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# The Impact of Regional Trade Agreements on International Trade

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## Abstract

The gravity model of international trade states that bilateral trade flows based on the economic sizes and distances between two units can be used to examine reasons for international trade. Regional Trade Agreements (RTAs) have appeared recently and have increased markedly in number; however, despite their importance, little study has been performed to analyze the effects of RTAs on international trade. The difference between RTAs and world trade organizations (WTO) is important. Studies of currency integration have appeared recently; however, most assume that currency integration varies the level of international trade between countries by making the proportion constant. This paper eliminates this so-called constant hypothesis and indicates that RTAs alters the slope of the relationship between countries and promote international trade. Empirical analysis indicates that the proportion is not constant. Also, this study shows that RTAs promote international trade more in OECD countries than in non-OECD countries.

**Keywords:** International Trade, Gravity Model, RTAs, WTO

## 1. Introduction

In general, the GATT and WTO have been thought to ensure a level playing field of all, thereby contributing to economic growth and development. However, the proliferation of regional trade agreements (RTAs) in recent decades threatens the future of the multinational trading system because the exclusive trade preference of RTAs, although approved under the provisions of the GATT, are not consistent with an important principle of the multinational trading system, the most favored nation principle, and causes discriminatory trade practices of trade disciplines [1]. RTAs have increased markedly in number and hence have become a very important aspect of the multinational trading system [2].

The gravity model of international trade states that bilateral trade flows are based on the economic sizes (often using GDP) and distance between two units (countries). The model also has been used repeatedly in international relations to examine the effectiveness of currency unions and regional agreements. The model is often extended by including variables to explain language relationships, contiguity, colonial history, exchange rate regimes, and other variables.

The gravity model has been introduced and cited many

times. Not only academic fields but also real-world researchers have stated that patterns of trade will be determined by aggregate preferences for goods within countries. [3] stated that if trade encourages greater specialization in production, industry-specific shocks may cause members' business cycles to diverge and that comparative advantages do not predict the relationships in the gravity model. Alternatively, [4] demonstrated that greater trade integration may help correlate national incomes.

[5] showed that the creation of RTAs provides trade preference to member countries to promote bilateral trade. [6] found that expansionary ASEAN + 3 RTAs could be a sustainable policy option. [7] demonstrated that the EU may increase trade performance in several industries. [8] showed that pro-labor predictions of the median voter model are supported by the full-fledged FTA. [9] showed that a gravity model suggests that the creation of AFTA, COMESA, and MERCOSUR have increased trade in agriculture between their members. However, [10] showed that RTAs are not an efficient way to promote international trade. On the other hand, there has been little study that has analyzed RTAs using the gravity model in spite of the fact that this model for international trade has been used a lot. One of the reasons is that RTAs are recent phenomenon in the world.

The Agreement on Internal Trade (AIT) was an intergovernmental trade agreement signed by Canadian First Ministers that came into force in 1995. In 2017, the AIT was replaced by a new trade agreement, the Canadian Free Trade Agreement (CFTA). The following is an electronic copy of the final consolidated version of the AIT: The Agreement on Internal Trade (2015) The Agreement on Internal Trade (AIT) entered into force on July 1, 1995, and includes government departments, agencies, commissions and Crown corporations of the 10 Canadian provinces, the three territories and the federal government. The Agreement on Internal Trade is an intergovernmental agreement between the federal government and the provinces and territories to reduce and eliminate barriers to free movement of people, goods, services and investments within Canada. Under the Agreement, these governments have agreed to apply the principles of non-discrimination, transparency, openness and accessibility with respect to their procurement opportunities and those of their municipalities and municipal organizations, school boards and publicly funded academic, health and social services entities. The Agreement covers only those tenders where the procurement value exceeds a specified amount. Currently, the thresholds require that all institutions in the MASH sector (Municipal/Academic/Social Services/Healthcare) tender for public bidding contracts worth \$100,000 or more, or in the case of construction, \$250,000 or more. The agreement mandates the "equal" treatment of people, goods and services anywhere in Canada. That means businesses in any province or territory are to be considered for procurement bids, eliminating "buy local" policies. There are some exceptions in the deal. Provinces or municipalities can still designate sole-source suppliers in particular circumstances. Its ultimate goal is to eliminate barriers to trade, investments and product mobility. See also Canada Minister for Internal Trade New West Partnership Single market Internal Market (European Union) External links AIT Introduction Text of the Agreement and subsequent protocols of amendment Canada's Problem: Domestic Trade Barriers This Canadian government-related article is a stub. You can help Wikipedia by expanding it.vte Retrieved from " Date modified: 2022-08-17 Skip to main content Skip to footer The Agreement on Internal Trade (AIT) is an intergovernmental agreement entered into by the federal government and all ten provinces in 1995. The goal of the AIT is the elimination of barriers to economic mobility within Canada (see Economic Union). To further this objective, it builds upon the failed attempts to amend the Constitution in both the Patriation and Canada Rounds. Although motivated by economic considerations, (i.e. the economic benefits that would result from increased inter-provincial economic activity) the AIT, along with the Social Union Framework Agreement, should be seen as an attempt to renew the federation through non-constitutional means in the wake of the failure of the Charlottetown Accord. The AIT is comprehensive in scope, covering the mobility of goods, services, capital and persons in all areas of economic activity, although there are sectoral chapters dealing with government procurement, investment, etc. The AIT is modeled on international trade agreements in two respects. First, the primary focus is negative integration (i.e. the elimination of discriminatory treatment of out-of-province factors of production). However, the AIT also creates the framework for intergovernmental negotiations to eliminate barriers to mobility arising from inter-provincial regulatory diversity (a process known as positive integration). Second, the AIT contains dispute settlement machinery to deal with alleged violations of the AIT; however, this machinery only applies to trade barriers created after the coming-into-force of the agreement. In the wake of the CAP Reference (Reference re Canada Assistance Plan (B.C.), [1991] 2 S.C.R. 525), it is widely accepted that neither the AIT nor the decisions of AIT panels are justiciable in the ordinary courts (with the exception of non-discrimination in procurement by the federal government), and that the AIT does not operate to fetter legislative sovereignty. Scholars are divided on whether the AIT has furthered the project of the Canadian Economic Union. Those who are skeptical of the impact of the AIT have called for measures to enhance its effectiveness, for example, by incorporating its key provisions into a federal statute. Moreover, one AIT decision, Re Manganese-Based Fuel Additives Act (unreported) has raised fears that AIT panels may not strike the appropriate balance between trade and the environment. Sources: Agreement on Internal Trade (Ottawa: Government of Canada, 1994). R. Howse, Securing the Canadian Economic Union: Legal and Constitutional Options for the Federal Government (Toronto: C.D. Howe Institute, 1996). D. Schwanen, "Happy Birthday, AIT!" (2000) 21:6 Policy Options 51. S.C. 1996, c. 17[Repealed, 2017, c. 33, s. 228] - 2017-12-14Assented to 1996-06-20An Act to implement the Agreement on Internal Trade

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