

REPORT ON THE MASTER THESIS

IEPS – International Economic and Political Studies, Faculty of Social Sciences, Charles University

Title of the thesis:	Observing the Effects of CAFTA on Trade using the Gravity Model
Author of the thesis:	Jan Škreb
Referee (<i>incl. titles</i>):	Vilém Semerák, Ph.D.

Comments of the referee on the thesis highlights and shortcomings (following the 5 numbered aspects of your assessment indicated below).

Note: evaluation of the econometric part of the thesis takes into account the features of the IEPS program.

1) Theoretical background:

The author focused on empirical estimation of trade effects of CAFTA (Central America Free Trade Agreement).

The core analytical part of the thesis is based on gravity models. This is a standard and widely accepted methodology used on similar analyses, and it has fairly good theoretical foundations (duly described by the author in his literature review).

The author combines the results from the empirical analysis with a relatively short (but adequate) discussion of wider implications (and political economy) of similar agreements.

2) Contribution:

I can see two levels of direct contribution of the submitted text:

- Survey of previously published texts focused on the analysis of the effects of CAFTA. The survey includes details on possible methodological advantages (and problems/reliability) of existing pieces of research.
- Own estimates of the effects of CAFTA differentiated into trade creation (destination specific) and trade diversion effects. The quality and reliability of the estimates seems to be at least comparable with previously published attempts but it is based on updated data.

3) Methods:

The paper is based on several gravity models. The author designed the specification of the models according modern requirements – the basic model is linked to a generally accepted microfoundations and takes into account main traditional weaknesses of empirically applied gravity models (as summarized e.g. by Baldwin and Taglioni, 2006).

The panel data set used for estimation of the gravity model is sufficiently wide (153 countries) and relatively long (1995-2015). The author decided to reduce the traditional issues of gravity models by using a combination of country-pair dummies and time dummies. In addition to the main method (traditional panel estimators) he also applied the PPML estimator and attempted to test a model with lagged variables.

The methodology can be considered more than adequate for the IEPS program, although a few issues and unsolved questions remain:

- The description of choosing between fixed and random effects is a bit formalistic. The author relies on standard tests, but it might have been mentioned that the logic of the model/situation is relevant too. Nevertheless the decision to use fixed effects is not wrong per se.
- As Mr Škreb mentions on page 17, although many parts of the agreement have been implemented already, remaining tariffs on US exports have been completely eliminated only in 2015 (consumer and industrial goods) or they will be phased-out by 2020 (agriculture commodities). The sectors liberalized as the last ones are typically the ones with the highest initial barriers. This means that gravity models (which are typically backward-looking) will

- not be able to identify all contributions of CAFTA – which is not mentioned explicitly in the final discussion of the results (section 6).
- Although the author correctly mentions the limitation of merchandise trade data (and the possibility that there are hidden effects mediated by services trade or investment flows), there is one possibly important effect which should also be emphasized – the role of global value chains and especially of changes in their structure. Liberalization can lead to fairly specific results – such as that direct exports of intermediate products to the USA can be replaced by exports to one of the CAFTA markets and the final assembly will be done in this market (then this market will be the only one which will be experiencing a direct increase in merchandise exports to the USA, other markets may even experience a decrease). Perhaps the author might have tried to use a few indicators from OECD TiVA statistics which might have shed some light on this issue. Even more importantly, it is known that GVCs have been influenced e.g. by NAFTA and they are also relevant for lobbying for/against FTAs.
 - USA have been struggling with rather deep macroeconomic imbalances with significant implications for its current account deficit (especially in the first half of the analyzed sample). This may again influence the effects of CAFTA on US exports.

Nevertheless, my impression of the author's ability to master and implement gravity analysis is very positive. Unlike in many other similar cases, this author seems to understand main concepts quite well and he does not seem to simply experiment with "some regressions". His results are definitely comparable with many empirical texts published in the past.

4) Literature:

Mr Škreb's text builds on an impressively long (and wide) list of literature. He presents texts relevant for both the history and effects of FTA, history and methodological issues of gravity models, as well as for political economy of FTA creation. While additional papers could easily be recommended for any of the parts, I find the selection of literature (and presentation of existing research) more than adequate for a text of this length.

5) Manuscript form:

The manuscript has a standard form. A few occasional typos can be found in the text, but their incidence is neither excessive nor too disturbing. There is also a minor formatting glitch throughout the paper (the use of comma instead of the decimal point typical for English texts).

Most tables have relatively basic formatting, but they are fully understandable.

Charts are used relatively sparingly, but their use could have been a bit more efficient:

- Chart on page 11 ends with data for 2011 although the author had access to newer data.
- Charts on page 13 are not too useful (the increasing trend(s) are not too surprising), it might been made more useful if the data were presented in the form of the relatively shares of the countries in the US (or CA-DR) exports respectively.

Suggested questions for the defence are:

1. The text often mentions tariffs, but non-tariff measures (NTMs) are mentioned only seldom (e.g. p. 17 – sanitary and phytosanitary measures). Have you come across any estimates of the importance of the NTMs within CAFTA and can the NTMs explain some of your results?
2. Your text briefly discusses possible geopolitical interaction between China and the USA (section 6). Has China already signed an FTA (or FTAs) with some of the CAFTA countries?

I recommend the thesis for final defence. I recommend the following grade: “1” (excellent).

SUMMARY OF POINTS AWARDED (for details, see below):

CATEGORY	POINTS
<i>Theoretical background (max. 20)</i>	16
<i>Contribution (max. 20)</i>	16
<i>Methods (max. 20)</i>	15
<i>Literature (max. 20)</i>	18
<i>Manuscript form (max. 20)</i>	17
TOTAL POINTS (max. 100)	82
The proposed grade (1-2-3-4)	1

You can use the decimal point (e.g. giving the grade of 2.4 for 61 points).



DATE OF EVALUATION: February 3rd, 2018

Referee Signature

Overall grading scheme at FSV UK:

TOTAL POINTS	GRADE	Czech grading	US grading
81 – 100	1	= excellent	= A
61 – 80	2	= good	= B
51 – 60	3	= satisfactory	= C
41 – 50	3	= satisfactory at a margin of failure	= D a marginal passing grade
0 – 40	4	= failing is recommended	= non-defendable

The referee should give comments to the following requirements:

1) **THEORETICAL BACKGROUND:** Can you recognize that the thesis was guided by some **theoretical fundamentals** relevant for this thesis topic? Were some important theoretical concepts **omitted**? Was the theory used in the thesis consistently **incorporated with the topic** and hypotheses tested? Has the author demonstrated a genuine **understanding** of the theories addressed?

Strong	Average	Weak
20	12	< 8

 points

2) **CONTRIBUTION:** Evaluate if the author presents **original ideas** on the topic and aims at demonstrating **critical thinking** and ability to draw **conclusions** based on the knowledge of relevant theory and relevant empirical material. Is there a distinct **value added** of the thesis (relative to knowledge of a university-educated person interested in given topic)? Did the author explain **why** the observed phenomena occurred? Were the **policy implications** well founded?

Strong	Average	Weak
20	12	< 8

 points

3) **METHODS:** Are the **hypotheses** for this study clearly stated, allowing their further **verification and testing**? Are the theoretical explanations, empirical material and **analytical tools** used in the thesis relevant to the research question being investigated, and adequate to the aspiration level of the study? Is the thesis **topic comprehensively analyzed** and does the thesis not make trivial or **irrelevant detours** off the main body stated in the thesis proposal? More than 12 points signal an exceptional work, **which requires your explanation "why" it is so**.

Strong	Average	Weak
20	12	< 8

 points

4) **LITERATURE REVIEW:** The thesis demonstrates author's full understanding and **command of recent literature**. The author **quotes** relevant literature in a **proper way** and disposes with a **representative bibliography**. (Remarks: references to Wikipedia, websites and newspaper articles are a sign of **poor research**. If they dominate you cannot give more than 8 points. References to books published by prestigious publishers and articles in renowned journals give much better impression. Any sort of **plagiarism** disqualifies the thesis from admission to defence.)

Strong	Average	Weak
20	12	< 8

 points

5) **MANUSCRIPT FORM:** The thesis is **clear and well structured**. The author uses appropriate **language and style**, including the academic **format for quotations**, graphs and tables. The text effectively refers to graphs and tables, is easily readable and **stimulates thinking**. The text is free from typos and easy to comprehend.

Strong	Average	Weak
20	12	< 8

 points

Remarks for the referees:

- 1) Download the thesis from the SIS. If you have no access to SIS please ask the secretary of IPS (jana.krejcikova@fsv.cuni.cz, tel. 251 080 214) for sending you the thesis by e-mail.
- 2) Use the IEPS Thesis Report forms for filling your comments. **It is a standard at the FSV UK that the Referee's Report is at least 400 words.** In case you will assess the thesis as "non-defendable", please explain the concrete reasons for that in detail.
- 3) Retain your critical stance. You cannot confer more than 80 points upon a thesis that does not satisfy research standards in top European universities.
- 4) Upload the Report as PDF/A file into the SIS. Instructions how to convert .DOCx to PDF/A): „Save as“ – select „PDF“ – check in „Options or Možnosti“ that „PDF options“ tick „ISO 19005-1 compliant /kompatibilní s/ (PDF/A)“ – „Save“. If you have no access to SIS please send the unsigned PDF file to the secretary of IPS (jana.krejcikova@fsv.cuni.cz).
- 5) Please deliver to the IPS Secretariat, U Kříže 8, 15800 Praha 5 Jinonice, two hand-signed originals. Unfortunately, a photocopied report with signature does not suffice. Sorry.
- 6) Your Report will be remunerated, so we need also your account information (separate from this form).