

# IMESS DISSERTATION

Note: Please email the completed mark sheet to Year 2 coordinator

(cc Chiara Amini [chiara.amini@ucl.ac.uk](mailto:chiara.amini@ucl.ac.uk) and [fiona.rushworth@ucl.ac.uk](mailto:fiona.rushworth@ucl.ac.uk))

Please note that IMESS students are not required to use a particular set of methods (e.g. qualitative, quantitative, or comparative) in their dissertation.

<b>Student:</b>	Xiangyi Kong
<b>Dissertation title:</b>	The Trade Effects of the EU-Turkey Customs Union: Based on the Gravity Model

	70+	69-65	60-61	59-55	54-50	<50
	A	B	C	D	E	F
<b>Knowledge</b> <i>Knowledge of problems involved, e.g. historical and social context, specialist literature on the topic. Evidence of capacity to gather information through a wide and appropriate range of reading, and to digest and process knowledge.</i>	79					
<b>Analysis &amp; Interpretation</b> <i>Demonstrates a clear grasp of concepts. Application of appropriate methodology and understanding; willingness to apply an independent approach or interpretation recognition of alternative interpretations; Use of precise terminology and avoidance of ambiguity; avoidance of excessive generalisations or gross oversimplifications.</i>	70					
<b>Structure &amp; Argument</b> <i>Demonstrates ability to structure work with clarity, relevance and coherence. Ability to argue a case; clear evidence of analysis and logical thought; recognition of an argument's limitation or alternative views; Ability to use other evidence to support arguments and structure appropriately.</i>	80					
<b>Presentation &amp; Documentation</b> <i>Accurate and consistently presented footnotes and bibliographic references; accuracy of grammar and spelling; correct and clear presentation of charts/graphs/tables or other data. Appropriate and correct referencing throughout. Correct and contextually correct handling of quotations.</i>	80					
<b>Methodology</b> <i>Understanding of techniques applicable to the chosen field of research, showing an ability to engage in sustained independent research.</i>	76					

<b>ECTS Mark:</b>	A (79)	<b>Charles Mark:</b>	A	<b>Marker:</b>	Vilém Semerák, Ph.D.
<i>Deducted for late submission:</i>			No	<b>Signed:</b>	
<i>Deducted for inadequate referencing:</i>				<b>Date:</b>	September 17 <sup>th</sup> , 2021

## MARKING GUIDELINES

**A (UCL mark 70+) = A (Charles mark 91-100 - excellent):** Note: marks of over 80 are given rarely and only for truly exceptional pieces of work.

Distinctively sophisticated and focused analysis, critical use of sources and insightful interpretation. Comprehensive understanding of techniques applicable to the chosen field of research, showing an ability to engage in sustained independent research.

**B (UCL mark 69-65) = B (Charles mark 81-90 – very good)**

**C (UCL mark 64-60) = C (Charles mark 71-80 – good):** A high level of analysis, critical use of sources and insightful interpretation. Good understanding of techniques applicable to the chosen field of research, showing an ability to engage in sustained independent research. 65 or over equates to a B grade.

**D (UCL mark 59-55) = D (Charles mark 61-70 – satisfactory)**

**E (UCL mark 54-50) = E (Charles mark 51-60 – sufficient):** Demonstration of a critical use of sources and ability to engage in systematic inquiry. An ability to engage in sustained research work, demonstrating methodological awareness. 55 or over equates to a D grade.

**F (UCL mark less than 50) = F (Charles mark 0-50 - insufficient):**

Demonstrates failure to use sources and an inadequate ability to engage in systematic inquiry. Inadequate evidence of ability to engage in sustained research work and poor understanding of appropriate research techniques.

# Please provide substantive and detailed feedback!

Comments, explaining strengths and weaknesses (at least 300 words):

## General comments

Kong Xiangyi analyses effects of a customs union between the EU and Turkey with the use of three complementary approaches: (i) descriptive statistics and charts based on traditional trade statistics, (ii) use of the indices of revealed comparative advantages and Grubel-Lloyd indices of intra-industry trade, (iii) gravity model applied on aggregated and slightly disaggregated merchandise trade data; the gravity model is used to test for the presence of trade creation and trade diversion effects.. The methodology and the level of its application can be described as adequate both to the topic and to the level of study of the student; in fact, similar evaluation studies (both ex ante and ex post) are fairly typical in applied trade literature. Results and their interpretation mostly appear plausible.

## Details and specific issues

### Language and style

The thesis is written in an adequate style and with a logical structure. Minor language issues appear occasionally (typos: e.g. repeated use of Tukey instead of Turkey). Similarly, the use of charts, tables, and references to existing literature are at the level expected of similar master theses, some of the graphical output (e.g. figures 10 & 11) is definitely at a higher level than simple charts from common spreadsheets. The author also provides a voluminous appendix with additional tables, charts and econometric tests.

Minor issues can be found in formatting, e.g. a few inconsistencies in the formatting of references (p.15 and p. 45 - capitalization of names), use of different font for the list of references, "raw" output of regressions and tests in the appendix, or the placement of asterisks in tables with econometric results (tables 11 & 12). Figure 5 includes some description in Chinese too.

However, the overall impression is very good.

### Literature review

The author provides a review of literature which focuses both on the methodology (esp. gravity models) as well as on the application of (not just gravity) on the analysis of effects of customs unions, specifically on the case of Turkey. The results of previous studies are described fairly well, a table with a convenient comparison of the results is provided too (Table 1). The literature review includes the most cited sources on gravity and provides a reasonable overview of the subject – with some issues that are described below.

The first part of the description of Viner's analysis of customs unions is written in a bit cumbersome way (p. 20), but otherwise acceptable. The description of the effects of trade diversion does not mention the fact that there are two rather specific prerequisites that must be met so that a trade diversion be guaranteed to have negative welfare consequences on a country.

What I see as a possibly bigger problem – there is a confusing description of the contribution of Anderson (1979) and Anderson & van Wincoop (2003) to gravity models (p. 24-25). The student evidently mixes CGE and GE models and does not quite understand the logic of Anderson (1979) & Anderson & van Wincoop (2003) derivation - which is a bit surprising as these are probably the most often cited papers in gravity theory. Anderson (1979) provides a derivation of gravity based on an expenditure system and no computable general equilibrium model (as the student claims erroneously); CGE models not directly linked to the derivation of gravity, but they are of course often used for ex ante simulations of effects of FTAs and customs unions. This kind of error is really strange because the student obviously had to read some other papers which were using CGE instead of gravity for the analysis of EU-Turkey customs union.

### Historical facts on the EU-Turkey trade relations

Description of the EU enlargement is a bit superficial, which can be an issue as the pre-accession stages of the large enlargement in 2004 included far reaching trade liberalizations which included countries that might have been expected to play a similar role (as Turkey) in international division of labour. Croatia appears twice (once erroneously instead of Romania) while the accessions dates of many other countries are not provided. (p. 76).

Similarly, the description of the history of trade relations contains some minor imprecisions (ESCS was established in 1951, not 1950), initial European integration was encouraged by the USA. (p. 8) Perhaps more details might have

been provided on the role that Turkish economy might have been expected to play for the EEC/EU.

### ***Gravity methodology and its application***

The author applied gravity model on a relatively wide and long panel (44 countries including 15 non-EU countries during 1989-2019). The specification includes dummy structures required for dealing with the trade resistance term and dummies which enable the tests of the presence of trade creation and trade diversion effects. The author's description and interpretation of the specification is at a fairly good level. Besides traditional fixed effects the author also applied the popular PPML estimator. I liked that the author combined the PPML with the dummies and that the zero trade issue was also briefly described explicitly, although I wonder whether the author did not in some cases (the Czech Republic and pre-1993 data) mix zero and missing observations problem.

All in all, the style of application of gravity methodology respects current recommendations and is done at the level expected of a master thesis.

A very positive feature of the implementation should be mentioned: the inclusion of two robustness checks and the attempt to provide analysis at disaggregated level – a very good decision if we consider the asymmetries in the achieved degree of liberalization between the EU and Turkey.

The author also added stationarity tests which are often not used in the case of gravity models. However, there seems to be a contradiction between the results in the table 3 and claim that the panel is non-stationary (this might be a typo).

### ***Omissions***

The author correctly mentions the importance of trade in intermediate goods and value chains (p 42). But then it would have been logical to try to briefly describe the role of value chains by looking at EU-Turkey trade from the TiVA (trade in value added) perspective too.

### **Specific questions you would like addressing at the oral defence (at least 2 questions):**

A special FTA-type (resp. FTA+) agreement was negotiated between the EU and the USA after 2013 (TTIP). This negotiation stalled, but what would such an agreement mean for Turkey? Would its trade with the USA be liberalized automatically too? What would this situation mean for companies located in Turkey?

Effects of trade agreements are often evaluated also by another type of methodology, namely so-called CGE models. What is the difference between the gravity and CGE framework and the advantages/disadvantages of the two approaches?

Could the lower identified effects of the customs union with Turkey also be related to the fact that its introduction coincided with the trade liberalization towards transition economies? How would you try to test this hypothesis in a gravity model?