

REPORT ON THE MASTER THESIS

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

Title of the thesis:	Comprehensive Trade Agreement between Asymmetric Partners
Author of the thesis:	Lennart Classen
Referee (incl. titles):	Vilém Semerák

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

1) Theoretical background:

The paper provides a fairly good overview of the development of literature on preferential trade agreements which includes not just traditional issues (trade creation and trade diversion) but also relatively new papers and arguments (e.g. Rodrik (2018) or the role of trade in innovations).

The empirical part of the thesis is based on the gravity model of trade. It is a model with a long history, its modern versions are frequently used in applied trade and trade policy analysis and they definitely have respected theoretical foundations.

Gravity model (and econometric specifications inspired by this framework) is definitely one of the most suitable frameworks for the analysis of the effects of preferential trade agreements. The author discusses in detail possible forms of implementation of the model, he cites also quite advanced papers (including topics such as the endogeneity of PTA formation) which are methodologically rather beyond the level typically expected from IEPS students.

I would only point out a rather unsound emphasis on trade balance in the descriptive part (p.4-6) of the paper, that is a feature which does not have much support in current trade theory.

2) Contribution:

The paper not only provides an overview of relevant literature and simple charts/tables so often found in students' theses, but it also includes relevant econometric results which can be compared with many older and traditional applications of gravity model. While their reliability might still need additional improvement before publishing, they definitely exceed the level typically required from IEPS students.

3) Methods:

I appreciate that the author opted for own empirical analysis and that he goes well beyond presenting a few simple charts or diagrams which would describe the evolution of trade between the EU and Columbia/Peru. It can be considered as a standard component of the current portfolio of methods for trade policy analysis (as described e.g. in the WTO Practical Guide for Trade Policy Analysis) and if implemented properly, it provides adequate results.

The author estimates an augmented version of the gravity model with added dummies that capture the effects of trade creation and trade diversion. Again, the specification of such dummies is inspired by previous empirical research.

The author uses three types of specification (pooled OLS, random effect, and fixed effect specification) and with the use of standard tests concludes that the fixed effect model seems to be the most appropriate one. This result is in line with many previously published papers. The author also used robust standard errors, although he does not elaborate on the type of concept used.

Some weaker features of the author's approach can be found in two issues: (i) dealing with zero trade flows, (ii) comparison of the results of various models.

As far as the first issue is concerned, the author opted for an "old-school" approach (adding a small constant to zero trade flows). This used to be a not so rare practice in the past and the author correctly mentions possible weaknesses. Still, using the PPML estimator would not be too difficult (implementation pretty much consists in using a different command in Stata nowadays) and the use of the PPML estimator has also an additional advantage – it can solve a problem with a possible bias in the presence of heteroskedasticity (which can be present in the data – after all, this might have been the reason why the author opted for the robust standard errors). It is a pity that the author has not used this opportunity to further improve his paper. Even more importantly, some statements (e.g. on p. 17) suggest that the author may not fully differentiate between missing and zero trade flows. This is an even bigger problem – a missing observation can be a simple unreported non-zero number. The procedure used by the author (adding 1 to the observations), can be acceptable for "true zeros", but not for missing observations. It is therefore important to check whether the source of data differentiated between zero and unreported data.

Concerning the second weaker issue, comparison of the estimated coefficients would ideally include a discussion of whether the identified differences are also statistically significant or not.

On the other hand, I really appreciate that the author discusses the role of previously achieved liberalization (GSP – p. 8).

4) Literature:

The list of references is quite long and includes relevant papers, especially with respect to the theory and application of gravity models. Mr Classen correctly reviews the main papers which define the model and its adequate use, most importantly the texts that explain the need for microfoundations and the importance of accounting for the multilateral resistance, and which provide guidelines for econometric specification of the model. Also the issue of asymmetric trade agreements is dealt with rather well in the literature review.

5) Manuscript form:

While occasional errors and typos can be found in the text, the overall incidence of such issues is still relatively acceptable for a similar text. The description of charts occasionally contain errors typical for non-native speakers (bio instead of bil. or bn, mio. instead of mil. – figures 1 & 2). Some readers may find a bit confusing that the author uses import data, but uses X (often used for export data) in his formulas and tables.

Presentation of the estimated results includes the same results (the fixed effects) repeatedly – compare the first columns of table 2 and 3, or 4 and 5 respectively. While this appears logical and perhaps facilitates the comparison of results, it also makes the text longer. Similarly, it was not necessary to include the three specifications equations (5), (6), and (7) - as they are identical. (p. 36-37)

Interestingly enough, the results of the fixed effects specification in the tables 6 and 7 are only almost identical – the numbers of observation differ (the numbers of observations in table 7 seem to be the same as in table 5, they differ both from the results in table 6 and from the summary table 11). It is probably a typo. Table 11 also describes the estimates based on the modified samples (with 1s replacing 0s) as specifications "without zero trade flows" which sounds rather misleading.

Suggested questions for the defence are:

1. What is the “lock-in” argument for trade agreements? Could it be relevant for Latin American countries?
2. Why did you prefer to estimate the model on imports (rather than on data for exports)?
3. Which rules of WTO are outdated and thus contributed to the motivation to create bilateral agreements (the question refers to the statement made in introduction - p. 1)?

I recommend the thesis for final defence. I recommend the following grade: “B”.

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

CATEGORY	POINTS
<i>Theoretical background (max. 20 points)</i>	19
<i>Contribution (max. 20 points)</i>	18
<i>Methods (max. 20 points)</i>	18
<i>Literature (max. 20 points)</i>	18
<i>Manuscript form (max. 20 points)</i>	17
TOTAL POINTS (max. 100 points)	90
The proposed grade (A-B-C-D-E-F)	B

DATE OF EVALUATION: September 8th, 2019

Referee Signature

Overall grading scheme at FSV UK:

TOTAL POINTS	GRADE	Quality standard
91 – 100	A	= outstanding (high honour)
81 – 90	B	= superior (honour)
71 – 80	C	= good
61 – 70	D	= satisfactory
51 – 60	E	= low pass at a margin of failure
0 – 50	F	= failing is recommended

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 form only for 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).