Imitation and Innovation in International Governance: The Diffusion of Trade Agreement Design

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A Introduction

The growing number of preferential trade agreements (PTAs) is one of the hallmarks of the current global economy. Within and across most, if not all, regions of the world, governments have concluded numerous new or revised previously signed arrangements. According to the World Trade Organization (WTO), more than three hundred and fifty PTAs are currently in force,[2] and many more are under negotiation. Recent studies indicate that these instruments have implications for central concerns in world politics, such as international trade (Baier, Bergstrand, and Clance this volume; Dür et al. 2014), foreign direct investment (Büthe and Milner 2008), foreign aid (Baccini and Urpelainen 2012), human rights (Hafner-Burton 2009), armed disputes (Haftel 2007; Mansfield and Pevehouse 2000), and democratization (Pevehouse 2005).

A glance over these numerous agreements indicates, however, that they vary a great deal in their scope and design (Dür et al. 2014). Some PTAs, such as the South Asian Free Trade Agreement (2004), liberalize only trade in goods, while others, such as the agreement between Australia and Chile (2008), tackle trade in services, foreign direct investment (FDI), intellectual property rights (IPR), public procurement, and the like. Still others, such as the West African Economic and Monetary Union (WAEMU, 1994) include a common external

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[2] http://www.wto.org/english/tratop_e/region_e/region_e.htm. Accessed May 17, 2013.

tariff, free movement of factors of production, and a variety of other objectives. PTAs also differ in the depth of their members' commitments in any given issue-area and the degree to which they allow their members flexibility in the application of substantive provisions. These differences appear to condition the impact of trade agreements on trade flows (Dür et al. 2014; Kono 2007) and other international interactions (Büthe and Milner 2014; Haftel 2012) in significant ways.

What explains this substantial variation in the design of trade agreements? Extant research that strives to address this question often assumes that each PTA is conceived independently of other existing agreements. Some studies argue that domestic factors, such as regime type, interest groups, or political stability, shape trade rules in important manners (Dür 2007; Kucik 2012; Mansfield, Milner and Rosendorff 2002). Other studies point to regional factors, such as economic interdependence and the balance of power (Haftel 2013; Johns 2013; Smith 2000).

In this study, we relax this assumption and thus contemplate the role of external influences. Specifically, we entertain the possibility that states that form or reform trade agreements do not "start from scratch" but rather look for an existing institutional model (Kim and Manger 2013; Jetschke and Lenz 2013, 7). We argue that negotiators who bargain over the design of PTAs and look for an existing template can choose from at least three competing models. Specifically, they may "borrow" from the template for a narrow and shallow agreement. Alternatively, they can imitate the European Union (EU), which is purported to be "the standard model for regional integration" (Börzel and Risse 2012, 197). Finally, they may replicate the North American Free Trade Agreement (NAFTA), which is Washington's preferred model (Grugel 2004; Sbragia 2010). For countries that want to go beyond shallow cooperation, therefore, "Pax Americana and Pax Europaea" provide distinct global blueprints for economic integration (Börzel 2013, 518).

Using this observation as a springboard, we then ponder its implications for the varying landscape of PTAs worldwide. We develop several conjectures with respect to relational factors that may explain which model the members of a PTA decide to follow. That is, we stress that even when controlling for domestic factors, the relationship between potential PTA members and the EU and the US, respectively, matters for model choice. We test these expectations quantitatively with an original data set of the institutional design of a comprehensive sample of PTAs.

Our results, while preliminary, offer a number of insights into the factors that determine PTA design worldwide. First, it appears that more recent PTAs increasingly follow the NAFTA model at the expense of the EU. Second, our findings indicate that as the number of PTA members increases, the design of such agreements becomes more similar to the EU and less similar to NAFTA. In addition, PTAs with members that have close bilateral relations with the United States appear to imitate the NAFTA model. Surprisingly, we do not find equivalent evidence with respect to the EU. Taken together, the empirical analysis suggests that the effect of the EU on the design of trade agreements may have been overestimated by extant research and that even those PTA members that have close ties to the EU are not compelled to adopt EU-like agreements. On the other hand, the American preferred approach carries greater and growing weight in the current global trading system. Nevertheless, the EU still serves as a template for larger and more complex regional economic organizations, which may be the exception to this general rule.

These findings have several broad implications. First, with respect to the study of trade agreements, we show that the design of PTAs tends to cluster. This suggests that PTAs are not only signed in response to existing PTAs (Baccini and Dür 2012; Baccini and Dür 2014), but also that subsequent PTAs adopt the institutional design of earlier agreements. Thus, the design of trade agreement is not done in isolation but rather influenced by interdependence among countries and by the preferences of the more powerful players in the international

economic system. This does not mean, however, that negotiators simply "cut and paste" from existing agreements, thereby disregarding their functional needs. Institutional design is still rational (Koremenos, Lipson, and Snidal 2001), but shaped by the broader external environment as well as prevailing standards and practices.

The chapter is organized as follows. The first section offers some descriptive evidence of the existence of three distinct PTA models. The second section develops several hypotheses with respect to the sources of model choice. The third section elaborates on research design and operationalization of the dependent and independent variables. The fourth section reports the findings of the empirical analysis. The final section concludes.

B Three PTA Models

The existence of different approaches to economic integration is perhaps a truism. Observers point to a bifurcation between shallow economic intergovernmental cooperation and deep regional integration (Börzel 2013), between minimalist and interventionist agreements (Duina 2006), or between decentralized and centralized institutional models (Kahler 1995). Indeed, a cursory analysis of agreement texts points to the existence of at least three PTA models. The first model includes a large number of narrow and shallow agreements in which member states agree on the (often partial) reduction of tariffs on a select number of goods. These partial free trade agreements do not contain any provisions that regulate issues such as trade in services or FDI. The agreement between Afghanistan and India (2003), for example, only contains tariff concessions by the two countries on eight (Afghanistan) and thirty-eight (India) items. Other examples of such agreements, which we label the "southern model", are those signed by many Latin American countries under the Treaty of Montevideo (1980).

A second group of agreements resemble the EU. Beginning with the establishment of the European Economic Community (EEC) in 1957, members of this organization were keen on building powerful and elaborate bodies to shepherd the integration process. Most notable

are the European Commission and the European Court of Justice, which enjoy a great deal of independence and can, in some instances, overrule national sovereignty. In line with this focus on institutions, the European project offers a general roadmap for gradual integration, starting with trade liberalization, and then progressing to a customs union, a common market (that is, free movement of labor and capital), and a common economic and monetary union. At the same time, the initial agreement (Treaty of Rome, 1957) was vague on many of the fine details of liberalization. Instead, the task of spelling these details out was delegated to the organization and its institutions. The subsequent Single European Act (1986) and the Maastricht Treaty (1992) filled in major gaps in important areas, such as trade in services and investment, but left others, such as IPR and government procurement, underspecified. We label this approach that emphasizes institutions at the expense of rules the "EU model."

Several regional agreements resemble the EU model. The Central American Common Market (CACM), especially as revised by the Protocol of Guatemala (1993), is a good example. The aim of this agreement was to create a Central American economic union. The treaty, however, was vague with respect to the specific manners by which these goals are to be achieved; many particulars were left to the organization's bodies – including several ministerial councils – to decide at a later stage. The Caribbean Community (CARICOM), Andean Community, and the Economic and Monetary Community of Central Africa also have an elaborate set of institutions but many ambiguous rules. Beyond such regional organizations, many EU agreements with third parties - share some characteristics of the former. Such agreements cover a variety of new, non-trade, issues, but they frequently do so in a vague and unenforceable manner (Horn, Mavroidis, and Sapir 2010). The Stabilization and Association Agreement with Macedonia (2001), for example, specifies that the supply of services should be "progressively" liberalized; but the only concrete measure contained in the treaty is a provision permitting the temporary movement of natural persons providing a service.

Next to this type of *institutions-based* integration, as exemplified by the EU, one can identify PTAs that engages in *rules-based* integration, exemplified by NAFTA. This PTA was created without the setup of any meaningful institutions. The parties agreed to establish three national secretariats to oversee the implementation of the agreement, but formed neither a corporate secretariat nor a standing tribunal or a parliament. NAFTA thus is an elaborated document that specifies many of the rules in advance and leaves relatively little for future interpretation. Importantly, this agreement stipulates explicit rules in several new, "behind-the-border" areas, such as non-tariff barriers (NTBs), trade in services, FDI, labor standards, technical standards, and agriculture (Heydon and Woolcock 2009). Unlike their European counterparts, many of NAFTA's more innovative provisions are not only precise but also reflect strong commitment to enforce the agreed upon rules and regulations (Horn, Mavroidis, and Sapir 2010). We label this approach the "NAFTA model."

Indeed, many PTAs resemble this model. This is clearly the case for most other agreements signed by the US, which closely follow the NAFTA template. Perhaps more surprising, many agreements signed by Chile, Japan and Mexico show significant parallels to NAFTA as well. The agreement between Australia and Chile, for example, not only covers market access in goods, but also includes detailed provisions regarding technical standards, investment, government procurement and IPR.

A new and original dataset on the design of 579 PTAs signed between 1957 and 2009 (Dür et al. 2014) allows us to undertake a more systematic analysis of model choice. The data set includes 352 bilateral and 88 regional agreements. A further 122 agreements were signed between a region and a single country, and 17 agreements between two regions. The agreements strongly vary in terms of type: 169 are partial scope agreements (that is, they only cut tariffs on a limited number of goods), 351 agreements envisage full free trade areas, 53 provide for the creation of customs unions, and 6 are framework agreements.

The data set contains information on more than 100 design features of these agreements, including whether they liberalize trade in services, protect IPR, foresee a common authority to deal with competition policy, proscribe subsidies, and envisage the creation of a dispute settlement body. The provisions can be classified as belonging to three broad aspects of institutional design: the depth of cooperation (a total of 60 items), trade remedies (28 items), and enforcement (27 items). The data were coded manually, with all data coded twice independently of each other, with high inter-coder reliability. Figure 1 shows a sample of provisions included in the data set.

Figure 1 about here

We gauge model membership with cluster analyses of the 115 provisions found in the data set on PTA design. The method of cluster analysis groups together objects that are more similar with each other than with objects that are more different (Kaufman and Rousseeuw 2005). As all provisions in the data set are coded as binary variables, we rely on Ward hierarchical cluster analysis. We calculate the distance matrix between agreements using a method appropriate for binary data (Simple Matching Coefficient, see Kaufman and Rousseeuw 2005, 25).[3] The clusters are not sensitive to using a different approach at measuring the distance between agreements (such as the Jaccard or Gower coefficients). In fact, only very few agreements move from one cluster to another when applying such a different method.[4]

The cluster analysis offers further support for the existence of three PTA models. When dividing the data set into three clusters, we find that one contains mainly agreements

[3] We use the R package cluster to calculate the distances (Maechler et al. 2013).

[4] More precisely, in the three-cluster solution that we calculate, 14 of 579 agreements (2.4 per cent) move from one cluster to another when applying the Jaccard coefficient. Among them are the US-Jordan (2000), the Algeria-EU (1976) and the Cyprus-EU (1972) agreements.

concluded by developing countries; another includes agreements concluded by the EU as well as several plurilateral agreements; and still another covers NAFTA and most other PTAs signed by the United States and several Latin American and Asian countries.[5] The three clusters contain 228, 274 and 77 agreements, respectively. Figure 2 shows a part of cluster 1 (Southern model) graphically.[6] This cluster includes more than 80 agreements signed by Latin American countries and about thirty PTAs that were signed by African countries. Another substantial part of the cluster includes agreements signed by states that became independent after the dissolution of the Soviet Union. The agreements signed by the EEC and the EU with former colonies in Africa, the Caribbean and the Pacific (the Lomé Conventions and Yaoundé agreements) follow this model as well. A few other agreements that the EEC signed with third countries in the 1960s and 1970s also form part of this cluster.

Figure 2 about here

Cluster 2 (EU model) is composed of all EU treaties and many agreements that the EU signed with third countries. Figure 3 presents a part of this cluster graphically. No fewer than 128 of the agreements forming part of this cluster were signed between European countries, with additional 74 having members from more than one continent. This cluster also contains a substantial number of Latin American and Caribbean agreements. Importantly, the EU's treaties from the Treaty of Rome to the Treaty of Lisbon closely cluster together on the upper

[5] Hierarchical clustering, in contrast to k-means clustering, does not require the researcher to determine the number of clusters *ex ante*. In fact, deciding on the number of clusters to extract is partly discretionary (Ahlquist and Breunig 2012, 96). We opt for the highest level of aggregation, as we are interested in explaining broad types of PTAs.

[6] Because of the large number of agreements in clusters 1 and 2 (228 and 274), we "pruned" the dendrograms before producing graphs. This does not affect cluster membership or distances between the 120 agreements shown in each of the two figures.

side (highlighted in bold). Interestingly, this part of the cluster also contains the Common Market for Eastern and Southern Africa (COMESA, 1993). Most of the EU's agreements with third countries can also be found in this cluster. As expected, we find several regional economic organizations, such as the revised MERCOSUR agreement, CARICOM, CACM, and WAEMU in other parts of this cluster.

Figure 3 about here

Cluster 3 (NAFTA model), finally, includes the US agreements and many agreements signed by Asian countries. Figure 4 shows that most of the US agreements (highlighted in bold) closely cluster together (upper part of the plot). Twelve of them can be found as close neighbors and three more are at the lower right-hand side of the graph. Only two, older, US agreements do not form part of this cluster: the Canada-US Automotive Products Trade Agreement and the Israel-US agreement (both are part of cluster 1). The cluster also contains agreements signed by Chile and Mexico with third countries. Moreover, the EU's agreements with the CARIFORUM and Chile cluster with the US agreements (both on the upper right-hand side). By contrast, Asian agreements (especially agreements signed by Japan and Singapore) cluster on the left-hand side of the dendrogram. Interestingly, the European Free Trade Agreement (EFTA) agreements with Korea and Singapore are also located in that part of the dendrogram. These two agreements thus are quite different from the other agreements EFTA signed.

Figure 4 about here

Given these differences in membership, it is no wonder that the clusters vary with respect to several attributes. Cluster 1 contains many older agreements. On average, the agreements in this cluster were signed in 1987, whereas the averages for clusters 2 and 3 are

1996 and 2004, respectively. Moreover, the clusters vary in terms of average depth. To show this, we rely on the measure of depth used by Dür et al. (2014), which is an additive index of the presence or absence of seven key provisions in PTAs.[7] The average depth for agreements in cluster 1 is 0.83, whereas the averages for the other two clusters are 2.33 and 5.34, respectively. As suggested by the distinction between institutions-based and rules-based integration, agreements in cluster 3 contain by far the largest number of provisions: on average, these agreements contain sixty-nine of the provisions contained in the dataset (out of 115 considered here), whereas agreements in cluster 1 only contain a mean of seven provisions. The agreements in the EU cluster are situated in between with thirty-three provisions.

In summary, both a cursory overview of treaty texts and a cluster analysis substantiate the existence of at least three different PTA models. These can best be described as a Southern model, an EU model, and a NAFTA model. What explains how similar an agreement is to either the Treaty of Rome or NAFTA? The next section provides several potential answers to this question.

C Hypotheses about External Influences on PTA Design

Why are PTAs designed in a certain way and not another? We develop a number of conjectures that stress the relational aspect of model choice. We are thus open to the possibility that agreement design is not only driven by considerations that are internal to the PTA and its members, but also by the relationships between the PTA members on the one hand and the EU and the United States on the other. In particular, we consider three sets of variables that might matter for model choice: 1) the number of models available at the time of

[7] These are whether or not an agreement envisages the creation of a full free trade agreement; and whether it contains substantive commitments in the fields of services; FDI; standards; public procurement; IPR; and competition.

negotiations; 2) the size of membership; and 3) three dyadic variables, namely international trade, international aid, and joint membership in international governmental organizations (IGOs).

Number of models. Governments that conclude trade agreements can lower the negotiation costs by employing an existing template as a springboard (Kim and Manger 2013; Jetschke and Lenz 2013). To the extent that they do so, the number of existing models is likely to affect the influence of a given principal agreement. One could reasonably expect that as the number of models increases, "newcomers" will gradually have a greater sway on other agreements at the expense of older models. With respect to trade agreements, the European model did not face any meaningful competition since the inception of the EEC in 1957 and until the conclusion of NAFTA in 1992. Indeed, it is widely acknowledged that the EEC inspired the creation of several regional economic organizations in the developing world during the 1960s and 1970s (Langhammer and Hiemenz 1990).

Since the conclusion of NAFTA, however, its design was promoted as instrumental in fostering economic liberalization, especially by the United States (Grugel 2004). Indeed, it quickly became a standard platform for a host of trade agreements between the members of NAFTA and third parties (Horn, Mavroidis, and Sapir 2010; Sbragia 2010) as well as between third parties themselves, especially in Latin America. Chile's PTAs, in particular, "increasingly adopted many NAFTA-like characteristics" (Delvin and Estevadeordal 2001, 21). We therefore expect a temporal change in the impact of the two institutions: the effect of the EU model should decline over time – and especially from the early 1990s on – as it loses "market share" to NAFTA. Inversely, the latter agreement's influence on other PTAs should grow as time passes (albeit perhaps up to a point).

Number of members. One obvious difference between the EU and NAFTA is the number of participants in these respective agreements. The former started with six members and then gradually expanded, while the latter was designed for three members only. Presumably, plurilateral agreements have to accommodate greater diversity of interests and perspectives and therefore require an elaborate set of institutions to bridge them. Bilateral or trilateral agreements, on the other hand, may be easier to negotiate and thus to contain more precise rules. Moreover, to the extent that ambiguous rules result in diverse interpretations, they can be discussed bilaterally through conventional diplomatic channels. We therefore surmise that PTAs with few members will find the NAFTA model more attractive than the EU model, but this preference will be reversed as the number of members increases.

Moreover, recent research that examines EU attempts to influence integration initiatives around the world (Alter 2012; Börzel and Risse 2012; Farrell 2007; Jetschke and Murray 2012; Lenz 2012), provides empirical evidence mostly with respect to multimember economic IGOs (rather than bilateral agreements) and largely with respect to institutions (rather than rules). Hence, we conjecture that plurilateral agreements will have greater resemblance to the EU model and less similarity to the NAFTA model.

Trade dependence. Turning to dyadic variables, trade dependence is perhaps the most straightforward determinant of similarity in institutional design. Weaker states that extensively trade with a major power are likely to face substantial costs if they fail to match their policies with those of the more powerful country. Higher transaction costs in exporting to a large power may mean that they lose out compared to other weak states that adjust their policies. Competition between weaker states then may induce them to match the policies of the major power even if domestic considerations speak against doing so (Gruber 2000). Following this line of reasoning, one should expect greater pressure to adjust as commercial interdependence between the hub and the spoke is more extensive. Thus, states that trade

more with Europe and the United States should find the EU and NAFTA models more appealing, respectively. By contrast, the more the potential member states of a PTA trade among themselves, the lower their dependence on access to the EU and US markets, and thus the less important it is for them to adopt the PTA models of the hubs.

The role of trade dependence should be very visible in agreements between these powerful actors and third parties, where the former can frequently impose their preferred design on the latter. As extant research documents, the United States and the EU use their distinct PTA programs to spread their favored regulatory frameworks, at least in part to protect their exporters and investors (Dür 2007; Horn, Mavroidis, and Sapir 2010, 43). Perhaps less obvious, trade dependence may also lead third party governments to sign PTAs that are similar to one of the predominant models amongst themselves. For countries that already have a PTA link with a major power this a sensible strategy: once they adopted a specific model they reduce transaction costs by sticking to it. For other countries, doing so can facilitate future negotiations with the potential hub or send a credible signal of interest and readiness.

In summary, we expect higher levels of trade between the PTA members and the EU (US) to increase the likelihood of the former to adopt the EU (NAFTA) model, but higher levels of intra-PTA trade to decrease the likelihood of adopting either the EU or the NAFTA models. We also suspect that US trade agreements will resemble NAFTA and those signed between the EU and third parties will share some similarities with the Rome Treaty.

Financial aid. The hubs may also derive benefits from the adoption of their preferred approach by other countries (Drezner 2007; Lavenex and Schimmelfennig 2009). Having their rules applied beyond their borders will lower their costs of engaging in trade and FDI. They may then use conditionality to promote their preferred institutional design. Substantial evidence exists that the EU often relies on conditionality in its external relations to achieve its

desired policy outcomes (Smith 1998). This may also apply to the realm of PTAs, where powerful actors can link the design of PTAs to financial assistance. In some PTAs between the EU and third countries, such as the Economic Partnership Agreements, aid to regional cooperation projects is part and parcel of the agreement. In other cases, states that rely on financial support may feel compelled to behave in manners similar to their benefactors. The Southern African Development Community (SADC), for example, adopted EU institutions and policies to satisfy the latter's expectations and preserve its financial support (Lenz 2012, 163-164). We therefore conjecture that greater amounts of financial aid from the EU (US) will result in an increased likelihood of PTA members adopting the EU (NAFTA) model.

Common membership in IGOs. Bilateral relationships may work in more subtle ways. In highly technical negotiations in which they have to make decisions regarding complex matters, negotiators may look for a model that has proved to be effective. Consequently, they may be interested in learning from the experience of other countries. Crucially, learning requires the gathering and dissemination of information regarding the model, and thus open channels of communications. The more extensive states' policy ties with a leading actor, therefore, the greater the probability that they will follow the latter's model. This idea is consistent, for example, with the claim that trading groups that receive advice and consultation from EU bureaucrats tend to prefer the European model (Börzel and Risse 2012, 197; Grugel 2004; Lenz 2012). In addition, common membership in IGOs – especially those that address economic issues – may also facilitate the transmission of information about the kinds of policies that have proved effective (Simmons et al. 2006). We thus expect that as joint membership in IGOs between the EU (US) and PTA members increases, so does the likelihood of the latter adopting the EU (NAFTA) model.

D Research Design

In what follows we evaluate our expectations using a reduced-form approach. That is, we do not take into account the fact that the choices whether to adopt the EU or the NAFTA models are taken simultaneously, which would require a structural equation model. Since our outcome variables are continuous variables, we employ ordinary least squares (OLS) regression techniques. A Breusch-Pagan test indicates that the assumption of constant variance does not hold. We therefore use robust standard errors. In addition, variance inflation factors are always below 10, indicating that the risk of multicollinearity is rather low. In the rest of this section, we elaborate on the dependent, independent, and control variables.

Dependent variables

Our dependent variables are the distances between a given agreement and the Treaty of Rome and NAFTA, respectively. These distances are calculated using the approach described above (Simple Matching Coefficient). The variables potentially range from zero (when two agreements are identical) to one (when two agreements vary on each and every aspect). The actual values on these variables vary from 0.11 to 0.66 for the Rome Treaty and from 0.15 to 0.73 for NAFTA. In the case of the EU, we rely on distances to the Rome Treaty rather than other EU treaties because the evolution from a quite vague treaty (Rome Treaty) to increasingly more precise agreements (most recently, the Lisbon Treaty) is inherent to the EU model. Countries following the EU model should thus imitate the Rome Treaty, leaving the addition of greater precision to later treaty revisions. For NAFTA, we include only PTAs that were signed after 1992 (because we do not expect it to affect the design of other PTAs before its conclusion).

Explanatory variables

Since our dependent variable is at the PTA level, our unit of analysis is the PTA. When using explanatory variables that are dyadic or monadic, we aggregate them at the PTA level.

Consistent with conventional practices, we employ the weakest link assumption. That is, for monadic variables, we always take the minimum value among the PTA members (unless noted otherwise).[8]

We capture the number of models that are available to states considering the design of a new agreement with the year in which a PTA was formed (*Year*). In line with the discussion in the previous section, we expect greater proximity between older PTAs and the EU model and less distance between newer agreements and NAFTA. We employ two variables to test the conjecture relating to the number of members. *Number of members* is a count of the PTA members at the time of the PTA formation. Next, we include a multinomial variable that distinguishes between bilateral agreements, plurilateral agreements, agreements between a regional entity and a third country, and agreements between two regional entities (*Plurilateral*, *Plurilateral & Third Country*, *Region-Region*). Data for these variables are based on Dür et al. (2014).

We also use three variables to operationalize our conjectures regarding trade dependence. First, we include the logged volume of trade between the members of a given PTA and the EU and the US, respectively (*Trade with the EU* and *Trade with the US*). For the EU, we sum trade flows (imports and exports) from (to) each EU member country to (from) third countries. We do not include imports and exports separately since these two measures are highly collinear ($\rho>0.8$). Trade data come from the International Monetary Funds' Direction of Trade dataset, integrated with Gleditsch's (2002) imputed data. Second, we include the percentage of intra-regional trade of each PTA in our models (*Intra-regional Trade*). Specifically, we divide the total amount of trade (imports and exports) among PTA members with the total amount of trade by the PTA members with all the countries in the

[8] Our results remain intact if we substitute the minimum value with the average or median value.

world. Finally, we include dummy variables for external PTAs signed by the EU (*EU External PTAs*) and bilateral trade agreements signed by the US (*US External PTAs*).

With respect to financial aid, we add the logged amount of financial aid received by all members of the PTA from the European Commission and the United States (*Aid from the EU* and *Aid from the US*). In the case of the EU, we use the sum of aid allocated by the European Commission to third countries. We do not include aid allocated individually by each EU member country to third counties. The data are from the World Bank's World Development Indicators (2013).[9] Finally, we include the number of IGOs in which the members of the PTAs share membership with the EU and the US, respectively (*IGOs with the EU* and *IGOs with the US*). Specifically, we use the mean of joint IGO membership between each EU member and third countries. We rely on the Correlates of War's International Governmental Organizations Data Version 2.0 (Pevehouse, Nordstrom, and Wranke 2004).[10]

Control variables

Given that both the EU and NAFTA bring together mostly highly developed and large economies, their models may be more appealing to countries that enjoy similar characteristics. We thus use the logged value of GDP and GDPpc for each PTA (*GDP* and *GDPpc*). The first variable captures market size , whereas the second variable proxies the level of economic development. We use data from the World Bank (2013), Heston, Summers, and Aten (2011) and Maddison (2011) to measure these two variables. Previous studies show that democracies

[9] Admittedly, foreign aid may be used to promote various objectives that may or may not be related to trade and other economic matters. Ideally, one would employ more fine-grained measures, such as direct financial support devoted to the implementation of the agreement or, more broadly, trade facilitation. Unfortunately, such data is currently not available.

[10] We have also ran models with military alliances, i.e. third countries sharing an alliance with the EU and the US. These variables are never statistically significant and are not reported here.

are more likely to form PTAs (Mansfield, Milner, and Rosendorff, 2002; Mansfield and Milner, 2012). Building on that research, one might expect that democratic regimes will be more likely to adopt either the EU model or the NAFTA model, which themselves are made of democratic countries. We measure this variable with the absolute value of Polity IV for each PTA (*Regime*).

We also account for shared language and religion,[11] which serve as proxies for cultural similarity. We consider a third country *i* having a common language and religion with the EU if country *i* shares language and religion with at least one EU member. Language and religion score one if and only if all the PTA members share the same language/religion with the EU and the US. Data on language and religion come from the CIA World Factbook. Furthermore, we include distance from Brussels in the EU models as well as distance from Washington DC in the NAFTA model. Data come from the CEPII dataset (2007). In general, one should expect that the hubs will have greater influence on model choice in their back yard rather than more distant regions (Börzel and Risse 2012).

Next, since EU and US PTAs integrate many WTO provisions, we expect that WTO members are more likely to choose either the EU model or the NAFTA model compared to the Southern Model. Like NAFTA, the multilateral system was expanded to cover rules in several new areas, including trade in services, IPR, and FDI, following the Uruguay Round. WTO members may therefore find it easier to adopt the NAFTA model. We thus include a dummy variable that scores one if all the countries in a PTA are also WTO members (*WTO*) and zero otherwise. Data come from the WTO website. Finally, we include two dummy variables for North-South PTAs and South-South PTAs as well as region fixed effects. Data for these variables come from DESTA (Dür et al. 2014).

[11] We do not include shared colonial heritage since there is little variation on this variable. EU countries colonized much of the rest of the world. The United States, in contrast, hardly colonized any country.

E Results

This section reports the results of the statistical analysis. Tables 1 reports four models accounting for the sources of the distance between the Rome Treaty and the remainder of PTAs in the sample. Model 1 includes the explanatory variables pertaining to trade relations and a battery of controls. The other three models sequentially add the variables related to financial aid (Model 2), IGO membership (Model 3), and common language and religion (Model 4). Table 2 presents the equivalent four models for NAFTA. Table 3 reports the substantive effects of the explanatory variables that are statistically significant.

Table 1 about here

Table 2 about here

Table 3 about here

The statistical results offer strong support to our conjecture regarding the number of templates available to governments at the time of PTA negotiations. *Year* is positive and statistically significant in all EU models and negative and statistically significant in all NAFTA models. Thus, older treaties resemble the Rome Treaty, but newer ones look much more like the design of NAFTA. Table 4 indicates that these results are not only statistically significant but also substantively important, especially with respect to NAFTA. Illustratively, a PTA signed in 2006 (e.g. the Chile-Colombia free trade agreement) is closer to NAFTA by about 0.08 points compared to a PTA signed in 1996 (e.g. the Canada-Chile free trade agreement). It appears, then, that the early influence of the EU on the design of PTAs

diminishes over time and that Washington's preferred model is becoming increasingly influential.

We also find substantial support for the hypothesis pertaining to PTA membership size, but mainly for the case of distance to NAFTA. As expected, *Numbers* is positive and statistically significant in the case of NAFTA, indicating that agreements with fewer members more closely follow the NAFTA model more closely than multimember PTAs. The number of member states, however, is not statistically significant in the case of the EU. The results also suggest that the NAFTA model is more appealing to states aiming to sign a bilateral PTA than to states designing agreements between two regions or between a region and a third country. Plurilateral agreements, by contrast, are less distant from the Treaty of Rome than bilateral agreements. This result corroborates extant research and our conjecture that regional economic organizations tend to follow the EU model.

Results are mixed with respect to the conjecture linking trade dependence to similarity with the EU and NAFTA models. Surprisingly, we find that PTAs signed by countries that are more dependent on access to the EU market are less similar to the EU model than other agreements. The coefficient for *Intra-Regional Trade* is not statistically significant in any model; and the coefficient for *EU External PTA* is significant only in one model, although this coefficient has the expected sign throughout. Results with respect to NAFTA are much more consistent with our expectations. Countries that trade heavily with the United States design PTAs that resemble the NAFTA model more closely than other countries. In fact, moving from one standard deviation below the mean to one standard deviation above the mean on *Trade with the US* decreases points the distance from NAFTA by about 0.08. Given that the dependent variable ranges from 0.15 to 0.73, the size of this effect is remarkable. The finding concerning trade with the US is robust across all four models reported in Table 2. The same applies to the coefficient for *US External PTA*; as expected, American PTAs with third

countries tend to follow the NAFTA model quite closely. *Intra-Regional Trade* is not statistically significant in the models explaining distance from NAFTA, either.

Financial aid from the EU or the US does not seem to play a role in shaping PTA design. In none of the models is the coefficient for *Aid* statistically significant. By contrast, the results for *IGO Membership* confirm our expectations. In Model 3, the coefficient for this variable is negative and statistically significant, suggesting that countries that share membership with the EU in many IGO design their PTAs following the EU model. This finding, however, is not robust to controlling for common language and common religion (Model 4). Looking at the distance to NAFTA, the coefficient for *IGO Membership* is negative and statistically significant in both models 7 and 8. Again, therefore, countries with many joint IGO memberships with the US design agreements that resemble NAFTA. Presumably, these organizations are instrumental in transmitting useful information regarding institutional design from the hubs to the spokes.

Overall, therefore, the findings offer considerable support for the conjectures regarding number of models, number of members, trade dependence, and common IGO membership. The conjecture linking financial aid to PTA design, by contrast, is not supported by the data. Several of the control variables are statistically significant and have the expected sign. *Distance from Brussels* has a positive sign, indicating that PTAs in the European backyard tend to be closer to the EU model than PTAs that are farther away. The EU model, however, also seems to appeal to South-South PTAs. Perhaps unexpectedly, GATT/WTO member countries design agreements that are less similar to the EU than non-GATT/WTO members. With respect to distance from NAFTA, democratic countries sign PTAs that have greater similarity to NAFTA than authoritarian regimes. GATT/WTO members are more likely to pick the US model than non-members (given the large distance between NAFTA and the EU, this may explain the negative result on the latter). Not surprisingly, given that NAFTA brings together both developed and developing countries, the NAFTA model

particularly inspires North-South PTAs. Interestingly, the recent wave of Asian PTAs seems to emulate the US model. Overall, with an R^2 higher than 0.5 in the models including all variables, the predictive power of our models is high. Our working hypotheses perform better for NAFTA than for the EU, however.

Our results are robust to changes in model specifications and operationalizations.[12] First, and most importantly, we estimate seemingly unrelated regression (SUR) models, including all explanatory variables, for both the EU and the US. The results largely corroborate the OLS estimates. We also exclude outliers according to Cook's distance, drop EU and US PTAs with third countries and replace *Trade with the EU* with *Trade/GDP with the EU* to check if the positive sign remains intact. Interestingly, in this last model the sign for *Trade/GDP with the EU* is negative, though the variable is not statistically significant. Overall, however, our results are robust for all these additional specifications.

F Conclusion

As trade agreements mushroomed around the world in recent decades, they have become a primary instrument of the regulation of international commerce. The forces that shape this process are not well understood, in particular with respect to the design of these agreements. In this chapter we take a first crack at this issue. We contend that negotiators do not "reinvent the wheel" when they bargain over the provisions included in PTAs. Rather, they choose from a limited menu of principal models, specifically a Southern model, an EU model and a NAFTA model. Cluster analysis on a comprehensive and original data set that contains a detailed coding of institutional design of nearly six hundred PTAs allows us to empirically show the existence of these models.

[12] The results are not reported here due to space constraints. They are available from the authors upon request.

We then develop a theoretical framework that explains variation in similarity between an agreement and the EU and NAFTA, respectively. Our argument is that domestic variables alone are not sufficient to explain similarity to the EU or NAFTA. Rather, variables capturing the relationship between the potential members of a PTA and the EU and the U.S., respectively, should also be considered. Our dataset allows us to test a series of conjectures derived from this general argument. The empirical results suggest that the choice of PTA model is indeed influenced by the relationship between PTA members and the EU and the U.S., respectively. Institutional design, therefore, is not determined by domestic or intra-regional factors alone. Most conjectures, however, have more explanatory power for distance to NAFTA than distance to the EU.

Among the most important implications of our study is that PTAs are not designed in a void; that is, countries imitate existing PTAs when deciding on the contents of new agreements. In other words, they pick off-the-shelf models and then adapt them to the particular circumstances and their specific needs. This observation indicates that institutional design is not only driven by functional considerations, but is also a result of imitation and global interdependence.

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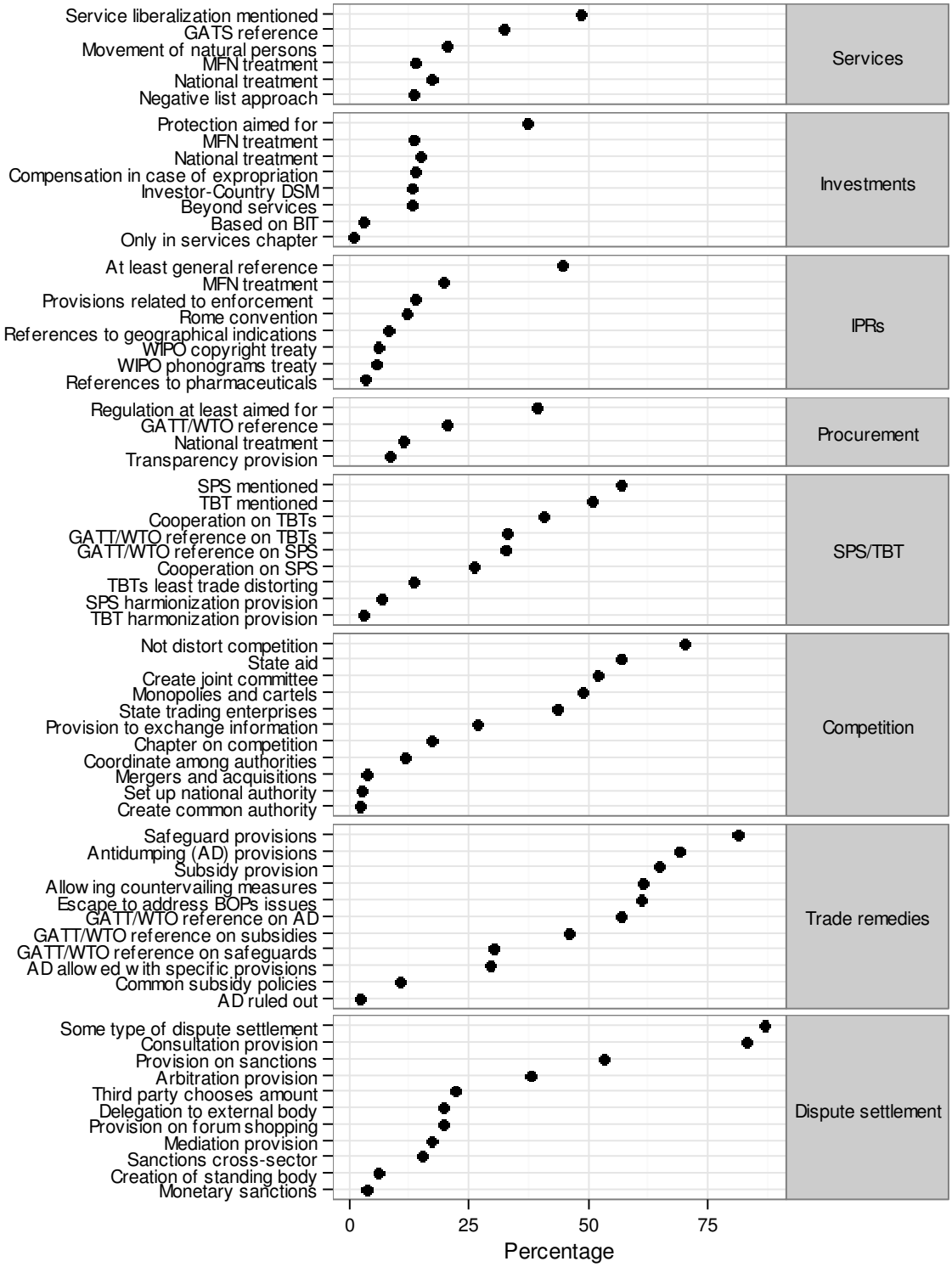

Figure 1: The Data on the PTA design.

Source: Own illustration based on data from Dür et al. 2014.

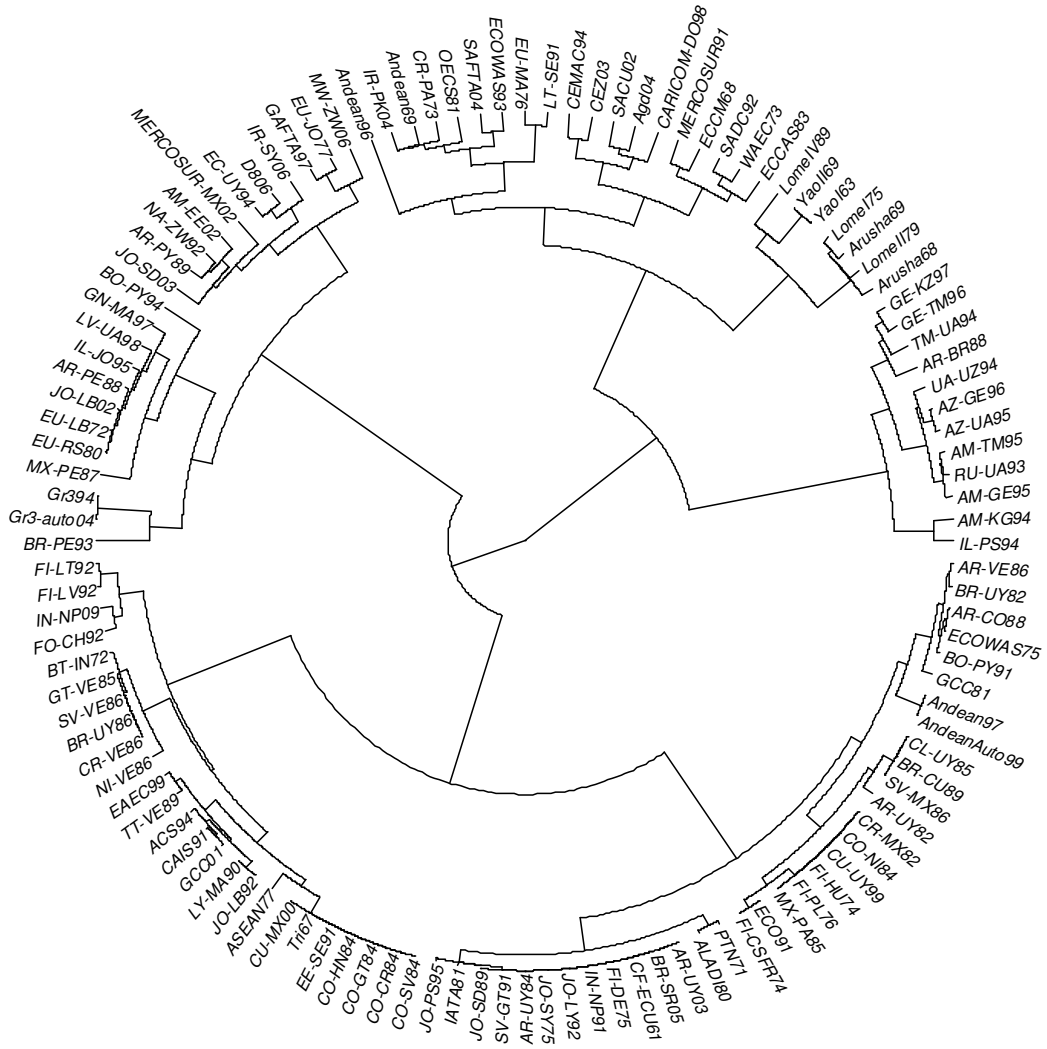

Figure 2: Southern model (subset of agreements).

Source: Own illustration based on data from Dür et al. 2014.

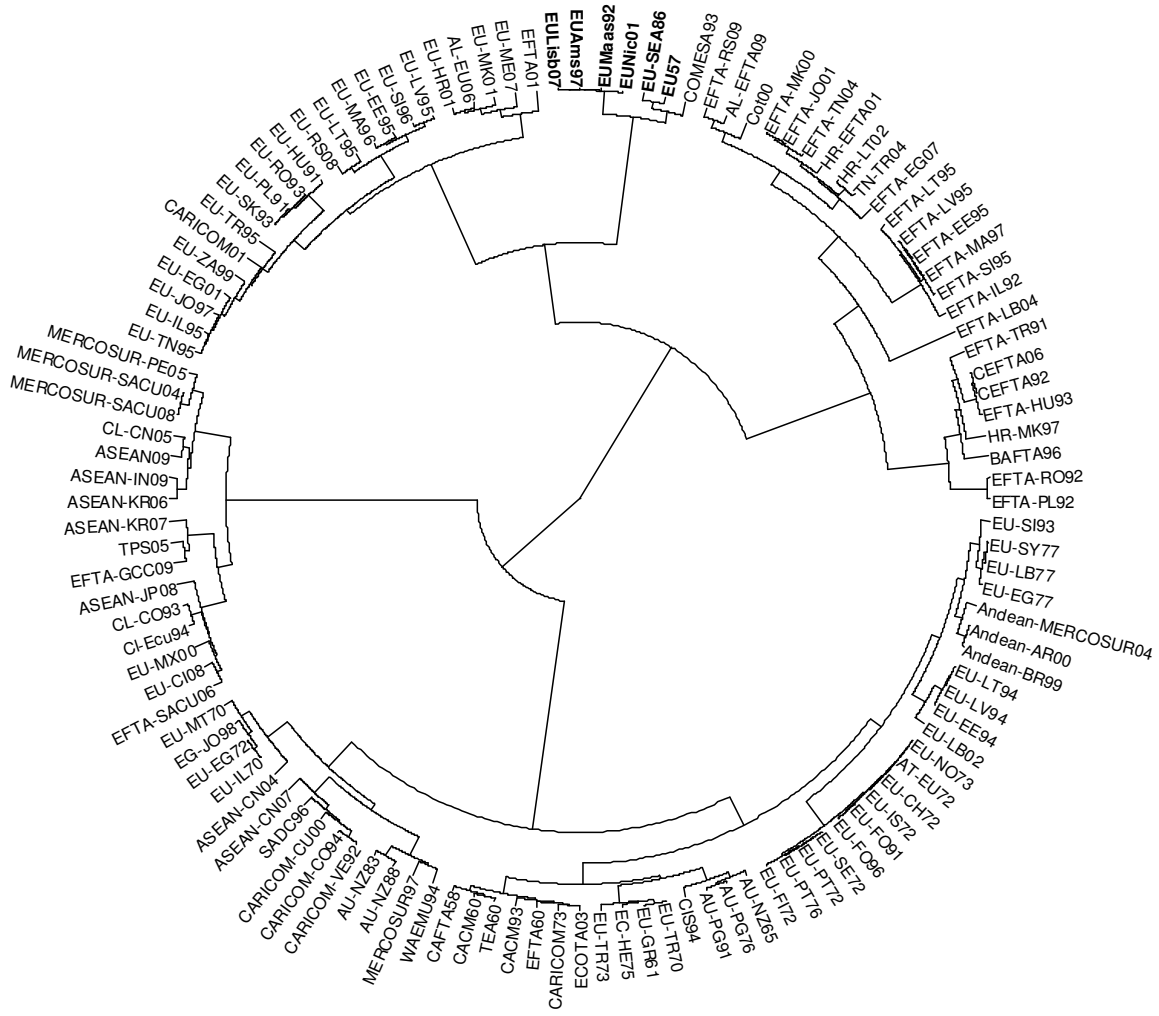

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Figure 3: EU model (subset of agreements).

Source: Own illustration based on data from Dür et al. 2014.

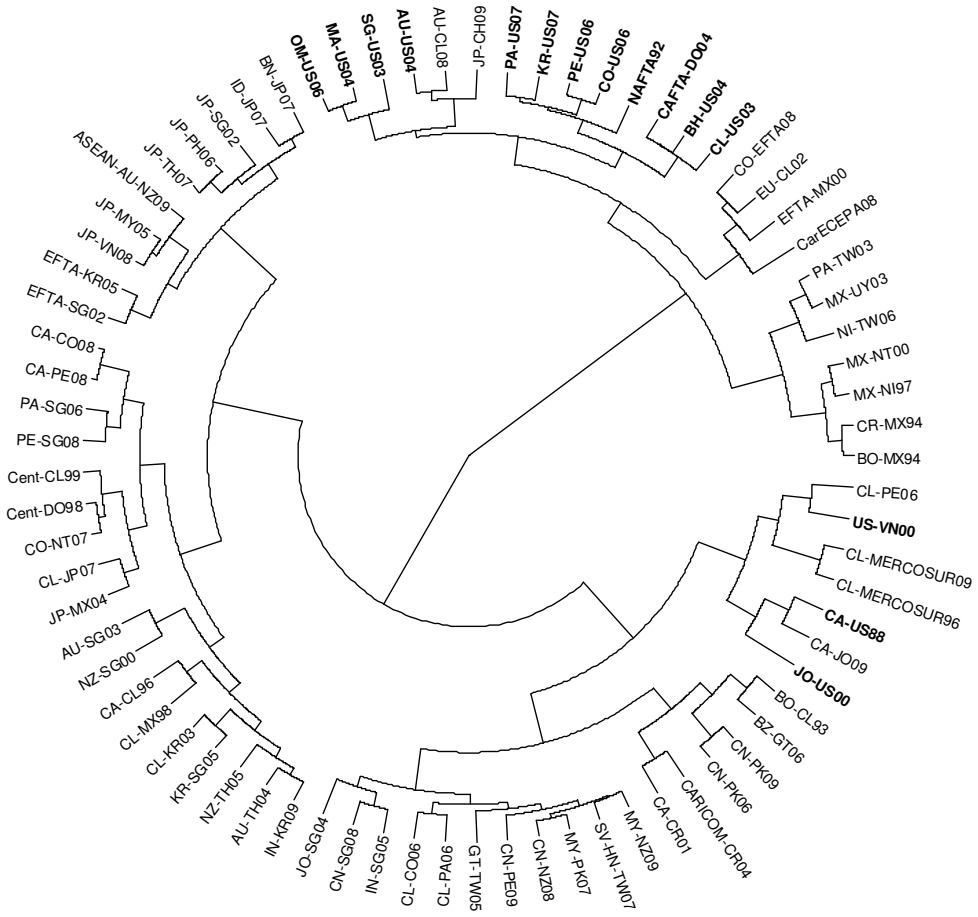

Figure 4: US model.

Source: Own illustration based on data from Dür et al. 2014.

Table 1: Explaining similarity to the EU

Variables	(1) EU distance	(2) EU distance	(3) EU distance	(4) EU distance
Year	0.002***	0.002***	0.002***	0.002***
	(0.001 - 0.002)	(0.001 - 0.002)	(0.001 - 0.003)	(0.001 - 0.003)
Numbers	-0.000	-0.000	-0.000	-0.000
	(-0.001 - 0.000)	(-0.001 - 0.000)	(-0.001 - 0.000)	(-0.001 - 0.000)
Plurilateral	-0.017*	-0.017*	-0.019*	-0.018
	(-0.034 - - 0.001)	(-0.033 - - 0.001)	(-0.035 - - 0.003)	(-0.037 - 0.001)
Plurilateral & Third Country	-0.012	-0.012	-0.011	-0.010
	(-0.035 - 0.011)	(-0.035 - 0.012)	(-0.035 - 0.013)	(-0.034 - 0.014)
Region-Region	-0.005	-0.004	-0.011	-0.010
	(-0.052 - 0.042)	(-0.051 - 0.043)	(-0.060 - 0.037)	(-0.058 - 0.039)
ln(Trade)	0.002*	0.002*	0.003**	0.003
	(0.000 - 0.005)	(0.000 - 0.005)	(0.001 - 0.006)	(-0.000 - 0.006)
Intra-Regional Trade	0.029	0.033	0.025	0.020
	(-0.129 - 0.188)	(-0.127 - 0.193)	(-0.132 - 0.182)	(-0.134 - 0.174)
EU External PTA	-0.028	-0.028	-0.029*	-0.029
	(-0.058 - 0.001)	(-0.058 - 0.001)	(-0.057 - - 0.000)	(-0.059 - 0.001)
ln(Aid)		-0.000	-0.000	-0.000
		(-0.001 - 0.001)	(-0.001 - 0.001)	(-0.001 - 0.001)
IGO Membership			-0.001*	-0.001
			(-0.002 - - 0.000)	(-0.002 - 0.000)
ln(GDP)	0.003	0.003	0.004	0.005
	(-0.002 - 0.007)	(-0.002 - 0.007)	(-0.000 - 0.009)	(-0.000 - 0.009)
ln(GDPpc)	0.009	0.008	0.008	0.008
	(-0.001 - 0.018)	(-0.001 - 0.017)	(-0.001 - 0.017)	(-0.001 - 0.018)
Regime	-0.000	-0.000	-0.000	-0.000
	(-0.001 - 0.000)	(-0.001 - 0.000)	(-0.001 - 0.000)	(-0.001 - 0.000)
Common Language				0.004
				(-0.016 - 0.025)
Common Religion				-0.004
				(-0.017 - 0.009)
Distance	0.053***	0.052***	0.051***	0.050***
	(0.039 - 0.067)	(0.038 - 0.066)	(0.038 - 0.064)	(0.037 - 0.064)
WTO	0.022***	0.022***	0.022***	0.021***
	(0.012 - 0.033)	(0.012 - 0.033)	(0.012 - 0.032)	(0.011 - 0.032)
NorthSouth	0.043***	0.043***	0.033**	0.036**
	(0.019 - 0.066)	(0.019 - 0.067)	(0.006 - 0.060)	(0.007 - 0.064)
SouthSouth	-0.049***	-0.048**	-0.061***	-0.057**
	(-0.079 - - 0.020)	(-0.081 - - 0.016)	(-0.096 - - 0.025)	(-0.094 - - 0.020)
Asia	-0.010	-0.010	-0.013	-0.015
	(-0.034 - 0.014)	(-0.034 - 0.014)	(-0.036 - 0.009)	(-0.038 - 0.008)
Africa	0.010	0.010	0.006	0.002
	(-0.015 - 0.034)	(-0.015 - 0.034)	(-0.019 - 0.030)	(-0.023 - 0.028)
Americas	-0.023	-0.022	-0.023	-0.026
	(-0.055 - 0.009)	(-0.054 - 0.010)	(-0.054 - 0.008)	(-0.060 - 0.009)
Oceania	-0.141***	-0.140***	-0.146***	-0.147***
	(-0.184 - - 0.097)	(-0.183 - - 0.097)	(-0.189 - - 0.103)	(-0.190 - - 0.105)

Intercontinental	0.000	-0.000	-0.002	-0.004
	(-0.014 - 0.015)	(-0.015 - 0.015)	(-0.016 - 0.012)	(-0.020 - 0.011)
Constant	-3.273***	-3.417***	-4.251***	-4.213***
	(-4.303 - -2.243)	(-4.530 - -2.304)	(-5.508 - -2.993)	(-5.545 - -2.882)
Observations	519	518	506	500
R-squared	0.522	0.522	0.534	0.531

Robust ci in parentheses -- *** p<0.01, ** p<0.05, * p<0.1

Table 2: Explaining similarity to NAFTA

Variables	(5) NAFTA distance	(6) NAFTA distance	(7) NAFTA distance	(8) NAFTA distance
Year	-0.008***	-0.008***	-0.007***	-0.007***
	(-0.011 - -0.006)	(-0.011 - -0.005)	(-0.010 - -0.005)	(-0.010 - -0.004)
Numbers	0.002**	0.002**	0.002**	0.002**
	(0.000 - 0.004)	(0.001 - 0.004)	(0.000 - 0.003)	(0.000 - 0.004)
Plurilateral	0.042	0.047	0.039	0.039
	(-0.003 - 0.088)	(-0.003 - 0.096)	(-0.016 - 0.094)	(-0.015 - 0.093)
Plurilateral & Third Country	0.043*	0.061**	0.051	0.051
	(0.001 - 0.085)	(0.011 - 0.111)	(-0.001 - 0.103)	(-0.002 - 0.104)
Region-Region	0.072*	0.069*	0.051	0.049
	(0.001 - 0.142)	(0.003 - 0.135)	(-0.017 - 0.118)	(-0.018 - 0.115)
ln(Trade)	-0.014***	-0.016***	-0.013***	-0.014***
	(-0.021 - -0.007)	(-0.023 - -0.010)	(-0.021 - -0.005)	(-0.022 - -0.005)
Intra-Regional Trade	0.037	0.054	0.129	0.150
	(-0.277 - 0.352)	(-0.231 - 0.339)	(-0.150 - 0.407)	(-0.119 - 0.419)
US External PTA	-0.187***	-0.196***	-0.208***	-0.206***
	(-0.234 - -0.139)	(-0.247 - -0.145)	(-0.259 - -0.157)	(-0.254 - -0.159)
ln(Aid)		0.001	0.001	0.001
		(-0.001 - 0.002)	(-0.001 - 0.003)	(-0.001 - 0.002)
IGO Membership			-0.002**	-0.003**
			(-0.004 - -0.000)	(-0.005 - -0.001)
ln(GDP)	0.002	0.007	0.010*	0.008
	(-0.010 - 0.013)	(-0.003 - 0.017)	(0.000 - 0.019)	(-0.001 - 0.018)
ln(GDPpc)	-0.007	-0.012	-0.013	-0.012
	(-0.026 - 0.011)	(-0.032 - 0.007)	(-0.033 - 0.007)	(-0.033 - 0.010)
Regime	-0.004***	-0.004***	-0.003**	-0.004**
	(-0.006 - -0.002)	(-0.006 - -0.001)	(-0.006 - -0.001)	(-0.006 - -0.001)
Common Language				-0.055*
				(-0.106 - -0.005)
Common Religion				0.150
				(-0.016 - 0.317)
Distance	0.015	0.019	0.015	0.046
	(-0.009 - 0.040)	(-0.010 - 0.047)	(-0.014 - 0.045)	(-0.011 - 0.103)
WTO	-0.027**	-0.028**	-0.028**	-0.023*
	(-0.048 - -0.006)	(-0.048 - -0.008)	(-0.048 - -0.008)	(-0.043 - -0.003)
NorthSouth	-0.093**	-0.100**	-0.136***	-0.138***
	(-0.162 - -0.024)	(-0.176 - -0.024)	(-0.216 - -0.055)	(-0.212 - -0.063)
SouthSouth	0.011	-0.007	-0.055	-0.056
	(-0.068 - 0.089)	(-0.095 - 0.081)	(-0.151 - 0.040)	(-0.150 - 0.038)
Asia	-0.046**	-0.045**	-0.040*	-0.049**
	(-0.082 - -0.011)	(-0.082 - -0.008)	(-0.077 - -0.003)	(-0.089 - -0.009)
Africa	-0.011	-0.007	-0.012	-0.014
	(-0.059 - 0.037)	(-0.056 - 0.042)	(-0.060 - 0.037)	(-0.063 - 0.035)
Americas	-0.024	-0.006	0.012	0.026
	(-0.062 - 0.014)	(-0.055 - 0.042)	(-0.041 - 0.065)	(-0.032 - 0.084)
Oceania	-0.067**	-0.052*	-0.068**	-0.037
	(-0.112 - -0.022)	(-0.101 - -0.003)	(-0.117 - -0.019)	(-0.110 - 0.035)
Intercontinental	-0.022	-0.012	-0.006	-0.005
	(-0.047 - 0.002)	(-0.037 - 0.013)	(-0.031 - 0.020)	(-0.030 - 0.020)
Constant	17.194***	16.892***	15.445***	15.045***
	(11.913 -	(11.241 -	(9.706 - 21.183)	(9.202 - 20.888)

	22.475)	22.543)		
Observations	318	274	267	267
R-squared	0.583	0.600	0.605	0.613

Robust ci in parentheses -- *** p<0.01, ** p<0.05, * p<0.1

Table 3: The substantive effect

Variable	Mean - Std.→ Mean + Std.	Lower Bound	Upper Bound
	EU distance		
Year	0.0880	0.0879	0.0881
ln(Trade)	0.0122	0.0121	0.0124
IGO Membership	-0.0170	-0.0176	-0.0163
	NAFTA distance		
Year	-0.083	-0.090	-0.076
Numbers	0.025	0.024	0.027
ln(Trade)	-0.081	-0.086	-0.076
IGO Membership	-0.045	-0.047	-0.042