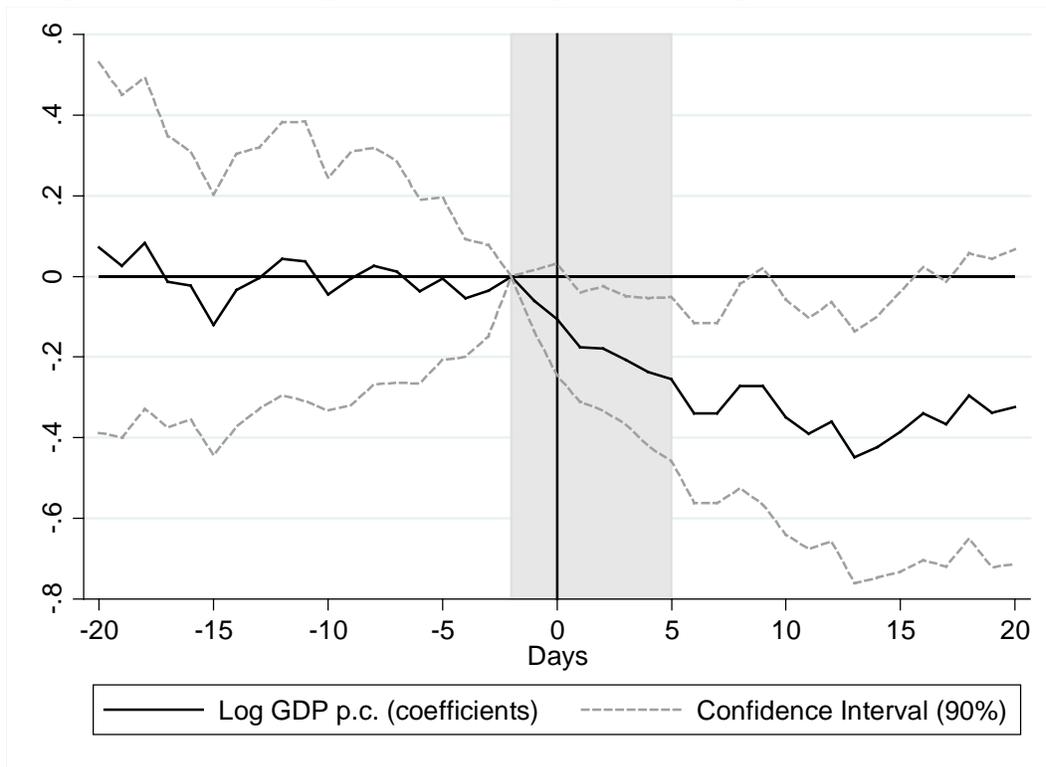
## Table 1: Default - Stock Market Returns in Local Currency

| Event window | (t-1, t+1) | (t-1, t+3) | (t-1, t+5) | (t-1, t+7) | (t-1, t+10) |
|---|---|---|---|---|---|
| *Exports to RTA partners/GDP* | 1.653** | 1.960** | 2.786** | 2.813* | 3.765** |
| | (0.59) | (0.71) | (0.92) | (1.14) | (1.27) |
| *Log distance to RTA partners* | 0.084 | 0.160° | 0.051 | 0.155 | 0.208 |
| | (0.07) | (0.09) | (0.10) | (0.12) | (0.13) |
| *Log real GDP of RTA partners* | -0.083° | -0.118* | -0.166* | -0.229* | -0.228* |
| | (0.04) | (0.06) | (0.07) | (0.09) | (0.10) |
| *Log real GDP* | 0.017 | 0.017 | 0.039 | 0.080 | 0.157 |
| | (0.04) | (0.05) | (0.08) | (0.10) | (0.12) |
| *Log real GDP p/c of RTA partners* | -0.069 | 0.010 | 0.052 | 0.146 | 0.105 |
| | (0.07) | (0.08) | (0.10) | (0.12) | (0.13) |
| *Log real GDP p/c* | -0.175* | -0.208* | -0.255* | -0.339* | -0.349° |
| | (0.08) | (0.10) | (0.12) | (0.14) | (0.18) |
| *Log Trade/GDP* | -0.101 | -0.077 | -0.104 | 0.195 | 0.243 |
| | (0.09) | (0.10) | (0.16) | (0.20) | (0.24) |
| *Log National Stocks/GDP* | 0.051 | 0.064 | 0.058 | 0.021 | -0.015 |
| | (0.05) | (0.06) | (0.08) | (0.10) | (0.13) |
| R-squared | 0.05 | 0.06 | 0.04 | 0.05 | 0.06 |
| Number of Observations | 1002 | 1002 | 1002 | 1002 | 1002 |

Note: Each column is estimated via OLS. Estimates based on 1002 observations, covering 82 developing and developed countries and 122 RTAs from 1988 to 2009. Event date defined as announcement of the start of negotiations of RTA or announcement of a successful conclusion of such an agreement. Coefficients with standard errors clustered at country-level in parentheses. Coefficients significantly different from zero at [0.10] 0.05 (0.01) marked with [one circle] one (two) asterisk(s). Regressand: National Stock Market return in local currency, adjusted for MSCI movement. Time-fixed effects, intercepts and Goods/Goods&Services dummy included but not reported.

## Table 2: Different Measures of Stock Market Returns (in LC)

| Model | Default | Beta in (-1,1) (MSCI) | No beta adj. (MSCI) | Beta adj. (MSCI ex US) | Beta adj. (EAFE) |
|---|---|---|---|---|---|
| *Exports to RTA partners/GDP* | 2.786** | 3.191** | 2.072° | 2.505** | 2.610** |
| | (0.92) | (0.97) | (1.24) | (0.93) | (0.94) |
| *Log distance to RTA partners* | 0.051 | 0.105 | -0.284° | 0.048 | 0.071 |
| | (0.10) | (0.11) | (0.16) | (0.11) | (0.11) |
| *Log real GDP of RTA partners* | -0.166* | -0.178* | -0.134 | -0.164* | -0.188* |
| | (0.07) | (0.08) | (0.08) | (0.07) | (0.07) |
| *Log real GDP* | 0.052 | 0.036 | 0.060 | 0.046 | 0.037 |
| | (0.10) | (0.11) | (0.12) | (0.10) | (0.11) |
| *Log real GDP p/c of RTA partners* | 0.039 | 0.068 | 0.028 | 0.027 | 0.017 |
| | (0.08) | (0.09) | (0.09) | (0.07) | (0.08) |
| *Log real GDP p/c* | -0.255* | -0.282* | -0.434** | -0.292* | -0.292* |
| | (0.12) | (0.13) | (0.12) | (0.11) | (0.12) |
| *Log Trade/GDP* | -0.104 | -0.092 | -0.095 | -0.075 | -0.078 |
| | (0.16) | (0.17) | (0.22) | (0.16) | (0.16) |
| *Log National Stocks/GDP* | 0.058 | 0.053 | 0.144 | 0.064 | 0.063 |
| | (0.08) | (0.09) | (0.10) | (0.08) | (0.08) |
| R-squared | 0.04 | 0.05 | 0.09 | 0.05 | 0.05 |
| Number of Observations | 1002 | 880 | 1003 | 1002 | 1002 |

Note: Each column is estimated via OLS; (t-1, t+5) event window. Estimates in Column (1) show the baseline results from Table 1 for comparability, covering 82 developing and developed countries and 122 RTAs from 1988 to 2009. In Column (2), sample is restricted to observations with betas between -1 and +1 (MSCI). Column (3) reports results for local returns without beta-adjustment. Columns (4) and (5) display results for national stock market returns adjusted for MSCI World (without the United States stock market) and EAFE (without developed countries) movement. Event date defined as announcement of the start of negotiations of RTA or announcement of a successful conclusion of such an agreement. Coefficients with standard errors clustered at the country-level in parentheses. Coefficients significantly different from zero at [0.10] 0.05 (0.01) marked with [one circle] one (two) asterisk(s). Regressand: National Stock Market return in local currency, adjusted for MSCI movement (unless indicated otherwise). Time-fixed effects, intercepts and Goods/Goods&Services dummy included but not reported.

## Table 3: Different Adjustments of Stock Market Returns for Exchange Rates

| Model | Default | Stock returns in LC | No beta adj. (USD) | Beta adj. (USD) | Adjusted for MSCI and FX |
|---|---|---|---|---|---|
| *Exports to RTA partners/GDP* | 2.786** | 2.961** | 1.843 | 1.919 | 2.099° |
| | (0.92) | (0.95) | (1.44) | (1.39) | (1.18) |
| *Log distance to RTA partners* | 0.051 | 0.081 | -0.427** | -0.317* | -0.142 |
| | (0.10) | (0.10) | (0.16) | (0.15) | (0.14) |
| *Log real GDP of RTA partners* | -0.166* | -0.176* | -0.093 | -0.119 | -0.164° |
| | (0.07) | (0.08) | (0.09) | (0.10) | (0.08) |
| *Log real GDP* | 0.039 | 0.050 | 0.044 | 0.014 | 0.079 |
| | (0.08) | (0.08) | (0.09) | (0.09) | (0.10) |
| *Log real GDP p/c of RTA partners* | 0.052 | 0.048 | -0.020 | -0.013 | 0.046 |
| | (0.10) | (0.11) | (0.14) | (0.14) | (0.12) |
| *Log real GDP p/c* | -0.255* | -0.234° | -0.317* | -0.266° | -0.345* |
| | (0.12) | (0.13) | (0.12) | (0.15) | (0.13) |
| *Log Trade/GDP* | -0.104 | -0.203 | -0.339 | -0.508° | -0.126 |
| | (0.16) | (0.15) | (0.25) | (0.26) | (0.19) |
| *Log National Stocks/GDP* | 0.058 | 0.055 | 0.187° | 0.164° | 0.100 |
| | (0.08) | (0.08) | (0.10) | (0.10) | (0.10) |
| R-squared | 0.04 | 0.04 | 0.12 | 0.12 | 0.09 |
| Number of Observations | 1002 | 929 | 929 | 929 | 929 |

Note: Each column is estimated via OLS; (t-1, t+5) event window. Estimates in Column (1) show the baseline results from Table 1 for comparability, covering 82 developing and developed countries and 122 RTAs from 1988 to 2009. In Column (2), sample is restricted to observations, where national stock market returns are available in local currency and U.S. dollar. Columns (3) and (4) report results for U.S. dollar returns without and with adjustment, respectively. Column (5) displays results for national stock market returns adjusted for MSCI and exchange rate movement. Event date defined as announcement of the start of negotiations of RTA or announcement of a successful conclusion of such an agreement. Coefficients with standard errors clustered at the country-level in parentheses. Coefficients significantly different from zero at [0.10] 0.05 (0.01) marked with [one circle] one (two) asterisk(s). Regressand: National Stock Market return in local currency, adjusted for MSCI movement (unless indicated otherwise). Time-fixed effects, intercepts and Goods/Goods&Services dummy included but not reported.

**Table 4: Various Fixed Effects**

| Model | Default | Without time-fixed effects | RTA-type dummies | RTA-fixed effects | Country-fixed effects |
|---|---|---|---|---|---|
| *Exports to RTA partners/GDP* | 2.786** | 2.862** | 2.253* | 2.003* | 2.759** |
| | (0.92) | (0.83) | (0.97) | (0.93) | (1.02) |
| *Log distance to RTA partners* | 0.051 | 0.143 | 0.117 | 0.437 | 0.037 |
| | (0.10) | (0.10) | (0.14) | (0.40) | (0.13) |
| *Log real GDP of RTA partners* | -0.166* | -0.111 | -0.171° | -0.174 | -0.142 |
| | (0.07) | (0.08) | (0.09) | (0.11) | (0.10) |
| *Log real GDP* | 0.039 | 0.036 | 0.026 | 0.107 | -2.642 |
| | (0.08) | (0.08) | (0.08) | (0.08) | (4.83) |
| *Log real GDP p/c of RTA partners* | 0.052 | 0.017 | 0.090 | 0.495° | 0.036 |
| | (0.10) | (0.11) | (0.12) | (0.26) | (0.12) |
| *Log real GDP p/c* | -0.255* | -0.197° | -0.203° | 0.061 | 4.009 |
| | (0.12) | (0.11) | (0.12) | (0.23) | (5.70) |
| *Log Trade/GDP* | -0.104 | -0.083 | -0.174 | 0.038 | 0.354 |
| | (0.16) | (0.17) | (0.16) | (0.16) | (0.78) |
| *Log National Stocks/GDP* | 0.058 | 0.030 | 0.034 | 0.035 | 0.023 |
| | (0.08) | (0.08) | (0.08) | (0.09) | (0.20) |
| R-squared | 0.04 | 0.01 | 0.05 | 0.18 | 0.11 |
| Number of Observations | 1002 | 1002 | 961 | 1002 | 1002 |

Note: Each column is estimated via OLS; (t-1, t+5) event window. Estimates in Column (1) show the baseline results from Table 1 for comparability, covering 82 developing and developed countries and 122 RTAs from 1988 to 2009. Column (2) drops time-fixed effects to baseline. In Column (3), the dummy variables Currency Union, Free Trade Agreement and Preferential Trade Agreement and their interaction with the Goods/Goods&Services dummy variable are included, but not reported (with Preferential Trade Agreement being the leave-out categoy). Columns (4) and (5) employ RTA-fixed effects and country-fixed effects. Event date defined as announcement of the start of negotiations of RTA or announcement of a successful conclusion of such an agreement. Coefficients with standard errors clustered at the country-level in parentheses. Coefficients significantly different from zero at [0.10] 0.05 (0.01) marked with [one circle] one (two) asterisk(s). Regressand: National Stock Market return in local currency, adjusted for MSCI movement. Time-fixed effects (except for columns 2 and 4), intercepts and Goods/Goods&Services dummy variable included but not reported.

# Table 5: Do Tariffs Matter?

| Event window | (t-1, t+1) | (t-1, t+3) | (t-1, t+5) | (t-1, t+7) | (t-1, t+10) |
|---|---|---|---|---|---|
| *Exports to RTA partners/GDP* | 1.582** | 1.980** | 2.484** | 2.658* | 3.842** |
| | (0.59) | (0.69) | (0.90) | (1.12) | (1.24) |
| *Log distance to RTA partners* | 0.088 | 0.135 | 0.053 | 0.127 | 0.150 |
| | (0.08) | (0.10) | (0.11) | (0.12) | (0.13) |
| *Log real GDP of RTA partners* | -0.079 | -0.122° | -0.130 | -0.235* | -0.238* |
| | (0.05) | (0.07) | (0.08) | (0.09) | (0.11) |
| *Log real GDP* | -0.058 | 0.093 | 0.055 | 0.231° | 0.234 |
| | (0.09) | (0.11) | (0.13) | (0.13) | (0.15) |
| *Log real GDP p/c of RTA partners* | 0.026 | 0.010 | 0.010 | 0.052 | 0.119 |
| | (0.05) | (0.06) | (0.09) | (0.11) | (0.12) |
| *Log real GDP p/c* | -0.185* | -0.251* | -0.332* | -0.412** | -0.335° |
| | (0.08) | (0.10) | (0.15) | (0.15) | (0.19) |
| *Log Trade/GDP* | -0.006 | -0.018 | -0.050 | 0.220 | 0.296 |
| | (0.10) | (0.10) | (0.18) | (0.22) | (0.25) |
| *Log National Stocks/GDP* | 0.054 | 0.080 | 0.084 | 0.021 | -0.001 |
| | (0.05) | (0.07) | (0.09) | (0.11) | (0.13) |
| *Tariffs (in percent)* | 0.007 | -0.005 | -0.019 | -0.023 | -0.003 |
| | (0.01) | (0.01) | (0.02) | (0.02) | (0.02) |
| *Tariffs (in percent) of RTA partners* | 0.007 | 0.026° | 0.009 | 0.018 | 0.024 |
| | (0.01) | (0.01) | (0.02) | (0.02) | (0.02) |
| R-squared | 0.05 | 0.06 | 0.04 | 0.05 | 0.05 |
| Number of Observations | 960 | 960 | 960 | 960 | 960 |

Note: Each column is estimated via OLS. Estimates based on 1002 observations, covering 82 developing and developed countries and 122 RTAs from 1988 to 2009. *Tariffs* and *Tariffs of RTA partners* refer to the average applied tariff rate (in percent). Event date defined as announcement of the start of negotiations of RTA or announcement of a successful conclusion of such an agreement. Coefficients with standard errors clustered at country-level in parentheses. Coefficients significantly different from zero at [0.10] 0.05 (0.01) marked with [one circle] one (two) asterisk(s). Regressand: National Stock Market return in local currency, adjusted for MSCI movement. Time-fixed effects, intercepts and Goods/Goods&Services dummy included but not reported.

## Table 6: Non-RTA Members Stock Market Returns - Expected Trade Diversion?

| Model | RTA-members | Non-RTA-members | | | |
| --- | --- | --- | --- | --- | --- |
| | Default | Top 10 Export Destination | Top 5 Export Destination | Top 3 Export Destination | Top 1 Export Destination |
| *Exports to RTA partners/GDP* | 2.786** | -0.062 | -0.773 | -0.918 | -0.392 |
| | (0.92) | (0.85) | (0.98) | (1.09) | (1.24) |
| *Log distance to RTA partners* | 0.051 | 0.136° | 0.134° | 0.062 | -0.012 |
| | (0.10) | (0.07) | (0.08) | (0.09) | (0.18) |
| *Log real GDP of RTA partners* | -0.166* | 0.005 | -0.019 | 0.081 | -0.138 |
| | (0.07) | (0.05) | (0.06) | (0.09) | (0.16) |
| *Log real GDP* | 0.052 | 0.040 | 0.105 | 0.050 | 0.025 |
| | (0.10) | (0.07) | (0.08) | (0.13) | (0.19) |
| *Log real GDP p/c of RTA partners* | 0.039 | 0.098° | 0.143* | 0.076 | 0.058 |
| | (0.08) | (0.05) | (0.07) | (0.06) | (0.06) |
| *Log real GDP p/c* | -0.255* | 0.041 | -0.000 | -0.064 | -0.201 |
| | (0.12) | (0.06) | (0.06) | (0.08) | (0.13) |
| *Log Trade/GDP* | -0.104 | 0.107 | 0.253 | 0.309 | 0.152 |
| | (0.16) | (0.12) | (0.16) | (0.22) | (0.26) |
| *Log National Stocks/GDP* | 0.058 | -0.152** | -0.165* | -0.098 | -0.036 |
| | (0.08) | (0.06) | (0.07) | (0.06) | (0.09) |
| R-squared | 0.04 | 0.04 | 0.04 | 0.05 | 0.08 |
| Number of Observations | 1002 | 4246 | 2953 | 2100 | 853 |

Note: Each column is estimated via OLS; (t-1, t+5) event window. Estimates in Column (1) show the baseline results from Table 1 for comparability, covering 82 developing and developed countries and 122 RTAs from 1988 to 2009. Columns (2) to (5) display results for stock market returns of countries that are not part of a new RTA. For these non-RTA members (at least one) RTA-member country constitutes an important export destination (Top 10, 5, 3 or 1). Event date defined as announcement of the start of negotiations of RTA or announcement of a successful conclusion of such an agreement. Coefficients with standard errors clustered at the country-level in parentheses. Coefficients significantly different from zero at [0.10] 0.05 (0.01) marked with [one circle] one (two) asterisk(s). Regressand: National Stock Market return in local currency, adjusted for MSCI movement (unless indicated otherwise). Time-fixed effects, intercepts and Goods/Goods&Services dummy included but not reported.

## Table A.1: Alternative Measure for Natural Trading Partners

| Event window | (t-1, t+1) | (t-1, t+3) | (t-1, t+5) | (t-1, t+7) | (t-1, t+10) |
|---|---|---|---|---|---|
| *Exports to and Imports from* | 0.966* | 1.123* | 1.428* | 1.766* | 2.243* |
| *RTA partners/GDP* | (0.41) | (0.51) | (0.67) | (0.80) | (0.89) |
| *Log distance to RTA partners* | 0.085 | 0.155° | 0.019 | 0.154 | 0.207 |
| | (0.07) | (0.09) | (0.11) | (0.13) | (0.14) |
| *Log real GDP of RTA partners* | -0.097° | -0.131* | -0.170* | -0.257** | -0.259* |
| | (0.05) | (0.07) | (0.08) | (0.10) | (0.11) |
| *Log real GDP* | 0.017 | 0.012 | 0.040 | 0.079 | 0.150 |
| | (0.05) | (0.06) | (0.08) | (0.10) | (0.12) |
| *Log real GDP p/c of RTA partners* | -0.069 | 0.016 | 0.044 | 0.143 | 0.112 |
| | (0.07) | (0.09) | (0.10) | (0.12) | (0.13) |
| *Log real GDP p/c* | -0.178* | -0.207* | -0.255* | -0.350* | -0.356° |
| | (0.08) | (0.10) | (0.13) | (0.14) | (0.18) |
| *Log Trade/GDP* | -0.104 | -0.084 | -0.098 | 0.178 | 0.225 |
| | (0.10) | (0.10) | (0.17) | (0.21) | (0.25) |
| *Log National Stocks/GDP* | 0.054 | 0.059 | 0.068 | 0.025 | -0.014 |
| | (0.06) | (0.07) | (0.09) | (0.11) | (0.14) |
| R-squared | 0.05 | 0.06 | 0.04 | 0.05 | 0.05 |
| Number of Observations | 991 | 991 | 991 | 991 | 991 |

Note: Each column is estimated via OLS. Estimates based on 991 observations, covering 82 developing and developed countries and 122 RTAs from 1988 to 2009. Event date defined as announcement of the start of negotiations of RTA or announcement of a successful conclusion of such an agreement. Coefficients with standard errors clustered at country-level in parentheses. Coefficients significantly different from zero at [0.10] 0.05 (0.01) marked with [one circle] one (two) asterisk(s). Regressand: National Stock Market return in local currency, adjusted for MSCI movement. Time-fixed effects, intercepts and Goods/Goods&Services dummy included but not reported.

## Table A.2: Financial Crises and Extreme Stock Market Returns (in LC)

| Model | Default | No financial crises | Trimmed sample (1%) | Trimmed sample (2%) | Trimmed sample (5%) |
|---|---|---|---|---|---|
| *Exports to RTA partners/GDP* | 2.786** | 2.904** | 2.600** | 2.521** | 2.113* |
| | (0.92) | (0.91) | (0.94) | (0.93) | (0.80) |
| *Log distance to RTA partners* | 0.051 | 0.059 | 0.082 | 0.047 | 0.053 |
| | (0.10) | (0.11) | (0.09) | (0.09) | (0.09) |
| *Log real GDP of RTA partners* | -0.166* | -0.187* | -0.119 | -0.138* | -0.143* |
| | (0.07) | (0.08) | (0.07) | (0.07) | (0.06) |
| *Log real GDP* | 0.039 | 0.060 | 0.057 | 0.042 | 0.084 |
| | (0.08) | (0.07) | (0.08) | (0.08) | (0.07) |
| *Log real GDP p/c of RTA partners* | 0.052 | 0.021 | 0.032 | 0.019 | 0.028 |
| | (0.10) | (0.10) | (0.10) | (0.08) | (0.07) |
| *Log real GDP p/c* | -0.255* | -0.285** | -0.243* | -0.226* | -0.159° |
| | (0.12) | (0.10) | (0.10) | (0.10) | (0.09) |
| *Log Trade/GDP* | -0.104 | -0.143 | -0.129 | -0.132 | -0.015 |
| | (0.16) | (0.15) | (0.17) | (0.16) | (0.13) |
| *Log National Stocks/GDP* | 0.058 | 0.043 | 0.084 | 0.076 | -0.003 |
| | (0.08) | (0.08) | (0.08) | (0.07) | (0.06) |
| R-squared | 0.04 | 0.05 | 0.05 | 0.06 | 0.05 |
| Number of Observations | 1002 | 953 | 993 | 984 | 954 |

Note: Each column is estimated via OLS; (t-1, t+5) event window. Estimates in Column (1) show the baseline results from Table 1 for comparability, covering 82 developing and developed countries and 122 RTAs from 1988 to 2009. In Column (2), sample is restricted to observations with no major financial crisis (see endnote details). Columns (3), (4) and (5) report results for local returns, where top and bottom 0.5%, 1% and 2.5% is dropped, respectively. Event date defined as announcement of the start of negotiations of RTA or announcement of a successful conclusion of such an agreement. Coefficients with standard errors clustered at the country-level in parentheses. Coefficients significantly different from zero at [0.10] 0.05 (0.01) marked with [one circle] one (two) asterisk(s). Regressand: National Stock Market return in local currency, adjusted for MSCI movement. Time-fixed effects, intercepts and Goods/Goods&Services dummy included but not reported.

## Table A.3: Extra Variables on RTA Partner

| Model | Default | RTA-partner Size | Rel. Capital Endowment | Similarity | All three Controls |
|---|---|---|---|---|---|
| Event window | (t-1, t+5) | (t-1, t+5) | (t-1, t+5) | (t-1, t+5) | (t-1, t+5) |
| *Exports to RTA partners/GDP* | 2.786** | 2.821** | 2.828** | 2.865** | 2.967** |
| | (0.92) | (0.93) | (0.93) | (0.95) | (0.96) |
| *Log distance to RTA partners* | 0.051 | 0.044 | 0.057 | 0.067 | 0.066 |
| | (0.10) | (0.10) | (0.10) | (0.10) | (0.10) |
| *Log real GDP of RTA partners* | -0.166* | -0.154* | -0.166* | -0.171* | -0.155* |
| | (0.07) | (0.07) | (0.07) | (0.07) | (0.07) |
| *Log real GDP* | 0.039 | 0.054 | 0.042 | 0.056 | 0.082 |
| | (0.08) | (0.09) | (0.08) | (0.08) | (0.09) |
| *Log real GDP p/c of RTA partners* | 0.052 | 0.026 | 0.041 | 0.046 | -0.000 |
| | (0.10) | (0.12) | (0.11) | (0.10) | (0.12) |
| *Log real GDP p/c* | -0.255* | -0.265* | -0.246° | -0.253* | -0.257° |
| | (0.12) | (0.13) | (0.12) | (0.12) | (0.13) |
| *Log Trade/GDP* | -0.104 | -0.092 | -0.105 | -0.114 | -0.103 |
| | (0.16) | (0.17) | (0.16) | (0.17) | (0.18) |
| *Log National Stocks/GDP* | 0.058 | 0.053 | 0.054 | 0.061 | 0.051 |
| | (0.08) | (0.09) | (0.08) | (0.09) | (0.09) |
| *RTA-partner's log Population* | | -0.046 | | | -0.061 |
| | | (0.012) | | | (0.012) |
| *Proxy relative capital endowment* | | | -0.055 | | -0.059 |
| | | | (0.11) | | (0.012) |
| *Proxy similarity* | | | | 0.084 | 0.096 |
| | | | | (0.10) | (0.09) |
| R-squared | 0.04 | 0.04 | 0.04 | 0.04 | 0.04 |
| Number of Observations | 1002 | 1002 | 1002 | 994 | 994 |

Note: Each column is estimated via OLS. Estimates based on 1002 observations, covering 82 developing and developed countries and 122 RTAs from 1988 to 2009. Event date defined as announcement of the start of negotiations of RTA or announcement of a successful conclusion of such an agreement. Coefficients with standard errors clustered at country-level in parentheses. Coefficients significantly different from zero at [0.10] 0.05 (0.01) marked with [one circle] one (two) asterisk(s). Regressand: National Stock Market return in local currency, beta-adjusted for MSCI movement. Time-fixed effects, intercepts and dummy variable RTA-coverage included but not reported.

## Table A.4: Extra Variables on Country i or RTA Partner

| Model | Default | Number of Listed Firms | Corruption Index | Imports to RTA-partners | All three Controls |
|---|---|---|---|---|---|
| Event window | (t-1, t+5) | (t-1, t+5) | (t-1, t+5) | (t-1, t+5) | (t-1, t+5) |
| *Exports to RTA partners/GDP* | 2.786** | 2.695** | 2.458** | 3.099* | 3.413* |
| | (0.92) | (0.93) | (0.92) | (1.30) | (1.32) |
| *Log distance to RTA partners* | 0.051 | 0.030 | 0.025 | 0.023 | -0.025 |
| | (0.10) | (0.10) | (0.11) | (0.11) | (0.11) |
| *Log real GDP of RTA partners* | -0.166* | -0.158* | -0.163* | -0.144° | -0.113 |
| | (0.07) | (0.07) | (0.07) | (0.09) | (0.08) |
| *Log real GDP* | 0.052 | 0.058 | 0.059 | 0.040 | 0.044 |
| | (0.10) | (0.10) | (0.10) | (0.10) | (0.10) |
| *Log real GDP p/c of RTA partners* | 0.039 | -0.010 | 0.120 | 0.038 | 0.076 |
| | (0.08) | (0.10) | (0.08) | (0.08) | (0.10) |
| *Log real GDP p/c* | -0.255* | -0.229° | -0.445** | -0.254* | -0.424** |
| | (0.12) | (0.13) | (0.13) | (0.13) | (0.13) |
| *Log Trade/GDP* | -0.104 | -0.131 | -0.055 | -0.100 | -0.059 |
| | (0.16) | (0.17) | (0.16) | (0.16) | (0.17) |
| *Log National Stocks/GDP* | 0.058 | 0.064 | -0.009 | 0.067 | 0.007 |
| | (0.08) | (0.09) | (0.09) | (0.09) | (0.09) |
| *Log Number of Listed Firms* | | 0.044 | | | 0.038 |
| | | (0.11) | | | (0.11) |
| *Corruption Index (ICRG)* | | | 0.274** | | 0.278** |
| | | | (0.08) | | (0.08) |
| *Imports from RTA partners/GDP* | | | | -0.691 | -2.060 |
| | | | | (2.18) | (2.08) |
| R-squared | 0.04 | 0.04 | 0.05 | 0.04 | 0.05 |
| Number of Observations | 1002 | 998 | 966 | 991 | 954 |

Note: Each column is estimated via OLS. Estimates based on 1002 observations, covering 82 developing and developed countries and 122 RTAs from 1988 to 2009. Event date defined as announcement of the start of negotiations of RTA or announcement of a successful conclusion of such an agreement. Coefficients with standard errors clustered at country-level in parentheses. The variables (log) Number of Listed Firms and the Corruption Index (ICRG) refer to country i. Coefficients significantly different from zero at [0.10] 0.05 (0.01) marked with [one circle] one (two) asterisk(s). Regressand: National Stock Market return in local currency, beta-adjusted for MSCI movement. Time-fixed effects, intercepts and dummy variable RTA-coverage included but not reported.

## Table A.5: Evidence for Anticipation Effects?

| Model | Default (t-1, t+5) | (t-3, t-1) | (t-5, t-1) | (t-7, t-1) | (t-10, t-1) |
|---|---|---|---|---|---|
| *Exports to RTA partners/GDP* | 2.786** | -0.653 | -1.089 | 0.699 | 0.991 |
| | (0.92) | (0.69) | (0.67) | (1.09) | (1.13) |
| *Log distance to RTA partners* | 0.051 | 0.001 | -0.124 | 0.111 | 0.097 |
| | (0.10) | (0.07) | (0.11) | (0.14) | (0.20) |
| *Log real GDP of RTA partners* | -0.166* | 0.004 | -0.010 | -0.137° | -0.052 |
| | (0.07) | (0.04) | (0.06) | (0.08) | (0.10) |
| *Log real GDP* | 0.039 | -0.044 | -0.046 | -0.040 | -0.041 |
| | (0.08) | (0.07) | (0.10) | (0.11) | (0.13) |
| *Log real GDP p/c of RTA partners* | 0.052 | 0.060 | 0.006 | 0.110 | 0.069 |
| | (0.10) | (0.06) | (0.08) | (0.11) | (0.16) |
| *Log real GDP p/c* | -0.255* | -0.005 | 0.011 | -0.005 | 0.044 |
| | (0.12) | (0.12) | (0.17) | (0.19) | (0.21) |
| *Log Trade/GDP* | -0.104 | 0.006 | 0.011 | 0.048 | -0.087 |
| | (0.16) | (0.11) | (0.17) | (0.18) | (0.23) |
| *Log National Stocks/GDP* | 0.058 | -0.016 | -0.016 | -0.046 | -0.008 |
| | (0.08) | (0.05) | (0.08) | (0.11) | (0.13) |
| R-squared | 0.04 | 0.08 | 0.07 | 0.06 | 0.10 |
| Number of Observations | 1002 | 1002 | 1002 | 1002 | 1002 |

Note: Each column is estimated via OLS. Estimates in Column (1) show the baseline results from Table 1 for comparability, covering 82 developing and developed countries and 122 RTAs from 1988 to 2009. In Column (2) to (5), we report the results for different event windows prior to the announcement date. Event date defined as announcement of the start of negotiations of RTA or announcement of a successful conclusion of such an agreement. Coefficients with standard errors clustered at the country-level in parentheses. Coefficients significantly different from zero at [0.10] 0.05 (0.01) marked with [one circle] one (two) asterisk(s). Regressand: National Stock Market return in local currency, adjusted for MSCI movement. Time-fixed effects, intercepts and Goods/Goods&Services dummy included but not reported.

## Table A.6: Expected Trade Diversion - Do Tariffs Matter?

| Model | RTA-members Default | Non-RTA-members | | | |
|---|---|---|---|---|---|
| | | Top 10 Export Destination | Top 5 Export Destination | Top 3 Export Destination | Top 1 Export Destination |
| *Exports to RTA partners/GDP* | 2.484** | 0.058 | -0.573 | -0.516 | -0.523 |
| | (0.90) | (0.87) | (0.99) | (0.99) | (1.14) |
| *Log distance to RTA partners* | 0.053 | 0.149* | 0.155° | 0.108 | -0.158 |
| | (0.11) | (0.07) | (0.09) | (0.09) | (0.18) |
| *Log real GDP of RTA partners* | -0.130 | 0.002 | -0.005 | 0.078 | -0.175 |
| | (0.08) | (0.06) | (0.06) | (0.08) | (0.15) |
| *Log real GDP* | 0.055 | 0.038 | 0.009 | 0.025 | 0.429 |
| | (0.13) | (0.11) | (0.14) | (0.18) | (0.31) |
| *Log real GDP p/c of RTA partners* | 0.010 | 0.130** | 0.184** | 0.124* | 0.124* |
| | (0.09) | (0.04) | (0.06) | (0.06) | (0.06) |
| *Log real GDP p/c* | -0.332* | 0.079 | 0.054 | 0.013 | -0.093 |
| | (0.15) | (0.06) | (0.07) | (0.08) | (0.11) |
| *Log Trade/GDP* | -0.050 | 0.136 | 0.269° | 0.329° | 0.354 |
| | (0.18) | (0.11) | (0.15) | (0.18) | (0.24) |
| *Log National Stocks/GDP* | 0.084 | -0.178** | -0.198** | -0.139* | -0.066 |
| | (0.09) | (0.06) | (0.07) | (0.06) | (0.08) |
| *Tariffs (in percent)* | -0.019 | 0.007 | 0.009 | 0.014° | 0.026 |
| | (0.02) | (0.01) | (0.01) | (0.01) | (0.02) |
| *Tariffs (in percent) of RTA partners* | 0.009 | -0.002 | -0.044 | -0.037 | 0.098 |
| | (0.02) | (0.03) | (0.04) | (0.07) | (0.13) |
| R-squared | 0.04 | 0.04 | 0.05 | 0.06 | 0.07 |
| Number of Observations | 960 | 4061 | 2814 | 1988 | 819 |

Note: Each column is estimated via OLS; (t-1, t+5) event window. Estimates in Column (1) show the baseline results from Table 1 for comparability, covering 82 developing and developed countries and 122 RTAs from 1988 to 2009. Columns (2) to (5) display results for stock market returns of countries that are not part of a new RTA. For these non-RTA members (at least one) RTA-member country constitutes an important export destination (Top 10, 5, 3 or 1). Event date defined as announcement of the start of negotiations of RTA or announcement of a successful conclusion of such an agreement. Coefficients with standard errors clustered at the country-level in parentheses. Coefficients significantly different from zero at [0.10] 0.05 (0.01) marked with [one circle] one (two) asterisk(s). Regressand: National Stock Market return in local currency, adjusted for MSCI movement (unless indicated otherwise). Time-fixed effects, intercepts and Goods/Goods&Services dummy included but not reported.

**Online Appendix**

**(Not Intended for Publication)**

**Table OA1: Announcements on Regional Trade Agreements (RTAs), RTA Members, Date, Name, and other Characteristics (1988 - 2009).**

| Name of RTA | Event date (LexisNexis) | Event Type | RTA members in data set | Description of Announcement | Signature date (WTO) |
|---|---|---|---|---|---|
| Global System of Trade Preferences among Developing Countries (GSTP) | 13 Apr. 1988 | Deal | Argentina, Chile, Peru, Sri Lanka, India, Indonesia, Malaysia, Mexico, Philippines, Singapore, Thailand | Ministers of nearly 50 developing nations have agreed in the "Belgrade Declaration" to grant one another tariff concessions and trade preferences. | 13 Apr. 1988 |
| ANZCERTA (Services) | 18 Aug. 1988 | Deal | Australia, New Zealand | New Zealand's Prime Minister recognizes that the world economy is increasingly characterized by strong growth in trade in services [..] two countries agreed to include services in its free trade agreement. | 18 Aug. 1988 |
| European Economic Area (EEA) | 19 Dec. 1989 | Start | Austria, Denmark, France, Finland, Germany, Greece, Italy, Netherlands, Norway, Portugal, Spain, Sweden, United Kingdom | The 19 European Community and seven European Free Trade Association nations agreed Tuesday to begin talks early next year on closer economic cooperation aimed at forging a so called European Economic Space. | --- |
| North American Free Trade Agreement (NAFTA) | 11 June 1990 | Start | Mexico, United States | United States and Mexico agreed to begin work on a free-trade accord [..] in a joint statement issued Monday by the White House. | --- |
| Economic Cooperation Organization (ECO) | 19 June 1990 | Deal | Pakistan, Turkey | Pakistan, Iran and Turkey have agreed to enhance their cooperation in economic, technical and other fields in an extraordinary ministerial meeting of ECO in Islamabad. | N/A |
| Southern Common Market (MERCOSUR) | 6 July 1990 / 1 Aug. 1990 | Start | Argentina, Brazil, Chile | Presidents of Argentina and Brazil signed a statement "to establish a common market [..] which must be formed by January 1, 1995." | --- |
| Chile – Mexico | 20 Sept. 1990 | Deal | Chile, Mexico | Mexico and Chile will sign a FTA next month [..] Mr. Serra, Mexico's Secretary of Trade and Industry, and Chilean Finance Minister Mr. Foxley announced the deal. | 17 Apr. 1998 |
| North American Free Trade Agreement (NAFTA) | 24 Sept. 1990 | Start | Canada, Mexico, United States | Canadian government announced Monday it would plunge into trade talks underway between the United States and Mexico. | --- |
| Southern Common Market (MERCOSUR) | 20 March 1991 | Deal | Argentina, Brazil | Presidents of Brazil, Argentina, Uruguay and Paraguay will meet Tuesday to sign a common market treaty, Brazil's Foreign Ministry announced Wednesday. | 29 Nov. 1991 |

| EC (15) Enlargement | 31 July 1991 | Start | Austria, Belgium, Denmark, France, Germany, Greece, Italy, Netherlands, Portugal, Spain, United Kingdom | European Commission recommended today that Austria should become a member of the European Community.  This is the gist of the so-called "avis". | --- |
|---|---|---|---|---|---|
| ASEAN Free Trade Area (AFTA) | 8 Oct.  1991 | Start | Indonesia, Malaysia, Philippines, Singapore, Thailand | Economic Ministers of the Association of Southeast Asian Nations (ASEAN) on Tuesday announced plans to establish a free trade area. | --- |
| EFTA – Turkey | 17 Oct.  1991 | Deal | Austria, Finland, Norway, Sweden, Switzerland, Turkey | Free trade negotiations between the EFTA countries and Turkey were concluded on October 17 in Geneva, when a FTA was initialed by representatives of the two parties. | 10 Dec. 1991 |
| European Economic Area (EEA) | 22 Oct.  1991 | Deal | Austria, Belgium, Denmark, France, Finland, Germany, Greece, Italy Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom | European Community (EC) and the EFTA nations of northern Europe agreed here early Tuesday to form the world's largest common market. | 2 May 1992 |
| South  Asian Preferential Trade Arrangement (SAPTA) | 23 Dec.  1991 | Start | Bangladesh, India, Pakistan, Sri Lanka | The sixth SAARC summit concluded [..] also agreed to examine host Sri Lanka's proposal to set up a "SAARC Preferential Trade Arrangement" by 1997. | --- |
| ASEAN Free Trade Area (AFTA) | 28 Jan.  1992 | Deal | Indonesia, Malaysia, Philippines, Singapore, Thailand | ASEAN economic ministers signed an agreement on the common effective preferential tariff for the Asean Free Trade Area (AFTA). | N/A |
| EFTA – Israel | 16 July 1992 | Deal | Austria, Finland, Israel, Norway, Sweden, Switzerland | Israel and the seven members of EFTA yesterday reached a free trade agreement after 13 months of negotiations. | 17 Sept. 1992 |
| EC (15) Enlargement | 31 July 1992 | Start | Austria, Belgium, Denmark, France, Germany, Greece, Italy, Netherlands, Portugal, Spain, Sweden, United Kingdom | European Commission gave the go-ahead today to open formal negotiations to bring Sweden into the European Community. | --- |
| North American Free Trade Agreement (NAFTA) | 12.  Aug. 1992 | Deal | Canada, Mexico, United States | U.S.  President Bush announced that the US, Canada and Mexico have reached a free-trade agreement to create the world's largest trading bloc. | 17 Dec. 1992 |
| EC – Israel | 2 Oct.  1992 | Start | Belgium, Denmark, France, Germany, Greece, Israel, Italy, Netherlands, Portugal, Spain,  United Kingdom | European Commission President Delors told Foreign Minister Peres on Friday that the EC would renew its economic accord. | --- |
| EC (15) Enlargement | 4 Nov.  1992 | Start | Austria, Belgium, Denmark, Finland, France, Germany, | European Commission recommended on Wednesday that the 12 EC states open membership | --- |

| | | | Greece, Italy, Netherlands, Portugal, Spain, Sweden, United Kingdom | talks with Finland. | |
|---|---|---|---|---|---|
| South Asian Preferential Trade Arrangement (SAPTA) | 12 April 1993 | Deal | Bangladesh, India, Pakistan, Sri Lanka | South Asian leaders signed an agreement to pave the way for preferential trading schemes (SAPTA) yesterday. | 11 April 1993 |
| EC (15) Enlargement | 2 March 1994 | Deal | Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Portugal, Spain, Sweden, United Kingdom | Sweden, Finland and Austria agreed terms to join the European Union after five days and three nights of arduous talks. | 24 June 1994 |
| EC – South Africa | 10 Oct. 1994 | Start | Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Netherlands, Portugal, Spain, United Kingdom | EU and South Africa signed a co-operation agreement [..] laying the groundwork for the negotiation of a formal trade agreement. | --- |
| EC – Egypt | 3 Nov. 1994 | Start | Belgium, Denmark, Egypt, France, Germany, Greece, Ireland, Italy, Netherlands, Portugal, Spain, United Kingdom | European Commission stepped forward with a recommendation for a Council Decision authorizing the EU's executive agency to negotiate a Euro-Mediterranean Association Agreement with Egypt. | --- |
| Canada – Israel | 23 Nov. 1994 | Start | Canada, Israel | Canada and Israel are to negotiate a FTA, leaders of the two countries announced Wednesday. | --- |
| EC – Turkey | 6 March 1995 | Deal | Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Portugal, Spain, Sweden, Turkey, United Kingdom | EU concludes long-awaited customs union with Turkey [..] a move the EU hopes will strengthen Turkey's ties to the West. | 6 March 1995 |
| EC – Jordan | 12 June 1995 | Start | Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Jordan, Netherlands, Portugal, Spain, Sweden, United Kingdom | EU Foreign Ministers approved a negotiating mandate authorizing the EC to begin talks on an Association Agreement with Jordan. | --- |
| EC – Israel | 18 July 1995 | Deal | Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Israel, Italy, Netherlands, Portugal, Spain, Sweden, United Kingdom | EU and Israel have reached a new trade agreement eliminating most remaining tariffs [..] the Foreign Ministry announced Tuesday. | 20 Nov. 1995 |
| EC – Morocco | 15 Nov. 1995 | Deal | Austria, Belgium, Denmark, Finland, France, Germany, | The EU and Morocco initialed an Association Agreement on November 15 [..] replaces the | 26 Feb. 1996 |

| | | | Greece, Ireland, Italy, Morocco, Netherlands, Portugal, Spain, Sweden, United Kingdom | Cooperation Agreement of 1976. | |
|---|---|---|---|---|---|
| EC – Lebanon | 28 Nov. 1995 | Start | Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Lebanon, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom | The European Union and its neighbors from the Mideast and North Africa pledged Tuesday to lift trade barriers and foster private investment across the Mediterranean in pursuit of a free-trade area by 2010. | --- |
| EFTA – Egypt / EFTA – Morocco / EFTA – Tunisia | 8 Dec. 1995 | Start | Iceland, Norway, Switzerland; Egypt, Morocco, Tunisia. | EFTA Ministers during their meeting in Zermatt on December 8 [..] Ministers from Egypt, Morocco and Tunisia signed Declarations on cooperation with the EFTA states, which may eventually lead to full Agreements. | --- |
| Canada – Chile | 29 Dec. 1995 | Start | Canada, Chile | Work will begin by mid-January on what is being called an interim bilateral trade agreement with Chile, Canadian Trade Minister Roy said. | --- |
| Turkey – Israel | 12 March 1996 | Deal | Israel, Turkey | Turkish President Demirel is in Israel to sign bilateral trade agreement with Israel. | 14 March 1996 |
| EC – Mexico | 13 May 1996 | Start | Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Mexico, Netherlands, Portugal, Spain, Sweden, United Kingdom | European Union foreign ministers on Monday cleared up a dispute that has long delayed the start of free-trade negotiations with Mexico. | --- |
| Canada – Israel | 22 July 1996 | Deal | Canada, Israel | Israel and Canada are to sign a free-trade agreement in Canada on July 31, a spokesman for Israel's Ministry of Industry and Trade said yesterday in Jerusalem. | 31 July 1996 |
| Canada – Chile | 14 Nov. 1996 | Deal | Canada, Chile | Canada and Chile have reached a FTA, Canada's Minister for international trade, Mr. Eggleton, announced today. | 5 Dec. 1996 |
| Israel – Mexico | 18 Feb. 1997 | Start | Israel, Mexico | Israel and Mexico have agreed to negotiate a FTA [..] spokesman of Israeli Trade Minister said yesterday. | --- |
| Pan-Arab Free Trade Area (PAFTA) | 19 Feb. 1997 | Start | Egypt, Jordan, Lebanon, Morocco, Oman, Saudi Arabia | Economy and finance ministers from the 22 member Arab League began talks in Cairo which will focus on long-awaited plans to create an Arab common market and a joint free-trade zone. | --- |

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|---|---|---|---|---|---|
| EC – Jordan | 16 April 1997 | Deal | Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Jordan, Netherlands, Portugal, Spain, Sweden, United Kingdom | EU and Jordanian officials got together in the Maltese capital of Valetta on April 16, to put their initials to an Association Agreement aimed at creating free trade in non-agricultural products. | 24 Nov. 1997 |
| EFTA – Morocco | 11 June 1997 | Deal | Iceland, Morocco, Norway, Switzerland | A Moroccan [Ministry of] Foreign Affairs statement says the agreement with EFTA will be officially signed in Geneva on June 19th. | 19 June 1997 |
| EC (25) Enlargement | 16 July 1997 | Start | Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Luxembourg, Netherlands, Poland, Portugal, Slovenia, Spain, Sweden, United Kingdom | EU Commission confirmed on Wednesday that it would recommend [..] the Czech Republic, Estonia, Hungary, Poland and Slovenia plus Cyprus [..] to begin accession negotiations. | --- |
| EFTA – Canada | 4 Dec. 1997 | Start | Canada, Iceland, Norway, Switzerland | An initial meeting between EFTA and Canada, to pave the way for a full FTA, will take place next year [..] Swiss Economy minister Mr. Delamurax said Thursday. | --- |
| Pan-Arab Free Trade Area (PAFTA) | 31 Dec. 1997 | Deal | Egypt, Jordan, Lebanon, Morocco, Oman, Saudi Arabia | Arab League launched a regional free trade program on Wednesday, a step that could lead to the creation of an Arab common market. | 19 Feb. 1997 |
| EC – Chile | 22 July 1998 | Start | Austria, Belgium, Chile, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom | European Commission yesterday took the first step toward negotiating a free-trade arrangement with Chile. | --- |
| South Korea – Chile | 16 Nov. 1998 | Start | Chile, South Korea | Korean President Dae-jung and Chilean President Frei agreed here Tuesday to start negotiations on a FTA between their two countries. | --- |
| Egypt – Turkey | 7 Dec. 1998 | Start | Egypt, Turkey | On Sunday, Egyptian President Mubarak urged closer economic cooperation in the region [..] Turkey and Egypt are aiming for a FTA. | --- |
| India – Sri Lanka | 28 Dec. 1998 | Deal | India, Sri Lanka | India and Sri Lanka signed a free-trade agreement Monday that will eliminate customs tariffs between the countries over several years. | 28 Dec. 1998 |

| EC – South Africa | 24 March 1999 | Deal | Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, South Africa, Spain, Sweden, United Kingdom | EU wrapped up four years of arduous negotiations by agreeing the terms of a wide-ranging free-trade deal with South Africa, German Foreign Minister Fischer said Wednesday. | 11 Oct. 1999 |
|---|---|---|---|---|---|
| EFTA – Mexico | 7 June 1999 | Start | Iceland, Mexico, Norway, Switzerland | EFTA held its Spring Ministerial meeting in Lillehammer, Norway [..] agreed to propose to Mexico to start exploring the basis for a FTA. | --- |
| New Zealand – Singapore | 13 Sept. 1999 | Start | New Zealand, Singapore | Singapore and New Zealand took the lead in opening up their economies when their two leaders agreed to start negotiations on a FTA. | --- |
| EC (25) Enlargement / EC (27) Enlargement | 13 Oct. 1999 | Start | Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovenia, Slovak Republic, Spain, Sweden, United Kingdom | European Commission President Prodi recommended today that negotiations begin with Bulgaria, Latvia, Lithuania, Malta, Romania and Slovakia [..] should be added to the list of next year's enlargement. | --- |
| EC – Mexico | 24 Nov. 1999 | Deal | Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Mexico, Netherlands, Portugal, Spain, Sweden, United Kingdom | European Union and Mexico wrapped up 16 months of negotiations with an accord Wednesday on establishing a free-trade pact, the EU's trade commissioner said. | 8 Dec. 1997 |
| Canada – Costa Rica | 31 Jan. 2000 | Start | Canada, Costa Rica | Canada and Costa Rica have agreed to start negotiations for a bilateral free trade agreement, the leaders of the two countries announced Monday. | --- |
| Israel – Mexico | 15 Feb. 2000 | Deal | Israel, Mexico | Mexico and Israel have completed negotiations for a free trade agreement, the Commerce Ministry said on Monday. | 10 April 2000 |
| Asian Pacific Trade Agreement (APTA) – Accession of China | 7 April 2000 | Deal | Bangladesh, China, India, South Korea, Sri Lanka | China has joined the United Nations' "Bangkok Agreement" on trade, bringing the total membership of the Asian preferential trading framework to six, the UN said Friday. | 21 April 2001 |
| EC – Croatia | 24 May 2000 | Start | Austria, Belgium, Croatia, Denmark, Finland, France, Germany, Greece, Ireland, | European Commission recommended closer ties with Croatia as recognition for reforms underway there [..] proposal authorizing the start of negotiations for a | --- |

| | | | Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom | Stabilization and Association Agreement between the EU and Croatia. | |
|---|---|---|---|---|---|
| US – Jordan | 6 June 2000 | Start | Jordan, United States | U.S. and Jordan decided to open bilateral negotiations on a FTA, White House spokesman Mr. Crowley announced Tuesday. | --- |
| EFTA – Croatia | 20 June 2000 | Start | Croatia, Iceland, Norway, Switzerland | EFTA and Croatia signed a declaration on cooperation in Zurich on Monday [19th June], the Croatian Economy Ministry said in a statement on Tuesday. | --- |
| Pakistan – Sri Lanka | 31 July 2000 | Start | Pakistan, Sri Lanka | Sri Lanka and Pakistan have initiated a dialogue to work-out a FTA between the two countries, said Pakistan's High Commissioner. | --- |
| New Zealand – Singapore | 18 Aug. 2000 | Deal | New Zealand, Singapore | Singapore and New Zealand have concluded negotiations for a bilateral FTA expected to be signed next month, the Singapore government said Friday. | 24 Nov. 2000 |
| US – Jordan | 19 Oct. 2000 | Deal | Jordan, United States | Jordanian Prime Minister announced Thursday that Jordan and the U.S. will sign on October, 24, 2000. | 24 Oct. 2000 |
| Japan – Singapore | 23 Oct. 2000 | Start | Japan, Singapore | Japanese and Singapore Prime Ministers announced that their countries would launch negotiations on a bilateral free trade agreement. | --- |
| EFTA – Mexico | 6 Nov. 2000 | Deal | Iceland, Mexico, Norway, Switzerland | Mexico and EFTA have concluded their talks on a FTA that will come into force next July, the Swiss government said Monday. | 27 Nov. 2000 |
| Singapore – Australia | 15 Nov. 2000 | Start | Australia, Singapore | Singapore's and Australia's Prime Minister announced Wednesday to start negotiations for a bilateral FTA with the aim of concluding the pact within a year. | --- |
| US – Singapore | 16 Nov. 2000 | Start | Singapore, US | Singapore's Prime Minister and the U.S. President have agreed to start negotiations on a FTA said a statement published here Thursday by the Singapore government. | --- |
| EFTA – Chile | 20 Nov. 2000 | Start | Chile, Iceland, Norway, Switzerland | Chilean Foreign Minister Alvear told reporters that Chile and EFTA had discussed the country's interest in reaching an agreement. | --- |
| ASEAN – China | 23 Nov. 2000 | Start | China, Indonesia, Malaysia, Philippines, Singapore, Thailand | Ministers from the 10-member ASEAN backed in principle a Chinese proposal to set up a common free trade zone but acknowledged the idea was still at an early stage. | --- |

| US – Chile | 30 Nov. 2000 | Start | Chile, United States | United States and Chile have agreed to start negotiations on a comprehensive bilateral FTA [..] released today by the White House. | --- |
|---|---|---|---|---|---|
| EC – Egypt | 26 Jan. 2001 | Deal | Austria, Belgium, Denmark, Egypt, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom | Egypt and the European Commission initialed Friday an association agreement that has been under negotiation for more than five years. | 25 June 2001 |
| EFTA – Singapore | 9 Feb. 2001 | Start | Iceland, Norway, Singapore, Switzerland | Switzerland's Economics Minister and Singapore's top trade official were on Friday to announce the start of talks toward a possible FTA. | --- |
| EFTA – Croatia | 23 Feb. 2001 | Deal | Croatia, Iceland, Norway, Switzerland | Croatia and EFTA have wrapped up negotiations which began in Zagreb last October and initialed a FTA the Croatian Economy Ministry said in a statement on Friday. | 21 June 2001 |
| Thailand – Australia | 6 April 2001 | Start | Australia, Thailand | Australia is pursuing a two-way FTA with Thailand and will push for similar pacts with countries across eastern Asia, Trade Minister Vaile said Friday. | --- |
| Canada – Costa Rica | 23 April 2001 | Deal | Canada, Costa Rica | Canada and Costa Rica signed a free-trade treaty on Monday that could prove a model for a planned Americas-wide pact. | 23 April 2001 |
| EC – Croatia | 14 May 2001 | Deal | Austria, Belgium, Croatia, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom | EU External Relations Commissioner Patten and Croatian Foreign Minister Picula signed the pact at the end of a six- month negotiation process. | 29 Oct. 2001 |
| EFTA – Jordan | 24 May 2001 | Deal | Iceland, Jordan, Norway, Switzerland | A FTA will reportedly be signed between the EFTA and Jordan next month [..] Officials from Jordan and the four EFTA countries. | 21 June 2001 |
| Japan – Mexico | 5 June 2001 | Start | Japan, Mexico | Mexican President Fox and Japanese Prime Minister Koizumi agreed Tuesday to consider a bilateral free trade agreement. | --- |
| European Free Trade Association (EFTA - Services) | 21 June 2001 | Deal | Iceland, Norway, Switzerland | The four EFTA countries have signed an updated version of its founding convention, which EFTA officials said would bring them into line with the 1994 accord with the EU that established the European Economic Area (EEA). | 21 June 2001 |

| Japan – Singapore | 12 Oct. 2001 | Deal | Japan, Singapore | Singapore and Japan have reached basic agreement to launch a bilateral FTA which they expect to sign by the end of the year, a joint statement said Friday. | 13 Jan. 2002 |
|---|---|---|---|---|---|
| Southern African Customs Union (SACU) | 26 Oct. 2001 | Deal | Namibia, South Africa | The agreement between South Africa, Botswana, Lesotho, Namibia and Swaziland was finalized on Friday. | 21 Oct. 2002 |
| EC – Lebanon | 19 Nov. 2001 | Deal | Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Lebanon, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom | European Commission President Prodi said here Monday that Lebanon and the European Union (EU) will sign a partnership agreement within two weeks in Brussels. | 17 June 2002 |
| EFTA – Singapore | 27 Nov. 2001 | Deal | Iceland, Norway, Singapore, Switzerland | Singapore has completed a FTA with EFTA, an official said Tuesday [..] likely be signed next year after some legalities are finalized. | 26 June 2002 |
| Turkey – Croatia | 30 Nov. 2001 | Deal | Croatia, Turkey | Croatia and Turkey initialed a FTA in Ankara, the Croatian Economy Ministry said in a statement. | 13 March 2002 |
| China – Hong Kong | 19 Dec. 2001 | Start | China, Hong Kong | China has pledged support for a proposed FTA with Hong Kong, the territory's leader said on Wednesday. | --- |
| Gulf Cooperation Council (GCC) | 31 Dec. 2001 | Deal | Bahrain, Kuwait, Oman, Saudi Arabia | Leaders of the six-nation Gulf Cooperation Council signed an agreement paving the way for economic union with goals of joint customs tariffs in 2003. | 31 Dec. 2001 |
| US – Morocco | 23 April 2002 | Start | Morocco, United States | President Bush yesterday proposed that the U.S. and Morocco enter into a FTA [..] following a meeting in Washington with Morocco's King Mohammed. | --- |
| EC – Chile | 26 April 2002 | Deal | Austria, Belgium, Chile, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom | EU and Chile reached a landmark free trade agreement on Friday after more than two years of talks. | 28 Nov. 2002 |
| Panama – Taiwan | 9 Aug. 2002 | Start | Panama, Taiwan | Taiwan's Premier Yu [..] an official visit to Panama Friday, set to sign a statement of intent to forge a deal for free trade with this Central American country by late 2003. | --- |

| Central European Free Trade Agreement (CEFTA) – Accession of Croatia | 16 Sept. 2002 | Deal | Bulgaria, Czech Republic, Croatia, Hungary, Poland, Romania, Slovak Republic, Slovenia | Prime Ministers of CEFTA countries at a summit in Bratislava expressed the wish that Croatia be admitted to this organization by the end of the year. | 5 Dec. 2002 |
|---|---|---|---|---|---|
| EC (25) Enlargement | 10 Oct. 2002 | Deal | Austria, Belgium, Czech Republic, Cyprus, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, United Kingdom | The European Commission gave its green light Wednesday for 10 countries to join the EU in 2004, in a historic enlargement [..] recommended that Malta, Cyprus, Estonia, Hungary, Poland, the Czech Republic, Slovenia, Latvia, Lithuania and Slovakia be invited to join in 2004. | 16 April 2003 |
| South Korea – Chile | 24 Oct. 2002 | Deal | Chile, South Korea | South Korea and Chile concluded a FTA Thursday to boost trade in South Korean industrial goods and Chilean farm products, officials said. | 1 Feb. 2003 |
| Trans-Pacific Strategic Economic Partnership | 28 Oct. 2002 | Start | Chile, New Zealand, Singapore | Singapore, Chile and New Zealand have agreed to begin negotiations on a trilateral trade agreement on Saturday. | --- |
| Singapore – Australia | 4 Nov. 2002 | Deal | Australia, Singapore | Australia and Singapore have sealed a free trade pact that will remove all tariffs on goods and services by early 2003 [..] Australian Trade Minister Vaile announced Sunday. | 17 Feb. 2003 |
| US – Australia | 14 Nov. 2002 | Start | Australia, United States | U.S. and Australia will begin negotiations toward a free-trade agreement [..] U.S. Trade Representative Zoellick said Thursday. | --- |
| US – Singapore | 20 Nov. 2002 | Deal | Singapore, United States | Historic free-trade pact [..] - in the wee hours of yesterday - will lead to the signing of a free-trade agreement (FTA) between the United States and Singapore next year. | 6 May 2003 |
| US – Chile | 11 Dec. 2002 | Deal | Chile, United States | U.S. Trade Representative announced today the completion of a trade agreement between the United States and Chile. | 6 June 2003 |
| EFTA – Lebanon | 12 Dec. 2002 | Start | Iceland, Lebanon, Norway, Switzerland | EFTA signed a Joint Declaration of Co-operation with Lebanon, which could lead to negotiations on a FTA. | --- |
| Dominican Republic - Central America – United States Free Trade Agreement (CAFTA-DR) | 8 Jan. 2003 | Start | Costa Rica, United States | U.S. Trade Representative Zoellick and ministers from Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua announced the launch of negotiations to conclude a U.S.-Central American Free Trade | --- |

| | | | | Agreement (CAFTA). | |
|---|---|---|---|---|---|
| EFTA – GCC | 12 Jan. 2003 | Start | Bahrain, Iceland, Kuwait, Norway, Oman, Saudi Arabia, Switzerland | Gulf Cooperation Council (GCC) hosts a joint committee meeting here on Tuesday with EFTA [..] with the aim of striking a free trade agreement, the statement said. | --- |
| India – Singapore | 4 Feb. 2003 | Start | India, Singapore | Singapore and India have agreed to launch negotiations for a bilateral FTA by April 2003, the press secretary for Singapore Prime Minister announced Tuesday. | --- |
| Common Economic Zone (CEZ) | 24 Feb. 2003 | Start | Ukraine, Russian Federation | Presidents of Russia, Ukraine, Belarus and Kazakhstan have agreed to form a free-trade zone [..] in a statement signed Sunday. | --- |
| EFTA – Chile | 25 March 2003 | Deal | Chile, Iceland, Norway, Switzerland | The government has reached an agreement with EFTA states to establish a free-trade zone, Chilean President Lagos said. | 26 June 2003 |
| Turkey – Tunisia | 19 May 2003 | Start | Tunisia, Turkey | President Sezer said that this was his first official visit to Tunisia and that he had proposed establishing a FTA. | --- |
| US – Bahrain | 21 May 2003 | Start | Bahrain, United States | The White House said Wednesday it will begin pursuing a FTA with Persian Gulf ally Bahrain, the first such effort announced since President Bush this month proposed a free trade zone in the Middle East. | --- |
| EFTA – SACU | 22 May 2003 | Start | Botswana, Iceland, Namibia, Norway, South Africa, Swaziland, Switzerland | It was announced yesterday that SACU and EFTA were planning to conclude an extensive FTA. | --- |
| China – Hong Kong | 13 June 2003 | Deal | China, Hong Kong | Hong Kong and China will complete bilateral FTA by the end of this month, Secretary for Commerce, Industry and Trade, Tangan official in the territory confirmed Friday. | 29 June 2003 |
| Jordan – Singapore | 25 June 2003 | Start | Jordan, Singapore | Jordan and Singapore agreed to begin negotiations in the "near future" [..] A joint statement released this week on the sidelines of the World Economic Forum (WEF). | --- |
| Panama – Taiwan | 8 Aug. 2003 | Deal | Panama, Taiwan | Taiwan and Panama are due to sign a formal FTA later this month after concluding the final round of talks, Taiwan's economics minister Lin Yi-fu said Friday | 21 Aug. 2003 |
| Common Economic Zone (CEZ) | 19 Sept. 2003 | Deal | Ukraine, Russian Federation | Ukraine, Russia, Belarus, and Kazakhstan reached a consensus on practically all problems, Ukrainian President Kuchma noted. | 19 Sept. 2003 |

| Turkey – Morocco | 8 Oct. 2003 | Deal | Morocco, Turkey | Morocco and Turkey have initialed a FTA [..] According to a Foreign Trade Ministry press release. | 7 April 2004 |
|---|---|---|---|---|---|
| ASEAN – Japan | 8 Oct. 2003 | Start | Indonesia, Japan, Malaysia, Philippines, Singapore, Thailand, Vietnam | Leaders of Japan and the ASEAN decided Wednesday to kick off formal negotiations in early 2004 to establish a regional free trade area. | --- |
| Thailand – Australia | 20 Oct. 2003 | Deal | Australia, Thailand | Australia reached a free trade and investment deal with Thailand on Sunday [..] said Prime Minister Howard. | 5 July 2004 |
| Thailand – New Zealand | 20 Oct. 2003 | Start | New Zealand, Thailand | Thai Prime Minister Shinawatra and his New Zealand counterpart Ms. Clark agreed to initiate a FTA on Monday. | --- |
| South Korea – Singapore | 23 Oct. 2003 | Start | South Korea, Singapore | Singapore and South Korea agreed to launch formal negotiations for a bilateral FTA early next year, the leaders of the two countries announced on Thursday. | --- |
| US – Colombia / US – Panama / US – Peru | 18 Nov. 2003 | Start | Colombia, United States; Panama; Peru | U.S. Trade Representative Zoellick said Tuesday it was opening free-trade negotiations Colombia, Peru, Ecuador, Bolivia and Panama. | --- |
| Japan – Malaysia / Japan – Philippines / Japan – Thailand | 11 Dec. 2003 | Start | Japan, Malaysia; Philippines; Thailand | Japan stepped up its efforts for regional trade liberalization, saying it would start bilateral trade talks with Malaysia, Thailand and the Philippines. | --- |
| South Asian Free Trade Agreement (SAFTA) | 5 Jan. 2004 | Deal | Bangladesh, India, Nepal, Pakistan, Sri Lanka | A South Asian free trade agreement reached ahead of a major regional summit will let countries protect highly sensitive industries, Pakistan's foreign minister said. | 6 Jan. 2004 |
| Dominican Republic - Central America – United States Free Trade Agreement (CAFTA-DR) | 26 Jan. 2004 | Deal | Costa Rica, United States | Costa Rica reached a FTA Sunday in Washington with the United States [..] Foreign Trade Minister Trejos told reporters. | 5 Aug. 2004 |
| US – Australia | 9 Feb. 2004 | Deal | Australia, United States | United States and Australia reached a free-trade agreement [..] was struck after a telephone call between President Bush and Australia's Prime Minister Howard. | 18 May 2004 |
| Panama – Singapore | 17 Feb. 2004 | Start | Panama, Singapore | Singapore and Panama announced they had decided to start negotiations on a bilateral FTA with the aim of completing talks within a year [..] joint statement released Tuesday. | --- |
| US – Morocco | 2 March 2004 | Deal | Morocco, United States | United States concluded a FTA with Morocco, officials said Tuesday, following delays to settle issues over key sectors including agriculture and textiles. | 15 June 2004 |

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|---|---|---|---|---|---|
| Japan – Mexico | 15 March 2004 | Deal | Japan, Mexico | Japan and Mexico reached a final agreement [..] said Japanese Trade Minister late Friday [..] after concessions over sensitive agricultural items. | 17 Sept. 2004 |
| Jordan – Singapore | 10 May 2004 | Deal | Jordan, Singapore | Singapore and Jordan have successfully concluded negotiations on a FTA and a separate bilateral investment treaty [..] Singapore's Ministry of Trade and Industry (MTI) said in a statement late Friday. | 16 May 2004 |
| US – Bahrain | 27 May 2004 | Deal | Bahrain, United States | United States has successfully concluded negotiations for a FTA with Bahrain, wrapping up the negotiations in just four months, both countries announced Thursday. | 14 Sept. 2005 |
| EFTA – Lebanon | 24 June 2004 | Deal | Iceland, Lebanon, Norway, Switzerland | The four-nation European Free Trade Association and Lebanon signed a FTA on Thursday, EFTA said. | 17 June 2002 |
| Dominican Republic - Central America – United States Free Trade Agreement (CAFTA-DR) | 23 July 2004 | Deal | Costa Rica, United States | The Dominican Republic will join a proposed free-trade pact with the United States and five countries of Central America known as CAFTA, US officials said Friday. | 5 Aug. 2004 |
| Turkey – Tunisia | 28 Sept. 2004 | Deal | Tunisia, Turkey | Tunisia and Turkey have concluded a free-trade agreement [..] under which Tunisia will be able to export to Europe products made with Turkish textiles. | 25 Nov. 2004 |
| EC (27) Enlargement | 6 Oct. 2004 | Deal | Austria, Belgium, Bulgaria, Czech Republic, Cyprus, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Sweden, United Kingdom | The European Union's (EU) executive recommended Wednesday that the bloc sign accession treaties with Romania and Bulgaria as early as 2005. | 25 April 2005 |
| ASEAN – China | 26 Oct. 2004 | Deal | China, Indonesia, Malaysia, Philippines, Singapore, Thailand, Vietnam | China and ASEAN will sign a FTA in November to cut tariffs on commodities from 2005 and eliminate them by 2010, the Ministry of Commerce said Tuesday. | 29 Nov. 2004 |
| ASEAN – China (Services) | 4 Nov. 2004 | Start | China, Indonesia, Malaysia, Philippines, Singapore, Thailand, Vietnam | China and ASEAN will start free trade talks on services and investment after signing a trade agreement later this month, ASEAN official said. | --- |
| US – Oman | 15 Nov. 2004 | Start | Oman, United States | U.S. Trade Representative Zoellick announced plans Monday to negotiate free trade agreements with Oman. | --- |

| Chile – China | 18 Nov. 2004 | Start | Chile, China | Chinese President Jintao and Chilean President Lagos said Thursday they have agreed to commence negotiations for a bilateral FTA. | --- |
|---|---|---|---|---|---|
| Japan – Philippines | 19 Nov. 2004 | Deal | Japan, Philippines | Japan and the Philippines on Thursday reached a basic agreement to conclude a bilateral free trade pact, Japan's Economy, Trade and Industry Minister Nakagawa said. | 9 Sept. 2006 |
| China – New Zealand | 19 Nov. 2004 | Start | China, New Zealand | China and New Zealand will move toward signing a FTA [..] a senior Chinese official said. | --- |
| Singapore – Peru | 19 Nov. 2004 | Start | Peru, Singapore | Peruvian President Toledo and Singaporean Prime Minister Loong agreed Friday to start negotiations for a bilateral FTA [..] announced on the sidelines of the Apec summit. | --- |
| Pakistan – Sri Lanka | 22 Nov. 2004 | Deal | Pakistan, Sri Lanka | Sri Lanka and Pakistan will launch a FTA by January when President Kumaratunga visits Islamabad, Pakistan Prime Minister Aziz said Monday. | 1 Aug. 2002 |
| South Korea – Singapore | 29 Nov. 2004 | Deal | Singapore, South Korea | Asian economies South Korea and Singapore concluded a FTA during a regional summit in Laos, the South Korean government announced Monday. | 4 Aug. 2005 |
| Thailand – New Zealand | 1 Dec. 2004 | Deal | New Zealand, Thailand | Prime Ministers of New Zealand and Thailand announced in Vientiane, Laos, Wednesday that negotiations on FTA had been substantively concluded. | 19 April 2005 |
| EFTA – South Korea | 10 Dec. 2004 | Start | Iceland, Norway, South Korea, Switzerland | South Korea will start talks on a free trade agreement with the EFTA in late January, the Ministry of Foreign Affairs and Trade said Friday. | --- |
| EFTA – Tunisia | 16 Dec. 2004 | Deal | Iceland, Norway, Switzerland, Tunisia | Tunisia and the European Free Trade Association (EFTA), sign a FTA [..] it was announced Thursday. | 17 Dec. 2004 |
| Chile – India | 20 Jan. 2005 | Start | Chile, India | The Indian government has approved bilateral economic framework agreement with Chile [..] paving the way for full free-trade talks. | --- |
| Pakistan – Malaysia | 16 Feb. 2005 | Start | Malaysia, Pakistan | Pakistan and Malaysia have agreed to start discussions on a PTA leading to a FTA, Pakistani Prime Minister Aziz said. | --- |
| Egypt – Turkey | 31 March 2005 | Deal | Egypt, Turkey | Turkish State Minister Tuzmen said on Thursday said that he and Egyptian Foreign Trade and Industry Minister Rashid would sign a free trade agreement in June. | 27 Dec. 2005 |
| Pakistan – China | 6 April 2005 | Start | China, Pakistan | Minister for Commerce Khan Wednesday said that Pakistan and China have started negotiations for a | --- |

| | | | | FTA. | |
|---|---|---|---|---|---|
| Panama – Singapore | 8 April 2005 | Deal | Panama, Singapore | Singapore and Panama have concluded a free trade agreement, the two sides announced Friday. | 1 March 2006 |
| Japan – Malaysia | 23 May 2005 | Deal | Japan, Malaysia | "We have now finalized everything," International Trade and Industry Minister Aziz told reporters after talks with visiting Japanese Trade Minister Nakagawa. | 13 Dec. 2005 |
| Japan – Indonesia | 1 June 2005 | Start | Indonesia, Japan | Japan and Indonesia agreed on Wednesday to begin negotiations over a FTA as early as next month [..] said the official at the Ministry of Economy, Trade and Industry. | --- |
| Trans-Pacific Strategic Economic Partnership | 3 June 2005 | Deal | Chile, New Zealand, Singapore | Brunei, Chile, New Zealand and Singapore have agreed to create the first trans-Pacific free-trade agreement, officials said Friday. | 18 July 2005 |
| India – Singapore | 20 June 2005 | Deal | India, Singapore | The cabinet today gave its approval to a comprehensive trade agreement between India and Singapore, told Information and Broadcasting Minister Reddy reporters. | 29 June 2005 |
| EFTA – South Korea | 12 July 2005 | Deal | Iceland, Norway, South Korea, Switzerland | Korea and EFTA agreed to a FTA [..] the Ministry of Foreign Affairs and Trade said [..] reached during a small WTO ministerial meeting. | 15 Dec. 2005 |
| Japan – Thailand | 1 Aug. 2005 | Deal | Japan, Thailand | Japanese Minister of Economy, Trade and Industry Nakagawa reached the basic accord with Thai Deputy Prime Minister Chatusiphithak. | 3 April 2007 |
| US – Oman | 3 Oct. 2005 | Deal | Oman, United States | United States and Oman announced on Monday they have successfully completed negotiations on a FTA. | 19 Jan. 2006 |
| Chile – China | 28 Oct. 2005 | Deal | Chile, China | Chilean President Lagos confirmed his Foreign Minister's announcement that negotiations on the Chile-China FTA had come to a successful end today. | 18 Nov. 2005 |
| Chile – Japan | 18 Nov. 2005 | Start | Chile, Japan | Japan and Chile agreed Friday to officially launch negotiations aimed at producing a bilateral free trade agreement, a Japanese official said. | --- |
| Chile – India | 24 Nov. 2005 | Deal | India, Chile | The agreement will benefit 91 percent of Indian exports and 98 percent of imports from Chile, the Embassy of Chile said in a statement here on Thursday. | 8 March 2006 |
| US – Peru | 7 Dec. 2005 | Deal | Peru, United States | United States and Peru have wrapped up negotiations on a FTA, officials from both countries said Wednesday. | 12 April 2006 |

| Japan – Viet Nam | 12 Dec. 2005 | Start | Japan, Viet Nam | Japanese Prime Minister Koizumi and his Vietnamese counterpart agreed Monday to launch formal negotiations. | --- |
|---|---|---|---|---|---|
| South Korea – US | 2 Feb. 2006 | Start | South Korea, United States | South Korea and the United States are to start formal talks on establishing a FTA and hope to complete negotiations within a year, officials said Thursday. | --- |
| Panama – Chile | 6 Feb. 2006 | Deal | Chile, Panama | Panama and Chile signed a free trade deal here on Saturday, ending their 15th round of FTA talks [..] the two sides excluded some sensitive issues [..] said Panama's Minister of Commerce and Industry Ferrer. | 27 June 2006 |
| US – Colombia | 27 Feb. 2006 | Deal | Colombia, United States | United States and Colombia have concluded a trade agreement [..] announced Monday by USTR Portman and Colombia's minister for trade, industry and tourism. | 22 Nov. 2006 |
| EFTA – SACU | 26 June 2006 | Deal | Botswana, Iceland, Namibia, Norway, South Africa, Switzerland | Conclusion of FTA with SACU (South Africa, Botswana, Lesotho, Namibia and Swaziland ) will open new doors, said Swiss Economics Minister Deiss. | 26 June 2006 |
| Chile – Colombia | 27 July 2006 | Start | Chile, Colombia | Chile and Colombia announced they have agreed to start negotiations toward a FTA on Thursday [..] after a meeting between Foreign Minister Foxley and visiting Colombian Trade Minister Botero. | --- |
| China – Singapore | 25 Aug. 2006 | Start | China, Singapore | China and Singapore have agreed to launch negotiations for a bilateral free trade agreement, Singapore's Trade and Industry Ministry said Friday. | --- |
| Chile – Japan | 22 Sept. 2006 | Deal | Chile, Japan | Japan announced Friday a framework free trade deal with Chile [..] sealed after just seven months of negotiations [..] said Prime Minister Koizumi. | 27 March 2007 |
| EFTA – Colombia | 5 Oct. 2006 | Start | Colombia, Iceland, Norway, Switzerland | Colombia and EFTA began talks Thursday aimed at drafting a trade agreement [..] said Colombian Trade Minister Botero following the meeting in Bogota. | --- |
| EFTA – Egypt | 1 Nov. 2006 | Deal | Egypt, Iceland, Norway, Switzerland | Egypt and EFTA have agreed to establish a free trade zone between the two sides, Egypt's news agency MENA reported on Wednesday. | 27 Jan. 2007 |
| Australia – Chile | 10 Nov. 2006 | Start | Australia, Chile | Chile and Australia agreed on Friday to start bilateral free trade talks, according to a statement issued by Chile's Foreign Ministry. | --- |
| Pakistan – China | 13 Nov. 2006 | Deal | China, Pakistan | China and Pakistan have wrapped up negotiations [..] announcement ahead of a state visit by Chinese President Jintao to Pakistan. | 24 Nov. 2006 |

| Chile – Colombia | 27 Nov. 2006 | Deal | Chile, Colombia | Presidents of Chile and Colombia signed a FTA during a visit to Bogota. | 27 Nov. 2006 |
|---|---|---|---|---|---|
| Japan – Indonesia | 28 Nov. 2006 | Deal | Indonesia, Japan | Japan and Indonesia said Tuesday they have in principle reached a bilateral FTA [..] said in a joint statement. | 20 Aug. 2007 |
| US – Panama | 19 Dec. 2006 | Deal | Panama, United States | The office of U.S. Trade Representative Schwab said Tuesday it had virtually wrapped up a FTA with Panama [..] the pact complete save for further talks on labor issues. | 28 June 2007 |
| ASEAN – China (Services) | 15 Jan. 2007 | Deal | China, Indonesia, Malaysia, Philippines, Singapore, Thailand, Vietnam | China and the ASEAN signed on Sunday an agreement on Trade in Services of the China-ASEAN Free Trade Area. | 14 Jan. 2007 |
| Japan – Switzerland | 19 Jan. 2007 | Start | Japan, Switzerland | Japan and Switzerland agreed Friday to begin negotiations for a bilateral FTA [..] after a telephone conversation between Japanese Prime Minister and Swiss President. | --- |
| Canada – Peru | 23 Jan. 2007 | Start | Canada, Peru | Peru and Canada will start talks over a FTA in the next two or three weeks, said Peru's Foreign Trade Deputy Minister Garcia. | --- |
| South Korea – US | 2 April 2007 | Deal | South Korea, United States | United States and South Korea concluded a landmark FTA Monday, officials said, culminating 10 months of negotiations in a final week of intense haggling that just beat a key U.S. legislative deadline. | 30 July 2007 |
| EFTA – Canada | 7 June 2007 | Deal | Canada, Iceland, Norway, Switzerland | Canada and EFTA have concluded talks on a FTA Canadian Trade Minister Emerson announced Thursday. | 26 Jan. 2008 |
| Canada – Colombia | 7 June 2007 | Start | Canada, Colombia | Canadian Trade Minister Emerson announced Thursday that Canada is launching free trade talks with Colombia. | --- |
| Pakistan – Malaysia | 11 June 2007 | Deal | Malaysia, Pakistan | Pakistan, Malaysia to sign FTA [..] mutual consent was expressed during a telephonic conversation between the two prime ministers this afternoon. | 8 Nov. 2007 |
| Canada – Jordan | 13 July 2007 | Start | Canada, Jordan | Prime Minister Harper and visiting King Abdullah II bin Al-Hussein of Jordan [..] announced plans to begin talks next year on a possible Canada-Jordan FTA. | --- |
| Peru – Singapore | 4 Sept. 2007 | Deal | Peru, Singapore | Singapore and Peru have concluded negotiations for a FTA and the bilateral accord will be signed in the next few months, the two nations said Tuesday. | 29 May 2008 |

| ASEAN – Japan | 12 Nov. 2007 | Deal | Indonesia, Japan, Malaysia, Philippines, Singapore, Thailand, Vietnam | Japan and ASEAN on Wednesday welcomed and effectively endorsed the conclusion of a comprehensive FTA aimed at stimulating further trade and investment between the two sides. | 26 March 2008 |
|---|---|---|---|---|---|
| EC – Cote d'Ivoire | 7 Dec. 2007 | Start | Austria, Belgium, Bulgaria, Czech Republic, Cote d'Ivoire, Cyprus, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Sweden, United Kingdom | Cote d'Ivoire Friday initialed an interim trade deal with the European Commission ahead new agreements to replace preferential accords between the EU and African, Caribbean and Pacific (ACP) nations. | --- |
| EC – CARIFORUM States EPA | 17 Dec. 2007 | Deal | Austria, Barbados, Belgium, Bulgaria, Czech Republic, Cyprus, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Jamaica, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Sweden, Trinidad and Tobago, United Kingdom | Caricom and Dominican Republic - countries have reached agreement with the EU on a new Economic Partnership Agreement (EPA), just days before the current Cotonou Agreement expires at yearend [..] inked the deal in Bridgetown on Sunday. | 15 Oct. 2008 |
| China – New Zealand | 24 Jan. 2008 | Deal | China, New Zealand | China and New Zealand will sign the FTA in April, the Chinese Ministry of Commerce announced here Thursday. | 7 April 2008 |
| Canada – Peru | 28 Jan. 2008 | Deal | Canada, Peru | Peru has signed a FTA with Canada, Peruvian President Garcia announced at the World Economic Forum on Saturday. | 29 May 2008 |
| EFTA – GCC | 29 April 2008 | Deal | Bahrain, Iceland, Norway, Oman, Saudi Arabia, Switzerland, United Arab Emirates. | Negotiations for a FTA between the states of the Gulf Cooperation Council (GCC) and the European Free Trade Association (EFTA) have been finalized, said Secretary General of the GCC Mr. Al-Atiyya. | 22 June 2009 |
| Australia – Chile | 27 May 2008 | Deal | Australia, Chile | Australia and Chile have sealed negotiations for a FTA and the deal should be in place by 2009, | 30 July 2008 |

| | | | | | |
|---|---|---|---|---|---|
| | | | | Australian Trade Minister Crean said Tuesday. | |
| Canada – Colombia | 9 June 2008 | Deal | Canada, Colombia | Colombia has concluded negotiations for a free trade deal with Canada [..] Canada's Foreign Affairs and International Trade Ministry said Saturday. | N/A |
| EFTA – Colombia | 1 July 2008 | Deal | Colombia, Iceland, Norway, Switzerland | Colombia and EFTA have agreed on a FTA, according to a press release by the Colombian government on Tuesday. | 25 Nov. 2008 |
| Canada – Jordan | 26 Aug. 2008 | Deal | Canada, Jordan | Department of Foreign Affairs and International Trade said Tuesday that it has reached a free trade agreement with Jordan. | 28 June 2009 |
| China – Singapore | 4 Sept. 2008 | Deal | China, Singapore | Singapore's Deputy Prime Minister Seng and Chinese Vice-Premier Qishan yesterday announced the successful end to two years of FTA negotiations. | 23 Oct. 2008 |
| Japan – Switzerland / Japan – Viet Nam | 29 Sept. 2008 | Deal | Japan, Switzerland; Vietnam | Japan has struck separate basic deals with Vietnam and Switzerland to conclude [..] government officials said Monday. | 19 Feb. 2009 / 25 Dec. 2008 |
| EC – Cote d'Ivoire | 26 Nov. 2008 | Deal | Austria, Belgium, Bulgaria, Czech Republic, Cote d'Ivoire, Cyprus, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Sweden, United Kingdom | Cote d'Ivoire became the first country in Africa to sign an economic partnership agreement (EPA) with the European Union [..] formally copper-fastened in Abidjan. | 26 Nov. 2008 |

Note: All information except for the event date and event type drawn from the RTA-database of the World Trade Organization (see http://rtais.wto.org). The "List of all RTAs in force" and the "List of early announcements" were downloaded from this database on 21 October, 2009, and 27 February, 2010, respectively. RTAs reported in chronological order. Following three selection criteria have to be met in order to be included in our data set: i) RTA reported to and part of WTO's RTA-database ii) daily stock market data available and iii) this daily financial market data available for both RTA members in the case of a bilateral trade agreement or for at least one RTA member country if the signatory constitutes a RTA itself. *Event date* based on full-text research via LexisNexis, where we mainly focus on international newswires, press releases and well-established newspapers published in English. Event date refers to official announcement of at least one of the involved governments that i) negotiations on a regional trade agreement will be started soon *(start)* or ii) that a general agreement on such an agreement has been reached *(deal)*. The reported dates refer to the first trading day, when such an announcement can be priced in. Announcements of deals usually proceed the official *signature date* as reported by the WTO by several weeks or months. *Name of RTA* is name of Regional Trade Agreement as reported by WTO. *Description of Announcement* gives some details on news.

## Table OA2: Pooling Test for First Stage of Event Study

| Event window | (t-1, t+1) | (t-1, t+3) | (t-1, t+5) | (t-1, t+7) | (t-1, t+10) |
|---|---|---|---|---|---|
| *Event dummy* | -0.039 | 0.192 | -0.172 | -0.154 | -0.094 |
| | (0.15) | (0.16) | (0.18) | (0.22) | (0.24) |

Note: The dependent variable is the average cumulative abnormal returns (in local currency) for the main sample of 1002 observations. The dummy variable event is one if the announcement marks the start of RTA negotiations and zero, if the announcement of a new trade agreement is made. Standard errors in brackets are computed using the cross-section standard deviation of the returns and account for variance inflation and clustering at the announcement day. Returns significantly different from zero at [0.10] 0.05 (0.01) marked with [one circle] one (two) asterisk(s).

## Table OA3: Pooling Test for Second Stage of Event Study

| Event window | (t-1, t+1) | (t-1, t+5) | (t-1, t+10) | (t-1, t+15) | (t-1, t+20) |
|---|---|---|---|---|---|
| *Exports to RTA partners/GDP* | 1.171° | 1.411* | 2.106° | 2.165 | 3.356* |
| | (0.63) | (0.68) | (1.13) | (1.39) | (1.44) |
| *Exports to RTA partners/GDP \** | 1.459 | 1.794 | 2.524 | 2.528 | 2.687 |
| *Event* | (2.33) | (2.71) | (3.21) | (3.57) | (3.69) |
| *Log distance to RTA partners* | -0.080 | 0.002 | -0.141 | -0.007 | 0.186 |
| | (0.10) | (0.11) | (0.15) | (0.18) | (0.20) |
| *Log distance to RTA partners \** | 0.396* | 0.371 | 0.465 | 0.417 | 0.077 |
| *Event* | (0.19) | (0.24) | (0.29) | (0.36) | (0.41) |
| *Log real GDP of RTA partners* | -0.066 | -0.049 | -0.066 | -0.167 | -0.242* |
| | (0.05) | (0.07) | (0.09) | (0.11) | (0.12) |
| *Log real GDP of RTA partners \** | -0.061 | -0.184 | -0.259 | -0.160 | 0.007 |
| *Event* | (0.11) | (0.14) | (0.18) | (0.19) | (0.21) |
| *Log real GDP* | 0.059 | -0.007 | 0.026 | 0.019 | 0.074 |
| | (0.07) | (0.07) | (0.09) | (0.11) | (0.13) |
| *Log real GDP \* Event* | -0.095 | 0.039 | 0.033 | 0.146 | 0.190 |
| | (0.12) | (0.13) | (0.15) | (0.18) | (0.16) |
| *Log real GDP p/c of RTA partners* | -0.113 | -0.206° | -0.030 | 0.076 | 0.085 |
| | (0.10) | (0.11) | (0.16) | (0.17) | (0.18) |
| *Log real GDP p/c of RTA partners \** | 0.084 | 0.473** | 0.180 | 0.165 | 0.067 |
| *Event* | (0.13) | (0.16) | (0.21) | (0.22) | (0.25) |
| *Log real GDP p/c* | -0.338* | -0.334* | -0.362* | -0.436* | -0.418° |
| | (0.14) | (0.14) | (0.17) | (0.19) | (0.24) |
| *Log real GDP p/c \* Event* | 0.402° | 0.305 | 0.265 | 0.225 | 0.175 |
| | (0.21) | (0.21) | (0.24) | (0.23) | (0.25) |
| *Log Trade/GDP* | -0.030 | -0.079 | -0.115 | 0.127 | 0.078 |
| | (0.15) | (0.15) | (0.21) | (0.27) | (0.35) |
| *Log Trade/GDP \* Event* | -0.119 | 0.033 | 0.054 | 0.141 | 0.313 |
| | (0.23) | (0.25) | (0.30) | (0.38) | (0.45) |
| *Log National Stocks/GDP* | 0.119 | 0.129 | 0.109 | 0.006 | 0.004 |
| | (0.08) | (0.08) | (0.12) | (0.14) | (0.16) |
| *Log National Stocks/GDP \** | -0.183° | -0.157 | -0.134 | 0.038 | -0.049 |
| *Event* | (0.11) | (0.13) | (0.16) | (0.18) | (0.20) |

Note: Each column is estimated via OLS. Estimates based on 1002 observations. Dummy variable *Event* is one if the announcement marks the start of RTA negotiations and zero, if the announcement a new trade agreement is made. For further details see default Table 1.

## Table OA4: Raw Stock Market Returns of MSCI-World

| Type of stock market return | (t-1, t+1) | (t-1, t+3) | (t-1, t+5) | (t-1, t+7) | (t-1, t+10) |
|---|---|---|---|---|---|
| *Raw Returns of MSCI-World* | -0.031 | -0.044 | -0.003 | 0.177 | 0.268 |
| | (0.11) | (0.15) | (0.19) | (0.22) | (0.25) |

Note: We report here the average raw returns for the market (MSCI-World) over the 197 event dates considered in this study. Event date defined as announcement of the start of negotiations of RTA or announcement of a successful conclusion of such an agreement. Standard errors in brackets are computed using the cross-section standard deviation of the returns and account for variance inflation and clustering at the announcement day. Returns significantly different from zero at [0.10] 0.05 (0.01) marked with [one circle] one (two) asterisk(s).

## Table OA5: Exports to and Imports from RTA Partner(s)

| Event window | (t-1, t+1) | (t-1, t+3) | (t-1, t+5) | (t-1, t+7) | (t-1, t+10) |
|---|---|---|---|---|---|
| *Exports to RTA partners/GDP* | 1.520° | 1.918° | 3.099* | 2.102 | 3.377* |
| | (0.88) | (1.03) | (1.30) | (1.52) | (1.43) |
| *Imports from RTA partners/GDP* | 0.265 | 0.115 | -0.691 | 1.341 | 0.805 |
| | (1.36) | (1.66) | (2.18) | (2.38) | (2.24) |
| *Log distance to RTA partners* | 0.087 | 0.157° | 0.023 | 0.155 | 0.210 |
| | (0.07) | (0.09) | (0.11) | (0.13) | (0.14) |
| *Log real GDP of RTA partners* | -0.089° | -0.119° | -0.144° | -0.252* | -0.241* |
| | (0.05) | (0.07) | (0.09) | (0.10) | (0.12) |
| *Log real GDP* | -0.071 | 0.014 | 0.040 | 0.143 | 0.109 |
| | (0.07) | (0.09) | (0.10) | (0.12) | (0.13) |
| *Log real GDP p/c of RTA partners* | 0.016 | 0.011 | 0.038 | 0.078 | 0.148 |
| | (0.04) | (0.05) | (0.08) | (0.10) | (0.12) |
| *Log real GDP p/c* | -0.178* | -0.206* | -0.254* | -0.350* | -0.356° |
| | (0.08) | (0.10) | (0.13) | (0.14) | (0.18) |
| *Log Trade/GDP* | -0.104 | -0.085 | -0.100 | 0.177 | 0.223 |
| | (0.10) | (0.10) | (0.16) | (0.21) | (0.25) |
| *Log National Stocks/GDP* | 0.053 | 0.058 | 0.067 | 0.025 | -0.015 |
| | (0.06) | (0.07) | (0.09) | (0.11) | (0.14) |
| R-squared | 0.05 | 0.06 | 0.04 | 0.05 | 0.05 |
| Number of Observations | 991 | 991 | 991 | 991 | 991 |

Note: Each column is estimated via OLS. Estimates based on 991 observations, covering 82 developing and developed countries and 122 RTAs from 1988 to 2009. Event date defined as announcement of the start of negotiations of RTA or announcement of a successful conclusion of such an agreement. Coefficients with standard errors clustered at country-level in parentheses. Coefficients significantly different from zero at [0.10] 0.05 (0.01) marked with [one circle] one (two) asterisk(s). Regressand: National Stock Market return in local currency, adjusted for MSCI movement. Time-fixed effects, intercepts and Goods/Goods&Services dummy included but not reported.

## Table OA6: Sample of Non-European Member Countries

| Event window | (t-1, t+1) | (t-1, t+3) | (t-1, t+5) | (t-1, t+7) | (t-1, t+10) |
|---|---|---|---|---|---|
| *Exports to RTA partners/GDP* | 1.369 | 1.232 | 3.989** | 5.136** | 6.455** |
| | (1.03) | (1.14) | (1.41) | (1.87) | (2.16) |
| *Log distance to RTA partners* | 0.065 | 0.133 | 0.174 | 0.355° | 0.405* |
| | (0.09) | (0.12) | (0.15) | (0.19) | (0.19) |
| *Log real GDP of RTA partners* | -0.091 | -0.102 | -0.215* | -0.298* | -0.324* |
| | (0.06) | (0.08) | (0.11) | (0.11) | (0.13) |
| *Log real GDP* | -0.052 | 0.048 | 0.053 | 0.139 | 0.198 |
| | (0.09) | (0.10) | (0.13) | (0.15) | (0.14) |
| *Log real GDP p/c of RTA partners* | -0.069 | -0.043 | -0.115 | -0.027 | 0.015 |
| | (0.06) | (0.08) | (0.14) | (0.15) | (0.15) |
| *Log real GDP p/c* | -0.191* | -0.210° | -0.299* | -0.398* | -0.408* |
| | (0.10) | (0.11) | (0.14) | (0.15) | (0.19) |
| *Log Trade/GDP* | -0.312* | -0.249 | -0.512* | -0.195 | -0.180 |
| | (0.14) | (0.18) | (0.24) | (0.31) | (0.36) |
| *Log National Stocks/GDP* | 0.103 | 0.128 | 0.139 | 0.091 | 0.049 |
| | (0.07) | (0.09) | (0.12) | (0.13) | (0.16) |
| R-squared | 0.07 | 0.05 | 0.06 | 0.08 | 0.09 |
| Number of Observations | 573 | 573 | 573 | 573 | 573 |

Note: Each column is estimated via OLS. Estimates based on 573 observations, covering 70 developing and developed countries and 117 RTAs from 1988 to 2008. The sample is restricted to country-observations, where countries have not been member of the European Economic Community or the European Union at the time of the announcement, Event date defined as announcement of the start of negotiations of RTA or announcement of a successful conclusion of such an agreement. Coefficients with standard errors clustered at country-level in parentheses. Coefficients significantly different from zero at [0.10] 0.05 (0.01) marked with [one circle] one (two) asterisk(s). Regressand: National Stock Market return in local currency, adjusted for MSCI movement. Time-fixed effects, intercepts and Goods/Goods&Services dummy included but not reported.

# Table OA7: Stock Market Returns in U.S. Dollar

| Event window | (t-1, t+1) | (t-1, t+3) | (t-1, t+5) | (t-1, t+7) | (t-1, t+10) |
|---|---|---|---|---|---|
| *Exports to RTA partners/GDP* | 1.134 | 0.911 | 1.919 | 3.362* | 5.838** |
| | (0.82) | (1.09) | (1.39) | (1.37) | (1.47) |
| *Log distance to RTA partners* | -0.124 | -0.391** | -0.317* | -0.420* | -0.290 |
| | (0.10) | (0.14) | (0.15) | (0.20) | (0.22) |
| *Log real GDP of RTA partners* | -0.005 | 0.022 | -0.119 | -0.103 | -0.277° |
| | (0.05) | (0.08) | (0.10) | (0.14) | (0.15) |
| *Log real GDP* | -0.047 | 0.022 | 0.014 | 0.094 | 0.188 |
| | (0.06) | (0.08) | (0.09) | (0.11) | (0.14) |
| *Log real GDP p/c of RTA partners* | -0.339** | -0.172 | -0.013 | 0.232 | 0.195 |
| | (0.10) | (0.12) | (0.14) | (0.18) | (0.19) |
| *Log real GDP p/c* | -0.107 | -0.141 | -0.266° | -0.286° | -0.183 |
| | (0.10) | (0.11) | (0.15) | (0.17) | (0.23) |
| *Log Trade/GDP* | -0.301* | -0.396* | -0.508° | -0.245 | -0.053 |
| | (0.12) | (0.18) | (0.26) | (0.28) | (0.28) |
| *Log National Stocks/GDP* | 0.122° | 0.172* | 0.164° | 0.137 | 0.072 |
| | (0.06) | (0.08) | (0.10) | (0.11) | (0.14) |
| R-squared | 0.11 | 0.13 | 0.12 | 0.12 | 0.10 |
| Number of Observations | 929 | 929 | 929 | 929 | 929 |

Note: Each column is estimated via OLS. Estimates based on 929 observations, covering 80 developing and developed countries and 122 RTAs from 1988 to 2009. Event date defined as announcement of the start of negotiations of RTA or announcement of a successful conclusion of such an agreement. Coefficients with standard errors clustered at country-level in parentheses. Coefficients significantly different from zero at [0.10] 0.05 (0.01) marked with [one circle] one (two) asterisk(s). Regressand: National Stock Market return in U.S. dollar, adjusted for MSCI movement. Time-fixed effects, intercepts and Goods/Goods&Services dummy included but not reported.

## Table OA8: Changes in National Exchange Rate relative to U.S. Dollar

| Event window | (t-1, t+1) | (t-1, t+3) | (t-1, t+5) | (t-1, t+7) | (t-1, t+10) |
|---|---|---|---|---|---|
| *Exports to RTA partners/GDP* | 0.292 | 0.493 | 0.297 | -0.673* | -1.493** |
| | (0.32) | (0.36) | (0.38) | (0.29) | (0.39) |
| *Log distance to RTA partners* | 0.101* | 0.282** | 0.066 | 0.113* | 0.047 |
| | (0.05) | (0.05) | (0.05) | (0.05) | (0.07) |
| *Log real GDP of RTA partners* | -0.054** | -0.053 | -0.040 | -0.043 | -0.004 |
| | (0.02) | (0.03) | (0.04) | (0.05) | (0.05) |
| *Log real GDP* | 0.102** | 0.112* | 0.079 | 0.006 | -0.027 |
| | (0.03) | (0.05) | (0.05) | (0.07) | (0.07) |
| *Log real GDP p/c of RTA partners* | 0.065** | 0.049 | 0.066* | 0.057 | 0.062 |
| | (0.02) | (0.03) | (0.03) | (0.04) | (0.03) |
| *Log real GDP p/c* | -0.032 | -0.044 | -0.025 | -0.074 | -0.115 |
| | (0.03) | (0.04) | (0.04) | (0.04) | (0.06) |
| *Log Trade/GDP* | 0.106* | 0.165* | 0.210* | 0.187 | 0.080 |
| | (0.04) | (0.08) | (0.09) | (0.11) | (0.16) |
| *Log National Stocks/GDP* | -0.060** | -0.081** | -0.105** | -0.078* | -0.069 |
| | (0.02) | (0.03) | (0.04) | (0.04) | (0.04) |
| R-squared | 0.13 | 0.17 | 0.16 | 0.17 | 0.19 |
| Number of Observations | 929 | 929 | 929 | 929 | 929 |

Note: Each column is estimated via OLS. For comparability, sample restricted to sample of Online Appendix 7. Estimates based on 929 observations, covering 80 developing and developed countries and 122 RTAs from 1988 to 2009. Event date defined as announcement of the start of negotiations of RTA or announcement of a successful conclusion of such an agreement. Coefficients with standard errors clustered at country-level in parentheses. Coefficients significantly different from zero at [0.10] 0.05 (0.01) marked with [one circle] one (two) asterisk(s). Regressand: Change in National Exchange Rate relative to U.S. dollar. Positive (negative) sign equivalent to depreciation (appreciation) of exchange rate relative to U.S. dollar. Time-fixed effects, intercepts and Goods/Goods&Services dummy included but not reported.

## Table OA9: Financial Market Expectations and Conditional Export Effects

| Event window | (t-1, t+1) | (t-1, t+5) | (t-1, t+7) | (t-1, t+10) | (t-1, t+15) |
|---|---|---|---|---|---|
| *Gravity effect (fe)* | 0.151 | 0.324* | 0.451** | 0.522** | 0.469° |
| | (0.12) | (0.14) | (0.16) | (0.19) | (0.24) |

Note: Each column is estimated via OLS. Estimates based on 970 observations, covering 80 developing and developed countries and 100 RTAs from 1988 to 2009. Event date defined as announcement of the start of negotiations of RTA or announcement of a successful conclusion of such an agreement. Coefficients with standard errors clustered at country-level in parentheses. Coefficients significantly different from zero at [0.10] 0.05 (0.01) marked with [one circle] one (two) asterisk(s). Regressand: National Stock Market return in local currency, beta-adjusted for MSCI movement. The variable Gravity effect (fe) captures estimated RTA-specific coefficients from a bilateral trade model from 1988 to 2009 for all countries and all RTAs notified to WTO being in force (with time-varying importer and exporter fixed effects (2-years) and time-fixed effects).

## Table OA10: Robustness log(1+Exports to RTA partners/GDP)

| Event window | (t-1, t+1) | (t-1, t+3) | (t-1, t+5) | (t-1, t+7) | (t-1, t+10) |
|---|---|---|---|---|---|
| *log(1+Exports to RTA partners/GDP)* | 2.069* | 2.446* | 3.444** | 3.588* | 4.824** |
| | (0.81) | (0.98) | (1.21) | (1.47) | (1.64) |
| *Log distance to RTA partners* | 0.086 | 0.163° | 0.053 | 0.160 | 0.217° |
| | (0.07) | (0.09) | (0.10) | (0.12) | (0.13) |
| *Log real GDP of RTA partners* | -0.087° | -0.123* | -0.172* | -0.237** | -0.238* |
| | (0.05) | (0.06) | (0.08) | (0.09) | (0.10) |
| *Log real GDP* | -0.068 | 0.010 | 0.053 | 0.147 | 0.108 |
| | (0.07) | (0.08) | (0.10) | (0.12) | (0.13) |
| *Log real GDP p/c of RTA partners* | 0.017 | 0.017 | 0.039 | 0.080 | 0.158 |
| | (0.04) | (0.05) | (0.08) | (0.10) | (0.12) |
| *Log real GDP p/c* | -0.175* | -0.207* | -0.254* | -0.338* | -0.348° |
| | (0.08) | (0.10) | (0.12) | (0.14) | (0.18) |
| *Log Trade/GDP* | -0.103 | -0.079 | -0.105 | 0.190 | 0.235 |
| | (0.09) | (0.10) | (0.16) | (0.20) | (0.24) |
| *Log National Stocks/GDP* | 0.051 | 0.063 | 0.057 | 0.021 | -0.015 |
| | (0.05) | (0.06) | (0.08) | (0.10) | (0.13) |
| R-squared | 0.05 | 0.06 | 0.04 | 0.05 | 0.06 |
| Number of Observations | 1002 | 1002 | 1002 | 1002 | 1002 |

Note: Each column is estimated via OLS. Estimates based on 1002 observations, covering 82 developing and developed countries and 122 RTAs from 1988 to 2009. Event date defined as announcement of the start of negotiations of RTA or announcement of a successful conclusion of such an agreement. Coefficients with standard errors clustered at country-level in parentheses. Coefficients significantly different from zero at [0.10] 0.05 (0.01) marked with [one circle] one (two) asterisk(s). Regressand: National Stock Market return in local currency, adjusted for MSCI movement. Time-fixed effects, intercepts and Goods/Goods&Services dummy included but not reported.

**Endnotes**

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[1] By "regional trade agreements" (RTAs), we include customs unions (CUs), free trade agreements (FTAs) and preferential trade agreements (PTAs). We do not distinguish between these forms; it is not easy to do so in practice, and all are allowed within the GATT/WTO framework.

[2] Among others, Magee (2003, 2008), Baier and Bergstrand (2004, 2007, 2009), Carrère (2006), Eicher et al. (2012) and Egger et al. (2011) document the endogenous nature of regional trade agreements and their heterogeneous effects. Egger and Larch (2008) and Baldwin and Jaimovich (2012) emphasize the "spatial dimension" of trade agreements; if geographically close countries or important trading partners strike a deal with another country, the incentives for non-members to pursue a regional trade agreement increase.

[3] For evidence of limited capital mobility across sectors for the United States, Canada and (partly) Mexico see Grossman and Levinsohn (1989), Thompson (1994) and Rodriguez (2003). In Appendix Table A3, we proxy relative factor endowment by differences in real GDP per capita between RTA partners (see Egger et al., 2011), but cannot find any significant effects.

[4] For instance, Singapore's share prices initially dropped following the announcement of a RTA with the United States due to concerns about increased competition in the financial sector.

[5] Joseph Stiglitz raises this concern for instance in the following newspaper articles: "New Trade Pacts Betray the Poorest Partners," Wall Street Journal, July 10, 2004; "Nobel Laureate Criticizes FTA, U.S. Unilateralism," The Korea Herald, Nov. 16, 2007.

[6] These are listed in the RTA-IS under "List of all RTAs in force" as well as those that have been signed but are not yet in force (listed in the RTA-IS under "List of early announcements").

[7] If the countries officially decide to conduct some sort of "pilot study" together, this announcement is defined as the official start of negotiations, so long as *de facto* negotiations are not conditional on the success of the pilot study.

[8] In the case of entry into the European Community/European Union, we define a "deal" as the European Commission's announcement to officially recommend the accession of a new member. While the European Council technically decides to accept this recommendation, the Council has never yet rejected a positive recommendation.

[9] The full-text research via LexisNexis (LexisNexis Academic) was performed between October and December 2009, at the Haas Business School and between December 2009 and March 2010 at ETH Zurich. The full-text research typically starts with the key-words "free trade" or "trade agreement" and the two respective country names. We restrict ourselves to dates before the respective RTA went into force.

[10] One of the reasons for a gap between the official announcement and the signature ceremony is "legal scrubbing" since it usually takes some time to transform the political will of a general agreement into a contract. (We are not aware of any cases where an agreement has not been followed by the formal signing of a RTA.) A number of RTAs have been signed but not yet ratified at the time of gathering this data set; these RTAs had not yet been in force (prominent examples were the US–Korea and US–Colombia RTAs, which are ratified in the meanwhile).

[11] In the interest of parsimony, we combine together RTA start and deal dates into a single data set, rather than modeling them separately. The hypothesis that the stock market responds equally to both types of news can neither be rejected for the first stage nor the second stage of the event study at any reasonable significance level (see Online Appendix Table 2 and 3).

[12] Obviously, our results relate only to those firms actually listed in the stock market. Large firms are more likely to be publicly traded; they are also more likely to be exporters (e.g., Pagano et al, 1998; Bernard et al., 2007). Hence, the firms captured in our study are likely those most relevant for overall trade flows.

[13] Typically when we collect the same series from different sources (e.g., the EAFE index or the $/C$ exchange rate), the series coincide closely.

[14] We exclude two extreme events from our analyses due to confounding factors. Argentina experience cumulative abnormal returns of nearly 40 percent around the announcement of a RTA with Brazil in 1991. But at the same time the Argentine Minister of Finance, Domingo Cavallo, also announced far-reaching economic policy reforms including the formation of a currency board. Furthermore, Vietnam suffered from heavy losses amidst the Subprime Crisis in autumn 2008 (up to -42 percent around the announcement of a RTA with Japan). Results are not sensitive to the inclusion of these two observations.

[15] We have supplemented the sources below with national sources, if all but one control variable was missing for a country in an event-year. Our results are insensitive to the exclusion of these observations.

[16] This is "a standard part of almost every event study […] relevant even when the mean stock price effect of an event is zero" (Kothari and Warner, 2007).

[17] Our empirical strategy might entail measurement error in abnormal returns. To the extent that important news about RTAs is anticipated, our measured abnormal returns are biased towards zero. Prabhala (1997) demonstrates that standard event-study techniques remain valid. Our coefficients of interest $\{\gamma, \delta\}$ and their t-statistics then constitute a lower bound of the true value without any anticipation. Note that this potential downward bias could affect the first and the second stage of the event study. But anticipation effects do not seem to be a major issue here. To foresee some results: We neither find any strong movements in average abnormal returns before the RTA events (see Graph 1) nor can we explain the abnormal returns just prior to the RTA events with the set of variables employed in our main specification (see Appendix Table 5).

[18] Furthermore, the empirical gravity literature on bilateral equity flows or holdings often finds trade to be a significant predictor (e.g., Portes and Rey, 2005; Aviat and Coeurdacier, 2007).

[19] Disdier and Head (2008) report in a meta-study covering 103 papers that a 10 percent increase in distance lowers bilateral trade by about 9 percent.

[20] In the case of RTA-enlargements, the features of the RTA only refer to the new RTA partner(s).

[21] Note that is only possible to include the similarity and relative factor endowment variable at the same time as the log levels for economic size and GDP per capita, since the former variables are non-linear transformations. To foresee an (unreported) robustness check, these two variables are also insignificant, if the underlying size or income per capita variables are excluded.

[22] Note that the variable "stocks traded relative to GDP" is only available from 1988.

[23] Our results are robust to using an alternative measure for natural partners, namely total trade with RTA partners relative to GDP, as documented in Appendix Table A1. Note also that the sibling variable, *Imports from RTA partners/GDP*, is very closely related to our main variable of interest, Exports to RTA partners/GDP, with a correlation coefficient of 0.76. Hence, the results reported in Online Appendix 5 – which show Exports to RTA partners/GDP significant at least a 10 percent confidence level in four out of five specifications – should be interpreted cautiously. Finally, online Appendix 10 shows the results for log(1+Exports to RTA partners/GDP), which yields similar results.

[24] These positive stock market reactions for natural trading partners seem to be positively correlated with later on realized exports flows. We offer the following approach: We estimated a standard bilateral gravity model with RTA-specific effects (and time-varying exporter- and importer-effects, year fixed effects and the usual suspects as control variables) for all countries from 1988 to 2009. We then correlate these RTA-specific coefficients (capturing the conditional export creating effect due to the RTA) with abnormal returns. Online Appendix 9 shows that they are positively and (starting from the event window t-1, t+5) significantly associated with each other.

[25] Note that our results cannot speak to the (expected) welfare effects of RTAs and, obviously, the estimates on trade flows and welfare are not directly comparable with ours (but still present an interesting benchmark).

[26] While we hereby refer to the effect of RTA partner's log real GDP, this conjecture holds more broadly as shown in Online Appendix 6. The overall results carry over to a sample of countries not being part of the European Community or European Union.

[27] This effect is driven neither by differences in the number of listed firms between poor and rich countries nor corruption, as reported in Appendix A4, Columns 2 and 3.

[28] The United States makes up around 40 percent of the MSCI World All Country index in the year 2007.

[29] Appendix Table A2 shows that our results are also insensitive to the exact sample of data; neither financial crisis periods nor outlier observations seem to drive our main results. The following time periods are defined as financial crises: Tequila Crisis (12/1994 and 1/1995), Asian Crisis (7/1997 to 12/1997), Russian Crisis and LTCM crisis (8/1998 to 12/1998), Argentine sovereign default (12/2001 and 1/2002) and onset of Subprime Crisis (8/2008 and 9/2008).

[30] Online Appendix 7 and 8 repeat the analysis of Table 1 for returns measured in US$ and the LC/US$ exchange rate respectively. Note that a positive coefficient on the variable Distance to RTA partners in Online Appendix 8 implies that the domestic currency tends to depreciates vis-à-vis the US dollar if RTA are signed with more distant partners.

[31] Finally, in Appendix Tables 3 and 4, we add a number of additional control variables on the RTA partner or country i. Most of these variables are not significant and our main results are robust to their inclusion.

[32] Following Fuggaza and Nicita (2013), higher initial tariff rates of RTA members could also result in (more) expected trade diversion for non-RTA members, since relative market access conditions for non-RTA members deteriorate (by a bigger margin). The results in Appendix Table A6 do not find evidence for this hypothesis. Ornelas' (2005) conjecture that RTA members do not take external tariffs to non-RTA members as fixed but tend to reduce them as well could be an explanation for this non-result.

[33] Note that *Exports to RTA partners/GDP* here refers to exports from country i to the Top x export destination(s) relative to GDP in year t.

[34] One could, in principle, refine the analysis further by examining the degree of trade overlap between RTA members and their existing trade barriers, using dis-aggregated data.

[35] In a similar vein, the results in Appendix Table 5 are reassuring that we do not find any evidence for substantial anticipation effects just prior to the announcement dates.