Journal of East-West Business, 21:205–232, 2015

ISSN: 1066-9868 print/1528-6959 online
DOI: 10.1080/10669868.2015.1021434

Routledge
Taylor & Francis Group

Influence of International Trade Agreements on International Business: A Conceptual Model

PRAMUK PERERA
Department of Marketing/Management, Otago Business School, Dunedin, New Zealand

The article provides a conceptual model, developed from analyzing over fifty trade agreement related research studies published during the last decade, which allows international business scholars to explore the influence of trade agreements (custom unions, free trade agreements, preferential trade agreements, regional trade agreements) on foreign market entry strategies. This model is an attempt to develop IB theory to address the current research gap in this very narrow but important allied field. Empirical findings generated by interviewing dairy produce exporters in New Zealand reveal a remarkable connection between TAs and IB, with TAs found to influence the regulative environment of participating countries, which may in turn reduce the regulative distance between member nations. The contribution provides a basis for IB researchers to explore this connection in multiple industries/countries.

KEYWORDS international business, international economics, trade agreements, World Trade Organization

INTRODUCTION

Currently, international trade agreements (TAs) have been successful in setting up strong business links for participating countries in the world (e.g., North American Free Trade Agreement [NAFTA], European Union [EU], Association of South East Asian Nations [ASEAN], and Asia Pacific Trade

Received November 4, 2014; accepted February 16, 2015.
Address correspondence to Pramuk Perera, Otago Business School, 60 Clyde Street, PO Box 56, Dunedin 9054, New Zealand. E-mail: pramuk.perera@otago.ac.nz
Color versions of one or more of the figures in the article can be found online at www.tandfonline.com/wjeb.

Agreement [APTA]). TAs such as these have resulted in increasing international trade and business. The World Trade Organization (WTO) believes that TAs have become increasingly prevalent since the early 1990s. "As of 31 January 2014, some 583 notifications of RTAs had been received by the General Agreement of Tariffs and Trade (GATT)/WTO. Of these, 377 were in force" (WTO 2014).

TAs are not new to the world. Trade cooperation history goes back to the seventeenth century when a TA was formed between Prussia and Hesse-Darmstadt in 1828. Progressing from there, in 1957, the Treaty of Rome was established among Germany, France, Italy, Belgium, Luxemburg, and the Netherlands (now the European Union). In the 1960s, the Latin American Free Trade Association, the Andean Pact, and the Central American Common Market were formed. A TA between the US and Canada was established in 1989, and the Association of Southeast Asian Nations TA was signed in 1967 (Perez-Batres, 2012). The EU–Korea TA in 2011, which eliminates 97% of all tariff barriers, is one of the most comprehensive agreements in the world today (Kawai and Wignaraja 2011). The significance of TAs hinge on the sudden proliferation during the last few decades (Melatos and Woodland 2007; Ornelas 2008). The proliferation of trade agreements is thought to reduce trade barriers in a preferential way (Jugurnath, Stewart, and Brookes 2007).

During the period of 1970–75, TAs increased from 41 to 86 worldwide (Baier and Bergstrand 2009). Between 1991 to 2005 the average number of TAs held by each country increased from 1.8 to 9.9 (Chen and Joshi 2010). Today, almost all countries are a member of at least one TA and at least one third of all world trade is taking place under TAs (Karacaovali and Limão 2008). After WTO trade talks in Cancun in Mexico, there was a rise in regional TAs such as the European Union (EU), North American integration (NAFTA), Central American Free Trade Agreement (CAFTA), and Gulf Cooperation Council (GCC) (Bhattacharya and Bhattacharyay 2007).

The formation of the EU was a major contributing factor for TA proliferation since 1995. Political reasons such as greater peace and stability, support for democratic reforms, furthering of trade and investment liberalization in developing countries, and accessing new markets for EU exports have pushed the EU to participate in TAs. Furthermore, developing countries receive preferential access to the EU market and aid (Francois, McQueen, and Wignaraja 2005).

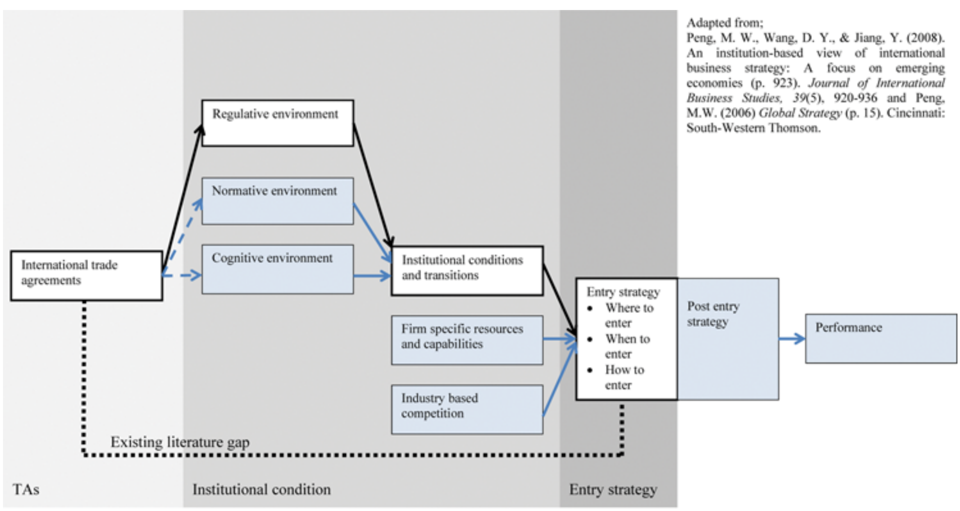
This study contributes to the existing international business (IB) theory by presenting a conceptual model that describes a clear connection of TAs and IB. This connection has not been presented in previous studies, as IB scholarly work has so far not explored TAs in the IB context. We have attempted to address this gap in this article. This missing connection we present will enable future IB researchers to explore this empirically in multiple industries to prove the validity of that link. To present this contribution clearly the study is structured as follows: the next section elaborates the research problem, Section 3 illustrates existing theory, Section 4 explains the consequences, and Section 5 presents the empirical findings. Finally the discussion and conclusions are presented.

RESEARCH PROBLEM

Previous studies (Arnold and Reeves 2006; Marangos 2006; Gani and Prasad 2008; Karacaovali and Limão 2008; Lee, Owen, and Mensbrugghe 2009; Gani 2011; Mushkat and Mushkat 2011; Gupta et al. 2011; Hochman, Tabakis, and Zilberman 2012; Medvedev 2012;Viju and Kerr 2012) give the impression that TAs may possess a considerable impact on the strategy of a firm involved in international business due to the fact that a TA is a contractual agreement (Goode 2007). Therefore TAs carry a legal aspect, which may possibly impact the institutional conditions of the member nation. Xie et al. (2011) state that an institutional difference between host and home country has an effect on the strategic positioning of the firm in the host country. The increasing power of WTO and its influence on almost all areas of governments in member countries will reshape the institutional condition including law and order, regulatory barriers, property rights, government effectiveness, and corruption (Mushkat and Mushkat 2011). Though TAs may have industry- and firm-level consequences, it is mainly the institutional condition (which was recognized as the third leg of the strategy tripod by Peng (2006) and Peng, Wang, and Jiang (2008)) that gets directly affected.

Various studies have been completed to explore the impacts of industry-based competition and firm-specific resources and capabilities on firms' internationalization process. Nevertheless there are not many studies focusing on institutional conditions, specifically the proliferation of TAs, and the resulting consequences on participating and nonparticipating countries. Market entry decisions are some of the most significant strategic decisions of a firm (García-Villaverde, Ruiz-Ortega, and Parra-Requena 2012). The international market entry strategy of a firm may include the three interlocking questions: (1) location, (2) time, and (3) mode, or in other words, where, when, and how (Tse, Pan, and Au 1997; Gaba, Pan, and Ungson 2002; Mudambi and Mudambi 2002; Graf and Mudambi 2005; Peng 2006; Huang and Sternquist 2007). International business scholars have not made an effort to investigate the influence of TAs on the three questions (location, time, and mode) of international market entry strategy. Though there are some excellent studies related to TAs by IB scholars such as Javalgi et al. (2010) and by many international economics scholars (Saggi and Yildiz 2010; Limão and Tovar 2011; Eicher and Henn 2011; Baldwin and Jaimovich 2012) no research in this area of investigating the influence of TAs on foreign market entry strategy has been carried out, which highlights a significant literature gap in this specific area of international business theory (Model 1). This study fulfils this gap by providing a conceptual model supported and connected with previous studies and testing it empirically via taking New Zealand's main exporting industry into consideration. In addition this model provides the necessary foundation to test the model empirically in additional industries and countries in future research.

The relationship among TAs, institutional conditions, and entry strategy has the potential of building a timely and significant narrative of firm internationalization. Institutional theory possibly suggests a more legitimate approach to firm internationalization on top of an economic perspective (Palmer, Jennings, and Zhou 1993; Haunschild and Miner 1997; Javalgi et al. 2010). Legitimacy is important for firms to be socially acceptable and credible in a market (Chan, Makino, and Isobe 2006). Hence, in addition to strategic considerations such as economic benefit, market power, and transaction cost, firms may also factor in social considerations (Oliver 1992; Chan et al. 2006). DiMaggio and Powell (1983) state that legitimacy can be gained by coercive, normative, and mimetic isomorphism. This is similar to Scott's (1995) regulative, normative, and cognitive pillars of institutional theory, which explain the legal, social, and psychological elements of institutional conditions (Huang and Sternquist 2007; Model 2). If TAs impact the institutional condition of the host country, that indicates that TAs may have the potential to determine the legitimacy of the foreign market entry decisions (where, when, and how; Guillén 2002; Chan et al. 2006). Therefore the investigation of the connection between TAs, institutional condition, and entry strategy will build a significant narrative in IB. This narrative has conceptually presented and empirically tested in this article.



- White boxes connected by black arrows show the main theories covered in this research
- Black dashed line shows the existing literature gap and which has connected conceptually in the model and provides a basis for future empirical research.

FIGURE 1 Model 1: International trade agreements' influence on international business strategy.

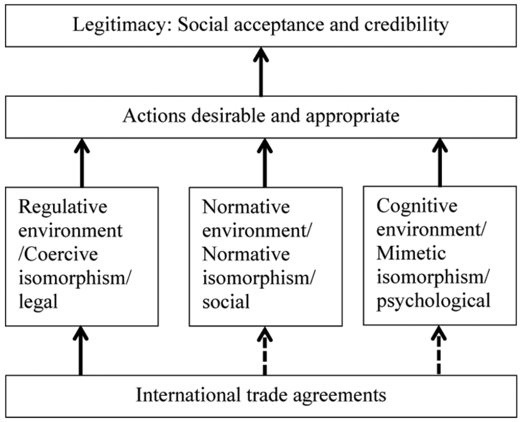


FIGURE 2 Model 2: International trade agreements' influence on institutional environment.

This research fills the literature gap between TAs and foreign market entry strategy by explaining the impact of TAs on firms in terms of location (where), time (when), and mode (how) considerations of a firm (Figures 1 and 2).

Model 1: This is the main conceptual model. This model shows a rational connection between TAs and foreign market entry strategy. TA is a legal agreement that has a direct influence on the regulative environment of the participating countries. The thick black arrow connecting TAs with the regulative environment explains that. Regulative environment is one leg of institutional conditions that TAs directly impact. The other two factors, i.e., the normative and cognitive environments, may have not as strong an impact as regulative environment, which is represented via the broken arrows from TA to normative and cognitive environments. Regulative, normative, and cognitive environments are the components of institutional conditions. Thick arrows from these three environments to institutional conditions represent that. Entry strategy, which is the combination of where, when, and how to enter, get affected by institutional conditions, firm-specific resources and capabilities, and industry-based competition. Again the thick arrows between these represent that connection.

Model 2: This model provides an in depth view of how TAs can impact Institutional conditions. TAs affect the institutional conditions. Firms work within the limits of those institutional conditions to gain the social acceptance and credibility, which is important for the success of business.

EXISTING THEORY

Institutional Conditions

Institutional conditions (simply known as the rules, regulations, customs and practices) play a significant role in business environment. They have the biggest controlling power of almost all aspects of the business world and as well as society. Institutional conditions can be viewed as a source of transaction cost (Peng et al. 2008), considered to be one leg of the strategy tripod in IB introduced by Peng et al. (2008) The other two legs are the industry-based view introduced by Porter (1980), which suggests that industry conditions reshape the strategy and performance and the resource-based view introduced by Barney (1991), which suggests that firm-specific resources drive strategy and differences (Peng et al. 2008)

North (1990b) states "institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction" (p. 3). Furthermore, Scott (1995) interprets institutions as "regulative, normative, and cognitive structures and activities that provide stability and meaning to social behaviour" (p. 33). Peng et al. (2008) highlight that "Institutions govern societal transactions in the areas of politics (e.g., corruption, transparency), law (e.g., economic liberalization, regulatory regime), and society (e.g., ethical norms, attitudes toward entrepreneurship)" (p. 6). The institutional environment therefore consists of individual beliefs and values, and the legal, political, and economic systems wherein a firm has to function. In other words the institutional environment has three pillars: (1) regulatory, rules that govern economic activity; (2) normative, societal values and beliefs; and (3) cognitive, implicit assumptions surrounding economic activity (Scott 1995; Kumar and Worm 2004).

Culture can also be considered a part of informal framework that supports formal institutions. Informal networks such as *Guanxi* are a part of Chinese culture that plays an informal institutional role. Any organization involved in business with China interferes with these informal institutional conditions. *Guanxi* refers to instrumental-personal ties that can range from strong personal loyalties through to what some westerners perceive as corrupt practices" (Berrell and Wrathall 2007, p. 66). *Guanxi* is more personal and durable and leads to more reciprocal exchange of favors than business networks (Kumar and Worm 2004; Peng et al. 2008).

Institutional conditions can vary for a plethora of reasons in any given country. For example, incidences such as 9/11 in the US and the 2005 London bombing in Great Britain may make major changes to institutional conditions. This momentum of continuous change can be known as institutional transitions. Emerging economies' institutional conditions differ from developed countries' institutional conditions. Also it is reasonable to argue that institutional conditions change from country to country, and firms that operate in multiple countries have to adjust accordingly. There can be various institutional issues; some of the key areas are law and order, regulatory barriers, property rights, government effectiveness, and control of corruption. Intergovernmental relationships and types of government also reshape the institutional conditions. Longer bilateral diplomatic relations increase the chances of firm bilateral investment. Firms are more likely to choose open cities and economic zones in equity-based entry (Pan and Tse 2000). Therefore it is interesting to understand how institutions matter as a whole, at least in terms of TAs, which is the core of this study (Gani and Prasad 2008; Peng et al. 2008).

Some of the key areas of institutional conditions and related studies are summarized in Table 1.

TAs

The theory of free trade has been discussed for the last two centuries in Economics. Specifically, how trade may benefit countries has been illustrated by Adam Smith (1776) as well as David Hume (1752; Krugman and Obstfeld 2009). Free trade possibly originated with the notion of "comparative advantage," a theory disseminated by Adam Smith and developed by David Ricardo. According to Smith (1776) a country would benefit by producing and exporting the goods that can be produced more efficiently than other countries. He states that the advantage comes from superior labor and natural resources. Ricardo (1817) also provides a similar perspective. According to him a country should specialize in the products it produces efficiently and should import what the country produces with less efficiency (Malkawi 2011; Gounder and Prasad 2011; Perez-Batres 2012).

Widely available literature about welfare and trade has become the basis for research in international economics. After Jacob Viner's explanation of

TABLE 1 Studies Completed Related to Institutional Conditions

Theories related to institutional conditions	Related studies
Connection between a firm and institutional environment	North (1990a), Davis, Desai, and Francis (2000), Huang and Sternquist (2007), DiMaggio and Powell (1983), Scott (1995)
Legitimacy and institutional conditions	DiMaggio and Powell (1983), Scott (1995), Huang and Sternquist (2007), Palmer, Jennings, and Zhou (1993), Haunschild and Miner (1997)
Regulative pillar of institutional conditions	DiMaggio and Powell (1983), Scott (1995), Huang and Sternquist (2007), Palmer et al. (1993), Haunschild and Miner (1997)
Normative pillar of institutional conditions	Porter (1990), Lu (2002), DiMaggio and Powell (1983), Grewal and Dharwadkar (2002), Haunschild and Miner (1997)
Cognitive pillar of institutional conditions	Palmer et al. (1993), Haunschild and Miner (1997), Coeurderoy and Murray (2008), Kostova (1999), Xu, Pan, and Beamish (2004)
Institutional conditions and market entry	Palmer et al. (1993), Haunschild and Miner (1997), Coeurderoy and Murray (2008), Kostova (1999), Xu et al. (2004)

Source: Research data.

welfare, trade creation, and trade diversion, economists began to evaluate these variables. Traditionally most of the economic theories suggest that trade between two countries increase when there is a TA in place. Viner (1950) illustrates that TAs do not necessarily deliver gains to members. The trade creation–trade diversion approach derived from his literature motivated economists to recognize trade-creating TAs as positive agreements and trade-diverting TAs as negative agreements.

Welfare is significant in deciding the participation of a TA. TAs bring positive welfare if the preferential partner is more efficient than rest of the world and vice versa. Egger, Egger, and Greenaway (2008) identify the factors that influence welfare: these being economic geography, interindustry trade forces, and intra-industry trade forces. However Abrego, Riezman, and Whalley (2006) state that even after 50 years of research whether TAs actually raise welfare and tariff levels remains ambiguous. Eicher and Henn's (2011) empirical analysis does not provide clear evidence to support the traditional theory. Nevertheless, their study indicates that WTO membership increases the trade of nearby developing countries even prior to the formation of TAs by those countries (Abrego et al. 2006; Egger et al. 2008; Magee 2008; Jugurnath et al. 2007; Karacaovali and Limão 2008; Egger and Larch 2008; Baier and Bergstrand 2009).

On the other hand, Vernon (1966), in terms of product lifecycle theory, stressed the importance of the end product rather than the factor-cost proportion. Technology, innovation, and capital are the main contributors to product lifecycle theory. Vernon believes that as knowledge of the manufacturing process become common, low-skilled labor-intensive countries provide the comparative advantage. That may lead other countries to develop trade links with these countries to gain comparative advantages. According to Porter (1990), a country's competitive advantage depends on the country's ability to specialize, or the ability of its industries to innovate and upgrade. On the other hand, Krugman and Venable's (1995) theory focused on economies of scale and imperfect competition, mainly looking at international trade in terms of cost and price, possibly a more common view in today's corporate world, where firms mainly worry about the difference between cost and price (Perez-Batres 2012).

Another theory of TAs is that countries do not decide the participation of TA in isolation. That decision may depend on the actions of other countries in the region. A country's interest or disinterest in forming a TA will influence another country. This situation is explained in Baldwin's (1995 and 1997) domino theory of regionalism. Baldwin explains the interesting behavior of international trade that occurs when one country reduces the tariff barriers that influences other countries to follow suit. Maybe this is similar to "defensive FTAs," that is, "FTAs signed to reduce discrimination created by third-nation FTAs" (Baldwin and Jaimovich 2012, p. 1). When countries sign TAs nonparticipating countries also get motivated to sign TAs as a method of avoiding trade discrimination. This effect is known as contagion, which is when a government decides to go ahead with a TA that they initially oppose due to TAs signed by other countries. Any government has a reasonable fear of losing its available market access with a current TA due to a future TA being created, of which they are not a partner. From another perspective, if a competitor's firm overseas is benefiting from the TA of its country with another country, the home firm will push their government also to merge with the third country to create an equal playing field. There are first-mover advantages however, and as a TA eventually turns into a multilateral TA, first movers have more advantages than the others (Bagwell and Staiger 2004; Manager 2008; Egger and Larch 2008; Hamanaka 2012; Baldwin and Jaimovich 2012).

In addition when both countries have existing TAs with the third country they have a strong motivation to form a TA between them. Formation of TAs generally depends on partner countries' economic characteristics (e.g., market size, production cost, and distance) and crucially depends on participating countries' existing TAs with other countries. Trade creation is a major motive for forming TAs (Chen and Joshi 2010).

Another debate of international economists is whether TAs deliver building blocks or stumbling blocks for the attainment of global free trade. Economists such as Bhagwati (1991, 1993) and Krugman (1993) support the latter argument. Summers (1991) and Baldwin (1996) consider TAs to be the building blocks of trade liberalization (Aghion, Antras, and Helpman 2007). Furusawa and Konishi (2007) state that if TA can eventually lead up to the level of global free trade, then it is a building block, not a stumbling block. However, when preferences expand internationally, TAs will possibly block free trade, thus making TAs play a stumbling block role (Melatos and Woodland 2007).

From an international business point of view, possibly today's motivation for TA and free trade is about building an equal playing field for firms. The relationship between government and firms, and the increasing trend of governments operating as profit-seeking organizations, indicate that TAs are being used as business motivational instruments. Governments influence each other to create this equal playing field by influencing the regulative environment of each other. In other words TAs are instruments to minimize the regulative differences between participating nations. These changes directly influence the institutional conditions of the country, which may impact the entry strategy of firms.

CONSEQUENCES

Economic fundamentals such as country size, factor endowments, and trade and investment costs influence the possibility of reaching a new TA (Baier and Bergstrand 2004; Egger et al. 2008; Egger and Larch 2011). Jugurnath et al. (2007) explain variables that affect cross country trade including GDP: rich countries trade more; population: populous countries trade more; distance: transport cost determines the trade level; area: large countries trade less; exchange rate: depreciation encourages exports and discourages imports; tax: taxation decreases bilateral trade; and language: cultural similarities makes trade contracts smooth (Baier and Bergstrand 2004; Datta, Malhotra, and Russel 2006; Clark 2011b; Table 2). It is obvious that all these factors affect the firm-level decision-making process with regards to international business.

Trade liberalization may result in significant increases in the net foreign direct investment (FDI) inflows of their participants (Medvedev 2012). For example, due to the anticipation of the African Growth and Opportunity Act (AGOA), participating countries received investment from many Asian countries interested in gaining benefits of AGOA. Major players of AGOA; Kenya, Lesotho, Madagascar, Mauritius, and South Africa recorded significant trade growth of 85.3% during 1999–2002 (Gibbon 2003). Furthermore, surge in FDI inflows in China over the past two decades closely interlinked with changes in intra- and extra-regional trade patterns (Gibbon 2003; Baier and Bergstrand 2007; Medvedev 2012; Lee et al. 2009).

When looking at it from a predominantly IB perspective it is clear that even entry mode can be influenced by TAs. Breinlich's (2008) examination, based on Canada–US FTA, indicates that a 1% reduction in Canadian tariffs will increase mergers and acquisitions (M&As) by 11% in Canada. He further states that these M&As channel resources from less to more productive firms, thus highlighting that M&A offer a much-needed alternative to business closure in low-productivity firms due to their inability to compete with foreign firms entering the market using the bilateral agreement. Due to NAFTA and the EU, firms based in these countries received the market access to other countries and as a result manufacturing plants received capital flow. The opportunity cost of these capital flows motivated others to also join the TA (Egger and Larch 2008; Chen and Joshi 2010).

The probability of two countries participating in a TA is high if the agreement covers a larger scope including factors such as tariff and non-tariff barriers (for example competition and antitrust rules, corporate governance, product standards, worker safety, regulation and supervision of financial institutions, environmental protection, tax codes, and other national issues; Rodrik 1994; Bhattacharya and Bhattacharyay 2007). Integration will bring reduced transaction costs, greater infrastructure services, faster communication of ideas, goods and services, and rising capital flows in addition to lower trade barriers, which are critical factors for firms that operate internationally. Investment and financial cooperation can reduce the external shocks sustained through times of financial crisis (Bhattacharya and Bhattacharyay 2007).

The Asian financial crisis in 1997 was a warning for administrations in Asia to take necessary actions for regional cooperation to increase the

TABLE 2 Main Macroeconomic Indicators in Top 10 Trading Nations in the World

Country name	Merchandise Exports and Imports (current US$ Million) 2012	Foreign direct investment, net inflows (BoP, current US$ Million) 2012	Trade agreements notified to the WTO and in force (January, 2015)	GDP (current US$ Million) 2012	Population, total million 2012	Land area (sq. km)	Official exchange rate (LCU per US$, period average) 2012	Tariff rate, applied, simple mean, all products (%) 2012	GNI (current US$) 2012	Language
United States	3881240	217778	14	16163200	314	9147420	1.00	2.81	16390500	English 82.1%, Spanish 10.7%, other Indo-European 3.8%, Asian and Pacific island 2.7%, other 0.7%
China	3867119	295626	12	8229490	1351	9388211	6.31	—	8209603	Standard Chinese or Mandarin, Yue, Wu, Minbei, Minnan, Xiang, Gan, Hakka dialects, minority languages
Germany	2568325	50580	37	3533242	80	348540	—	1.49	3626148	German
Japan	1684411	849	14	5954477	128	364560	79.79	2.41	6143151	Japanese
Netherlands	1244244	4736	37	823139	17	33720	—	1.49	833279	Dutch
France	1243123	30885	37	2686723	66	547561	—	1.49	2728707	French
United Kingdom	1163356	66827	37	2614946	64	241930	0.63	1.49	2606637	English
Korea, Rep.	1067454	9496	14	1222807	50	97350	1126.47	—	1235359	Korean, English
Hong Kong SAR, China	1046394	74887	4	262630	7	1050	7.76	0.00	266428	Cantonese 89.5%, English 3.5%, Putonghua 1.4%, other Chinese dialects 4%, other 1.6%
Italy	989906	6683	37	2091761	60	294140	—	1.49	2087404	Italian, German, French, Slovene

Source: Adapted from: Asian Development Bank (2015); Central Intelligence Agency (2015); European Commission (2015); Ministry of Foreign Affairs of Japan (2015); Ministry of Foreign Affairs Republic of Korea (2015); Ministry of Commerce People's Republic of China (2015); TID (2015); The World Bank (2015); United States Trade Representative (2015); World Trade Organization (2015).

stability. Many large Asian economies such as China, Japan, and Korea are now moving to more comprehensive TAs to achieve their trade objectives (Bhattacharya and Bhattacharyay 2007; Gounder and Prasad 2011; Kawai and Wignaraja 2011).

Integration requires a strong political will. Political motivations of individual governments make it difficult to achieve global free trade but TAs encourage governments to work towards economic efficiency, while simultaneously working towards their own political goals. TAs cover areas such as historic bonds and friendships, international counter-terrorism activities, political stability, peace, and reduction in potential security risks. The proposed US–Colombia trade promotion agreement, negotiations of US–Thailand FTA, US–Israel FTA, Chile–EU FTA, and EEC are good examples (Manager 2008; Clark 2011a; Clark 2011b; Baldwin and Jaimovich 2012). The EU harmonizes more than trade: members collectively take decisions on immigration, environment, development of poorer regions, foreign policy, and judicial matters (Bhattacharya and Bhattacharyay 2007; Ornelas 2008; Karacaovali and Limão 2008; Abbott, Bentzen, and Tarp 2009; Malkawi 2011). The EU's actions result in major changes to the institutional framework of the participating countries. Eicher and Henn's (2011) analysis of trade effects on the EU and APEC show greater trade increase in the EU than APEC. The EU is a more formalized trade network than APEC. That indicates that minimizing regulative distance has the potential of influencing business activities.

Another, rather hidden, reason is competition among nations. The EU's FTA with Mexico, Chile, and South American Trading Block (MERCOSUR) was formed to meet the competition posed by the US under NAFTA. One of the objectives behind founding the EU was to increase the bargaining power in GATT with the US. Similarly, MERCOSUR was formed by Brazil, Argentina, Uruguay, and Paraguay to increase the bargaining power when entering NAFTA. Some suspect that a key intention of APEC was to put pressure on Europe to reach a decision to complete the Uruguay round of multilateral trade negotiations. These actions clearly come down to the firm-level decisions. For example US-based firm AT&T pushed the U.S. government to pressure Chile to open its telecommunication market. Higher investment costs makes exporting more popular, thus making trade liberalization via TAs more attractive. International ownership reduces the tariff barriers between countries, and firms have the potential of influencing the government for bilateral or multilateral trade concessions. Also the industries that foreign investors have considerable stakes in are more likely to get liberated than other industries. Furthermore motivating investment from a trading partner in an export-oriented sector will influence the investing country to reduce their import tariff unilaterally (Ludema 2002; Francois et al. 2005; Abrego et al. 2006; Jugurnath et al. 2007; Manager 2008; Egger et al. 2008; Blanchard 2010).

Baier and Bergstrand's (2007 and 2009) studies estimate that TAs will increase the trade between two members by 100% after 10 years. Magee

(2008) finds that trade begins to grow even before the TA becomes effective due to the anticipation of more benefits with the TA. Perhaps firms try to achieve the leading edge using first-mover advantages. Abbott, Bentzen, and Tarp (2009) also state that after bilateral agreements are signed, most developing nations experience a boost in trade. Hashemzadeh (1997) indicates an 11.3% increase in U.S. exports to Mexico during the first couple of years of NAFTA bringing a net increase of 7,000 jobs (Nica, Swaidan, and Grayson 2006).

Service trade and investment are also growing. During 1994–2004, services trade grew from 5 to 20% of global trade and investment from 15 to 60% of global investment (Manager 2008).

EMPIRICAL FINDINGS

Semi-structured interviews were conducted with 10 industry experts from the dairy produce exporting industry in New Zealand to find out their views and opinions about the influence of TAs on entry strategy (Tables 3 and 4).

The companies interviewed in New Zealand fall into the HS 04 dairy produce industry, and were recruited through the following methods: direct, through industry bodies and government bodies, and via advertisements in newsletters and mailers. Eight companies that export milk and honey-related products, and two industry bodies, agreed to provide their views and opinions. In general, members of the dairy produce (HS 04) industry clearly indicated the fact that TAs may influence their entry strategy to foreign markets. However, their impression was that it is one factor that they take into consideration out of many other factors of market entry (Table 5).

Table 5 provides a snapshot of the impressions of the interviewees under the three main themes: TAs, institutional conditions, and entry strategy. Under the institutional conditions, everyone indicated that the changes in regulatory environment influence their entry decisions. Sixty percent of the respondents recognized that the changes taking place to the normative and cognitive environments through a TA affect their entry strategy. In terms of entry strategy, all the respondents indicated that their "where to enter" decision

TABLE 3 Interview Summary

Industry/Commodity HS2 classification	Companies	Industry body	Total	Export value 2013 (fob NZ$ millions)	Export rank in 2013
HS04: Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere specified or included	8	2	10	13591	1

Source: Interview Data = Research Data, Statistics NZ = Statistics New Zealand (2014). Exports for Overseas Merchandise Trade [online]. Statistics New Zealand. Available: http://nzdotstat.stats.govt.nz/wbos/Index.aspx.

TABLE 4 Details of the Companies/Organizations Interviewed

Company/ Organization Name*	Parrot	Kingfisher	Peafowl	Painted Bunting	Keel Billed Toucans	Northern Oriole	Flamingo	Golden Pheasant	Rainbow Lorikeet	Hyacinth Macaw
Main Export	HS04 (Milk Products)	HS04 (Milk Products)	HS04 (Milk Products)	HS04 (Milk Products)	HS04 (Milk Products)	HS04 (Honey Products)	HS04 (Honey Products)	HS04 (Honey Products)	HS04 (Milk Products)	HS04 (Honey Products)
Based Country	New Zealand	New Zealand	New Zealand	New Zealand	New Zealand	New Zealand	New Zealand	New Zealand	New Zealand	New Zealand
Size	Medium	Medium	Medium	Medium	Large	Large	Small	Small	Industry Body	Industry Body
Key Markets	16 Countries including Australia, United Arab Emirates, China	Australia, UK, Italy, Germany, China	33 countries including China, Australia, Japan	China, Japan, Singapore	Over100 countries	UK, China	UK, China	Australia, China, UK, Singapore and Hong Kong.	N/A	N/A

Note. *Real names have omitted. Listed company/organization order is not in line with respondent order listed in Table 5.

Source: Research data.

TABLE 5 How the Dairy Produce Industry Perceives the Impact of TAs

		Institutional conditions			Entry strategy		
Res. #	TA	Regulative	Normative	Cognitive	Where	When	How
1	Influence	Influence	Influence	No Influence	Influence	Influence	No Influence
2	Influence	Influence	No Influence	No Influence	Influence	No Influence	No Influence
3	Influence	Influence	No Influence	No Influence	Influence	Influence	No Influence
4	Influence	Influence	Influence	No Influence	Influence	Influence	Influence
5	Influence	Influence	Influence	Influence	Influence	Influence	No Influence
6	Influence	Influence	Influence	Influence	Influence	Influence	No Influence
7	Influence	Influence	No Influence	Influence	Influence	No Influence	Influence
8	Influence	Influence	Influence	Influence	Influence	Influence	Influence
9	Influence	Influence	Influence	Influence	Influence	Influence	No Influence
10	Influence	Influence	No Influence	Influence	Influence	Influence	Influence
Influence	100%	100%	60%	60%	100%	80%	40%
No Influence	0%	0%	40%	40%	0%	20%	60%

Source: Interview data.

may be influenced by a TA. While 80% of the respondents agreed that the entry time may also be influenced by a TA, only 40% indicated that TA may influence their entry mode.

Responses received from interviewees were captured and presented below under six themes: regulatory environment, normative environment, cognitive environment, where, when, and how.

Regulatory Environment

Respondents recognized that regulative environment has higher impact than normative and cognitive environments. Since tariff reduction or elimination is a major regulatory measure of any TA, it is fair for companies and industry bodies to consider that TAs have a major impact towards the regulatory environment of the participating countries. Respondent 5 stated that they can see the changes in regulatory environment: "They actually start changing regulations, and they will modify regulations to get better overlap, better alignment with the country they are trading with" (Respondent 5).

Respondent 10 believed that the higher level political and governmental involvements may lead to regulatory changes in the participating country:

"Typically the rules and the ways we do trade are set and implemented at a government-to-government level and so TAs have a role in that government-to-government relationship" (Respondent 10).

All the respondents indicated that TAs influence the regulatory environment of the participating country. And they viewed that in a positive light, since it reduces the regulatory barriers.

Normative Environment

It is interesting to see that a higher percentage of the respondents considered TAs as a norm of the business. Some even consider it as something imperative for the survival. Respondent 1 mentioned that New Zealand as a country would suffer if not involved in TAs: "The fact is everyone is doing it. If we don't do it, like in the Korean example, or we don't do it in the same time frame of our competitors, then we are going to end up, [generally New Zealand] as a country suffering" (Respondent 1).

Respondent 4 made a similar comment taking Australia-Japan and Trans-Pacific Partnership Agreement (TPPA) TAs into consideration: "I think it is mission critical for our future. You know Japan is our biggest volume market and the trade pact signed between Australia and Japan I think it is going to start putting us at disadvantage and the TPPA will be very important for us to maintain our advantage over Australia with exports of ice cream into Japan" (Respondent 4).

In summary, though everyone did not see TAs influencing the normative environment, a higher number of respondents believed that TAs may influence the normative environment of the institutional conditions.

Cognitive Environment

More than half of the respondents expressed that TAs provide some sort of psychological confidence in doing business with partner countries. Respondent 10 stated that, "I think the importance of why New Zealand undertakes agreement negotiations, is that they are comprehensive agreements that extend beyond trade to number of other areas as well. And they create, focus on creating, much stronger understanding ties at a broad level between two countries. From a business perspective that builds familiarity, marketing and support building and understanding which is important to commercial relationships" (Respondent 10).

Respondent 9 indicated that the psychological impact plays a role in addition to other regulatory changes: "It is the mind-set of the country we are exporting to. If government have an agreement it obviously get promoted a bit more and makes people think about that country a lot more. I think that is a big factor. Not necessarily just the tariff and duties, but everything else. I think the mind-set of people. When they know that there is an agreement between two countries it really does make a difference" (Respondent 9).

Six respondents out of the ten respondents provided the impression that TAs makes a psychological impact to the business community and thus influence the cognitive environment.

Where

Everyone stated that a TA can influence their country selection decision. Respondent 6 expressed as follows: "I mean the country, its size, language difficulties, distance from New Zealand, what the shipping service is like, what the laws are like, what we prefer to sell in New Zealand dollars if we can, that removes the exchange risk from us and so a TA would affect that country decision" (Respondent 6).

Respondent 4 provided a good example taking the TPPA: "I think in relations to the United States, we can't economically export ice cream to the US at the moment, the tariff absolutely kills us, so I think the TPPA will allow us to expand into United States soon. Also Canada, Canada is untouchable at the moment, the tariff is some incredibly high 279%. Obviously if someone rings from Canada, we say you know don't waste your money on toll call. So that might open Canada for us" (Respondent 4).

New Zealand decided to hold negotiations for a New Zealand and Russian custom union TA due to the unrest in Ukraine. Respondent 5 indicated that they have to hold their entry decision due to this political outcome: "We were in the process of getting pre-registration approval for Russia because we have quite a lot of enquiries there, potential business that we are looking into which have been put on hold, we just don't know the time frame anymore, we don't know whether will be another year or another 5 years before we can investigate the opportunity that means for us" (Respondent 5).

In summary everyone considered that TAs may influence their country decision.

When

Not everyone viewed that a TA has the capacity to influence time frame of the entry, but many such as Respondent 12 considered that "timing obviously may get impacted" (Respondent 12). Furthermore Respondent 6 stated that: "I mean if there is one in place, yes, you might say that is got an advantage to put that in the top of the list, so I suppose it does. Yes. It did with China . . . " (Respondent 6).

Respondent 5 indicated that removing the barriers and making it easy to do business with the partner country through TA connects with the time of entry: "If there was a TA in place that lowers those hurdle, so that probably is part of the timing, if there is no TA in place, that it is either going to be hard or it is unknown and you don't know how much work is involved to get in there. So having a TA in place means that there is being lot of more done by our government to help you get in" (Respondent 5).

However, Respondent 7 gave a good justification to not to have an impact on time frame from a TA: "They can do their planning so I think it is more an underpinning thing than choice by any company about how they do it, when they do it and over what time. It is their own strategy and I don't think a TA can ever be an influence as to when because if you have tariff which is declining quickly or declining slowly that will obviously impact their strategy of their competitiveness, so it comes down to the business model" (Respondent 7).

Eight out of ten respondents agreed that a TA may influence their time of entry to the partner country.

How

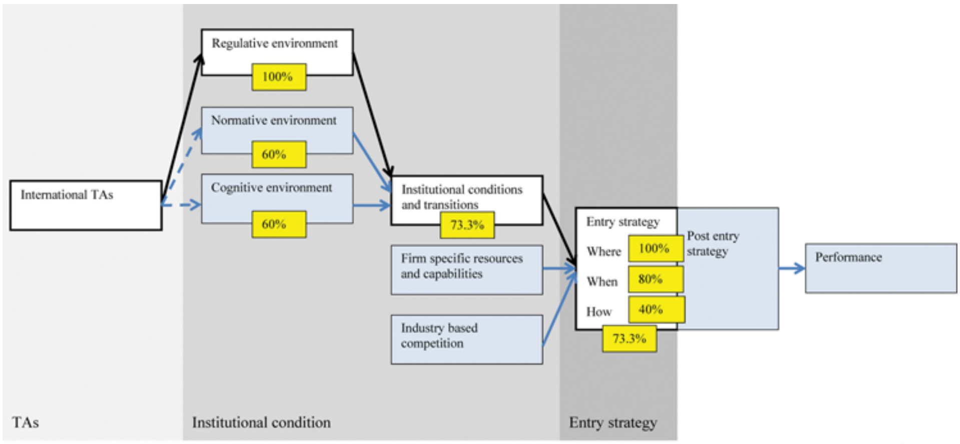
Only few recognized that a TA can influence the business model, suggesting that probably larger firms which have the resources and capacity to make changes to business models get the maximum advantage from a TA. Respondent 7 stated that, "The business model follow I think certainly predicated on an open market. With declining duties and eventually zero tariff for dairy products. So certainly our model is on that" (Respondent 7).

Furthermore, Respondent 4 provided similar views: "I think it does, tariff preferences influence and TA structure influence countries you might think of doing business with. And equally the time frame, if you do see an opportunity there, you may speed things up. The business model also will be influenced, because if you want to do business in a particular country and the tariff is prohibitive you're going to look at a different model than with others where the tariffs are lower" (Respondent 10).

However, a higher percentage of respondents did not see a TA has the capacity to make changes to their business model or mode of entry. Respondent 3, for instance, stated: "In terms of model, I think that depends a little bit on some cultural things and I think it's probably much easier for us for example to go into Australia and to directly deal with right down to a customer level. That's not our business model, we don't want to be a retailer, but as a distributor. So going into China for us is much more straight-forward if you like to be dealing with a high level or master distributor. [Therefore] In terms of business model, not really, I mean if we got big enough for the country, we can have our own distribution, but right now the distributor model works for us. Although distributor margin are huge in Australia, we don't want to be dealing with supermarkets, we don't have resources to do that, it is quite expensive" (Respondent 3).

In summary many respondents did not believe that a TA can make changes to their mode of entry or the business model.

As a whole, the dairy produce industry in New Zealand considers that TAs may have a direct impact on the regulatory environment of partner



Percentage mentioned in the yellow boxes indicate the influence level. TAs influence institutional condition up to 73% which is the average percentage of the influence level received to regulative, normative and cognitive environments. TAs influence the entry strategy up to 73% which is the average percentage of the influence level of where, when and how to enter.

FIGURE 3 How the dairy produce industry perceive the impact of TAs.

nations. Normative and cognitive environments also may get affected by TAs but not to the level of the regulatory environment. TAs may influence their market decision; however, the mode or the business model may not be impacted from trade deals. How this outcome affected the conceptual model is explained in Figure 3.

DISCUSSION AND CONCLUSION

This timely study conceptually and empirically contributes to the much-needed research gap between TA and international business. Our study indicates that TAs have a considerable impact on the strategy of a firm involved in international business. The increasing power of WTO and its influence on almost all areas of government in member countries will reshape the institutional condition including law and order, regulatory barriers, property rights, government effectiveness, and corruption. Mushkat and Mushkat (2011) state "WTO is not merely a body purporting to govern trade and investment flows but one seeking to reach inside country borders with the aim of liberalizing administrative, economic and legal institutions" (p. 13). Though TAs may have industry- and firm-level consequences, they affect mainly the institutional conditions, which was recognized as the third leg of the strategy tripod by Peng (2006). Model 1 presented in this article shows a rational connection between international business and TAs.

Xie et al. (2011) indicate that the institutional difference between host and home country has an effect on strategic positioning of the firm in the host country. TAs influence the institutional conditions, predominantly the legal environment, as shown in Model 1. As seen in preceding sections TAs are instruments which governments (and firms) use to create an equal playing field, thus governments try to influence partner governments' legal environments by agreeing to terms and conditions that affect the legal and regulative environment. This can be linked to the regulative distance introduced by Xu, Pan, and Beamish (2004), that is, the legal and regulative difference between host and home country. Our study indicates that TAs make an attempt to narrow down the regulative distance. Our study suggests that TA is a political instrument useful in influencing business environment via institutional environment. A popular topic in leading media at present is the United States' accusations towards China for not providing an equal playing field. Similarly every government is attempting to create an equal, or if possible more favorable environment overseas, by influencing the legal/regulative environment, as that is the easiest dimension to control compared with the normative or cognitive environment. Our empirical findings indicate that TAs influence the institutional conditions of participating countries. The views and opinions received from the New Zealand dairy produce industry further confirms that the regulatory environment predominantly gets affected by TAs more than the normative or cognitive environments.

Kostova and Zaheer (1999) state that higher institutional distance negatively impacts the legitimacy of the firm. In other words firm behavior is directly linked to the changes in institutional environment (Cantwell, Dunning, and Lundan 2010). Firms with global strategy prefer to invest in countries with narrow institutional difference (Xu and Shenkar 2002) and may influence their government to create that environment with the help of TAs. "International organisations such as the World Intellectual Property Organisation and the World Trade Organisation have helped greatly to promote the harmonisation of legal systems across countries" (Papageorgiadis, Cross, and Alexiou 2013, p. 280).

Empirical findings further confirms that the "where to enter" or the country decision may be greatly influenced by a TA. Also the "when to enter" or the time of entry to a large extent. However, interestingly the "how to enter" or mode of entry seems to have minimal or zero influence by a TA. That creates questions on foreign direct investments (FDIs). One of the key goals of TAs is to increase FDI, which motivates foreign firms to use the equity-based entry mode to the partner country, but the empirical evidence shows that most exporters are content to continue with their existing model rather than changing it.

This article makes an attempt to highlight the importance of popular TAs existing in the current international business context. We have reviewed the findings of over 50 journal articles on trade agreements published between 2003 and 2012, and have connected the findings with previous theories that are still influential in the field. Findings clearly indicate that TAs influence the regulative environment of participating countries and may also reduce the regulative distance between member nations.

Therefore the study shows a rational connection between TAs and foreign market entry strategy. TA is a legal agreement that has a direct influence on the regulative environment of the participating countries. Regulative environment is one leg of institutional conditions that have direct impact from TAs. Entry strategy (which is the combination of where, when and how to enter) is affected by institutional conditions thus this study explains a valid connection among TAs, regulative environment, institutional conditions, and entry strategy. Though the empirical evidence show a connection among these in general, the empirical findings indicate that a TA might not influence the entry mode specifically. This has not been highlighted by previous studies thus the model we have developed based on previous literature makes a legitimate contribution to the existing knowledge base.

The findings of this study are numerous: firstly we see the significance in trade collaboration through the recent developments of the WTO, which is not just a controlling body of trade but of international business too. We see the potential of WTO moving beyond the typical products and services business model by bringing all business-related areas under one umbrella, further strengthening its controlling capacity.

Secondly we see that the motivation for TAs and free trade is to endeavor to build an equal playing field for firms. The relationship between government and firms, and the increasing trend of governments operating as profit-seeking organizations, indicate that TAs are being used as business motivational instruments. Our study further indicates that the objective of TAs to cover a much larger scope than just trade alone, and that there is a holistic international business, regulative and political interest behind trade cooperation. This wide objective has increased the number of challenges. Thus we see that both firms and governments play a role in TAs whilst using the opportunity to achieve their business and political goals. It seems most governments do not consider global free trade to be a realistic goal and there is no significant movement towards achieving that goal. The movement is more self-interested and may depend on the level of influence firms can make to their home governments to win their firms' objectives in overseas markets. A lack of interest towards multilateralism further confirms this argument.

Given the increasing popularity of TAs, global initiative towards trade cooperation, and an increasing number of firms' participation in international business, we see a pervasive need for research in this narrow but highly significant area by IB scholars. Specifically, IB scholars may be advised to focus on firm-level impacts, such as how TAs influence foreign market entry strategies. Peng (2006) identifies institutional conditions and transition as a key element of foreign market entry strategy. Based on that, and in line with our model, empirical exploration of trade agreements' impacts on the institutional conditions for multiple industries in different countries will be a relevant and timely research extension.

REFERENCES

Abbott, P., J. Bentzen, and F. Tarp. 2009. Trade and development: Lessons from Vietnam's past trade agreements. *World Development* 37:341–53. doi:10.1016/j.worlddev.2008.04.005

Abrego, L., R. Riezman, and J. Whalley. 2006. How often are propositions on the effects of regional trade agreements theoretical curiosa? *Journal of International Economics* 68:59–78. doi:10.1016/j.jinteco.2005.03.003

Asian Development Bank. 2015. Asia Regional Integration Centre [Online]. http://aric.adb.org/fta-country

Aghion, P., P. Antras, and E. Helpman. 2007. Negotiating Free Trade. *Journal of International Economics* 73:1–30.

Arnold, P. J., and T. C. Reeves. 2006. Global trade and the future of national health care reform. *Accounting Forum* 30:325–340. doi:10.1016/j.accfor.2006.08.002

Bagwell, K., and R. W. Staiger. 2004. Multilateral trade negotiations, bilateral opportunism and the rules of GATT/WTO. *Journal of International Economics.* 63:1–29. doi:10.1016/s0022-1996(03)00054-0

Baier, S. L., and J. F. Bergstrand. 2004. Economic determinants of free trade agreements. *Journal of International Economics* 64:29–63. doi:10.1016/s0022-1996(03)00079-5

Baier, S. L., and J. H. Bergstrand. 2007. Do free trade agreements actually increase members' international trade? *Journal of International Economics* 71:72–95. doi:10.1016/j.jinteco.2006.02.005

Baier, S. L., and J. H. Bergstrand. 2009. Estimating the effects of free trade agreements on international trade flows using matching econometrics. *Journal of International Economics* 77:63–76. doi:10.1016/j.jinteco.2008.09.006

Baldwin, R., and D. Jaimovich. 2012. Are free trade agreements contagious? *Journal of International Economics* 88:1–16.

Baldwin, R. E. 1995. A domino theory of regionalism. In *Expanding membership in the European Union*, ed. R. E. Baldwin, P. Haaparanta, and J. Kiander, 25–48. Cambridge: Cambridge University Press.

Baldwin, R. E. 1996. A domino theory of regionalism. In *Expanding the membership of the EU*, ed. R. E. Baldwin, P. Haaparanta, and J. Kiander, 865–888. Cambridge: Cambridge University Press.

Baldwin, R. E. 1997. The causes of regionalism. *The World Economy* 20:865–88. doi:10.1111/1467-9701.00107

Barney, J. 1991. Firm resources and sustained competitive advantage. *Journal of Management* 17:99–120. doi:10.1177/014920639101700108

Berrell, M., and J. Wrathall. 2007. Between Chinese culture and the rule of law: What foreign managers in China should know about intellectual property rights. *Management Research News* 30:57–76. doi:10.1108/01409170710724304

Bhagwati, J. N. 1991. *The world trading system at risk*. Princeton: Princeton University Press.

Bhagwati, J. N. 1993. Regionalism and multilateralism: An overview. In *New dimensions in regional integration*, ed. J. De Melo and A. Panagariya, 22–46. Cambridge: Cambridge University Press.

Bhattacharya, S. K., and B. N. Bhattacharyay. 2007. An empirical analysis on prospects and challenges of BIMSTEC-Japan trade integration. *Journal of Asian Economics* 18:509–36. doi:10.1016/j.asieco.2007.03.001

Blanchard, E. J. 2010. Reevaluating the role of trade agreements: Does investment globalization make the WTO obsolete? *Journal of International Economics* 82:63–72. doi:10.1016/j.jinteco.2010.04.006

Breinlich, H. 2008. Trade liberalization and industrial restructuring through mergers and acquisitions. *Journal of International Economics* 76:254–66. doi:10.1016/j.jinteco.2008.07.007

Cantwell, J., J. H. Dunning, and S. M. Lundan. 2010. An evolutionary approach to understanding international business activities: The co-evolution of MNES and the institutional environment. *Journal of International Business Studies* 41:567–86. doi:10.1057/jibs.2009.95

Chan, C. M., S. Makino, and T. Isobe. 2006. Interdependent behavior in foreign direct investment: The multi-level effects of prior entry and prior exit on foreign market entry. *Journal of International Business Studies* 37:642–65. doi:10.1057/palgrave.jibs.8400216

Chen, M. X. and S. Joshi. 2010. Third-country effects on the formation of free trade agreements. *Journal of International Economics* 82:238–48. doi:10.1016/j.jinteco.2010.06.003

Central Intelligence Agency. 2015. The world factbook [Online]. https://www.cia.gov/library/publications/the-world-factbook/

Clark, D. P. 2011a. Factor adjustment implications of a free trade agreement between the United States and Thailand. *Journal of Asian Economics* 22:213–21. doi:10.1016/j.asieco.2011.02.003

Clark, D. P. 2011b. Factor adjustment implications of a trade promotion agreement between the United States and Colombia. *Journal of Economic Studies* 38:384–97. doi:10.1108/01443581111160851

Coeurderoy, R., and G. Murray. 2008. Regulatory environments and the location decision: Evidence from the early foreign market entries of new-technology-based firms. *Journal Of International Business Studies* 39:670–87. doi:10.1057/palgrave.jibs.8400369

Datta, A., D. K. Malhotra, and P. S. Russel. 2006. Regional trade pacts and the competitiveness of the US textile industry. *Competitiveness Review* 16:262–76. doi:10.1108/10595420680000007

Davis, P. S., A. B. Desai, and J. D. Francis. 2000. Mode of international entry: An isomorphism perspective. *Journal of International Business Studies* 31:239–58. doi:10.1057/palgrave.jibs.8490904

DiMaggio, P. J., and W. W. Powell. 1983. The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields. *American Sociological Review* 48:147–60. doi:10.2307/2095101

European Commission. 2015. Free Trade Agreements [Online]. http://ec.europa.eu/enterprise/policies/international/facilitating-trade/free-trade/index_en.htm

Egger, H., P. Egger, and D. D. Greenaway. 2008. The trade structure effects of endogenous regional trade agreements. *Journal of International Economics* 74:278–98. doi:10.1016/j.jinteco.2007.06.004

Egger, P., and M. Larch. 2008. Interdependent preferential trade agreement memberships: An empirical analysis. *Journal of International Economics* 76:384–99. doi:10.1016/j.jinteco.2008.08.003

Egger, P., and M. Larch. 2011. An assessment of the Europe agreements' effects on bilateral trade, GDP, and welfare. *European Economic Review* 55:263–79. doi:10.1016/j.euroecorev.2010.05.002

Eicher, T. S., and C. Henn. 2011. In search of WTO trade effects: Preferential trade agreements promote trade strongly, but unevenly. *Journal of International Economics* 83:137–53. doi:10.1016/j.jinteco.2010.12.002

Francois, J. F., M. McQueen, and G. Wignaraja. 2005. European Union–developing country FTAs: Overview and analysis. *World Development* 33:1545–65. doi:10.1016/j.worlddev.2005.05.006

Furusawa, T., and H. Konishi. 2007. Free trade networks. *Journal of International Economics* 72:310–35.

Gaba, V., Y. Pan, and G. R. Ungson. 2002. Timing of entry in international market: An empirical study of U.S. fortune 500 firms in China. *Journal of International Business Studies* 33:39–55. doi:10.1057/palgrave.jibs.8491004

Gani, A., and B. C. Prasad. 2008. The relationship between institutional quality and trade in Pacific Island countries. *Journal of International Trade Law and Policy* 7:123–38. doi:10.1108/14770020810927327

Gani, A. 2011. The effect of business environment on trade in Gulf cooperation council countries. *Journal of International Trade Law and Policy*. 10:200–12. doi:10.1108/14770021111165490

García-Villaverde, P. M., M. J. Ruiz-Ortega, and G. Parra-Requena. 2012. Towards a comprehensive model of entry timing in the ICT industry: Direct and indirect effects. *Journal of World Business* 47:297–310. doi:10.1016/j.jwb.2011.04.017

Gibbon, P. 2003. The african growth and opportunity act and the global commodity chain for clothing. *World Development* 31:1809–27. doi:10.1016/j.worlddev.2003.06.002

Goode, W. 2007. *Dictionary of trade policy terms*. Cambridge, UK: Cambridge University Press.

Gounder, N., and B. C. Prasad. 2011. Regional trade agreements and the new theory of trade implications for trade policy in Pacific Island countries. *Journal of International Trade Law* 10:49–63.

Graf, M., and S. M. Mudambi. 2005. The outsourcing of IT-enabled business processes: A conceptual model of the location decision. *Journal of International Management* 11:253–68. doi:10.1016/j.intman.2005.03.010

Grewal, R., and R. Dharwadkar. 2002. The role of the institutional environment in marketing channels. *Journal of Marketing* 66:82–97. doi:10.1509/jmkg.66.3.82.18504

Guillén, M. F. 2002. Structural inertia, imitation, and foreign expansion: South Korean firms and business groups in China, 1987–95. *Academy of Management Journal* 45:509–25. doi:10.2307/3069378

Gupta, S., M. Goh, R. Desouza, and M. Garg. 2011. Assessing trade friendliness of logistics services in ASEAN. *Asia Pacific Journal of Marketing and Logistics* 23:773–92. doi:10.1108/13555851111183444

Hamanaka, S. 2012. Evolutionary paths toward a region-wide economic agreement in Asia. *Journal of Asian Economics* 23:383–94. doi:10.1016/j.asieco.2012.01.001

Hashemzadeh, N. 1997. The impact of NAFTA on US employment: A preliminary assessment of job gains and losses from expanded trade with Mexico. *International Journal of Social Economics* 24 (10):1080–93.

Haunschild, P. R., and A. S. Miner. 1997. Modes of interorganizational imitation: The effects of outcome salience and uncertainty. *Administrative Science Quarterly* 42:472–500. doi:10.2307/2393735

Hochman, G., C. Tabakis, and D. Zilberman. 2012. The impact of international trade on institutions and infrastructure. *Journal of Comparative Economics* 41:126–40. doi:10.1016/j.jce.2012.07.001

Huang, Y., and B. Sternquist. 2007. Retailers' foreign market entry decisions: An institutional perspective. *International Business Review* 16:613–29. doi:10.1016/j.ibusrev.2007.06.005

Javalgi, R. G., S. Deligonul, A. K. Ghosh, D. M. Lambert, and S. T. Cavusgil. 2010. Foreign market entry mode behavior as a gateway to further entries: The NAFTA experience. *International Business Review* 19:209–22. doi:10.1016/j.ibusrev.2009.12.001

Jugurnath, B., M. Stewart, and R. Brookes. 2007. Asia/Pacific regional trade agreements: An empirical study. *Journal of Asian Economics* 18:974–87. doi:10.1016/j.asieco.2007.09.003

Karacaovali, B., and N. Limão. 2008. The clash of liberalizations: Preferential vs. multilateral trade liberalization in the European Union. *Journal of International Economics* 74:299–327.

Kawai, M., and G. Wignaraja. 2011. Asian FTAs: Trends, prospects and challenges. *Journal of Asian Economics* 22:1–22. doi:10.1016/j.asieco.2010.10.002

Kostova, T., and S. Zaheer. 1999. Organizational legitimacy under conditions of complexity: The case of the multinational enterprises. *Academy of Management Review* 24:64–81. doi:10.5465/amr.1999.1580441

Kostova, T. 1999. Transnational transfer of strategic organizational practices: A contextual perspective. *The Academy of Management Review* 24:308–25. doi:10.2307/259084

Krugman, P., and A. J. Venables. 1995. The seamless world: A spatial model of international specialization. NBER Working Papers 5220, National Bureau of Economic Research Cambridge.

Krugman, P. R., and M. Obstfeld. 2009. *International economics theory and policy*. Boston, MA: Pearson.

Krugman, P. R. 1993. Regionalism versus multilateralism: Analytical notes. In *New dimensions in regional integration*, ed. J. De Melo and A. Panagariya, 5–11. Cambridge: Cambridge University Press.

Kumar, R., and V. Worm. 2004. Institutional dynamics and the negotiation process: Comparing India and China. *International Journal of Conflict Management* 15:304–34. doi:10.1108/eb022916

Lee, H., R. F. Owen, and D. V. D. Mensbrugghe. 2009. Regional integration in Asia and its effects on the EU and North America. *Journal of Asian Economics* 20:240–54. doi:10.1016/j.asieco.2009.02.001

Limão, N., and P. Tovar. 2011. Policy choice: Theory and evidence from commitment via international trade agreements. *Journal of International Economics* 85: 186–205. doi:10.1016/j.jinteco.2011.06.002

Lu, J. W. 2002. Intra-and inter-organizational imitative behavior: Institutional influences on Japanese firms' entry mode choice. *Journal of International Business Studies* 33:19–37. doi:10.1057/palgrave.jibs.8491003

Ludema, R. D. 2002. Increasing returns, multinationals and geography of preferential trading agreements. *Journal of International Economics* 56:329–58. doi:10.1016/s0022-1996(01)00130-1

Magee, C. S. P. 2008. New measures of trade creation and trade diversion. *Journal of International Economics* 75:349–62. doi:10.1016/j.jinteco.2008.03.006

Malkawi, B. H. 2011. Rules of origin under US trade agreements with Arab countries: Are they helping and hindering free trade? *Journal of International Trade and Law* 10:29–48. doi:10.1108/14770021111116124

Manager, M. 2008. International investment agreements and services markets: Locking in market failure? *World Development* 36:2456–69. doi:10.1016/j.worlddev.2007.10.018

Marangos, J. 2006. Were the chinese reforms a feasible alternative for transition economies? *International Journal of Social Economics* 33:221–40. doi:10.1108/03068290610646243

Medvedev, D. 2012. Beyond trade: The impact of preferential trade agreements on FDI inflows. *World Development* 40:49–61. doi:10.1016/j.worlddev.2011.04.036

Melatos, M., and A. Woodland. 2007. Endogenous trade block formation in an asymmetric world. *European Economic Review* 51:901–24. doi:10.1016/j.euroecorev.2006.06.005

Ministry of Foreign Affairs of Japan. 2015. Economic Diplomacy [Online]. http://www.mofa.go.jp/policy/economy/fta/

Ministry of Foreign Affairs Republic of Korea. 2015. FTA Status of ROK [Online]. http://www.mofa.go.kr/ENG/policy/fta/status/effect/chile/index.jsp?menu=m_20_80_10 and tabmenu=t_2

Ministry of Commerce PRC. 2015. China FTA Network [Online]. http://fta.mofcom.gov.cn/english/index.shtml

Mudambi, R., and S. M. Mudambi. 2002. Diversification and market entry choices in the context of foreign direct investment. *International Business Review* 11:35–55. doi:10.1016/s0969-5931(01)00046-4

Mushkat, M., and R. Mushkat. 2011. The political economy of state accession to international legal regimes: A re-assessment of the China-world trade organization nexus. *Journal of International Trade Law And Policy* 10:5–28. doi:10.1108/14770021111116115

Nica, M., Z. Swaidan, and M. M. Grayson. 2006. The impact of NAFTA on the Mexican-American trade. *International Journal of Commerce and Management* 16:222–33. doi:10.1108/10569210680000219

North, D. C. 1990a. *Institutions, institutional change and economic performance*, Cambridge, UK: Cambridge University Press.

North, D. C. 1990b. *Institutions, institutional change, and economic performance*, Cambridge, MA: Harvard University Press.

Oliver, C. 1992. The antecedents of deinstitutionalization. *Organization Studies* 13:563–88. doi:10.1177/017084069201300403

Ornelas, E. 2008. Feasible multilateralism and the effects of regionalism. *Journal of International Economics.* 74:202–24. doi:10.1016/j.jinteco.2007.05.006

Palmer, D. A., P. D. Jennings, and X. Zhou. 1993. The adoption of the multidivisional form by US corporations: Institutional, political, and economic accounts. *Administrative Science Quarterly.* 38:100–31. doi:10.2307/2393256

Pan, Y., and D. K. Tse. 2000. The hierarchical model of market entry modes. *Journal of International Business Studies.* 31:535–54. doi:10.1057/palgrave.jibs.8490921

Papageorgiadis, N., A. R. Cross, and C. Alexiou. 2013. The impact of the institution of patent protection and enforcement on entry mode strategy: A panel data investigation of U.S. firms. *International Business Review.* 22:278–92. doi:10.1016/j.ibusrev.2012.04.005

Peng, M. W. 2006. *Global strategy*. Cincinnati: South-Western Thomson.

Peng, M. W., D. Y. L. Wang, and Y. Jiang. 2008. An institution-based view of international business strategy: A focus on emerging economies. *Journal of International Business Studies.* 39:920–36. doi:10.1057/palgrave.jibs.8400377

Perez-Batres, L. A. 2012. Efficient labor reallocation and the liability of localness: Unintended consequences of NAFTA and other commercial agreements. *American Journal of Business.* 27:79–90. doi:10.1108/19355181211217652

Porter, M. E. 1980. *Competitive strategy*. New York, NY: Free Press.

Porter, M. E. 1990. *The competitive advantage of nations*. New York, NY: The Free Press.

Ricardo, D. 1817. *The principles of political economy and taxation*. Homewood, IL: Irwin.

Rodrik, D. 1994. The rush to free trade in the developing world: Why so late? Why now? Will it last?. In *voting for reform*, ed. S. Haggard and S. Webb. New York, NY: Oxford University Press.

Saggi, K., and H. M. Yildiz. 2010. Bilateralism, multilateralism, and the quest for global free trade. *Journal of International Economics.* 81:26–37. doi:10.1016/j.jinteco.2010.01.004

Scott, W. R. 1995. *Institutions and organizations*. Thousand Oaks, CA: Sage.

Smith, A. 1776. *An inquiry into the nature and causes of the wealth of nations*. ed. E. Cannan, 5th ed. London, UK: Methuen and Co.

Summers, L. 1991. Regionalism and the world trading system. In *Policy implications of trade and currency zones*, 295–301, Kansas City, MO: Federal Reserve Bank of Kansas City.

Trade and Industry Department. 2015. Trade Relations [Online]. http://www.tid.gov.hk/english/trade_relations/traderelations_maincontent.html

Tse, D. F., Y. Pan, and K. Y. Au. 1997. How MNCs choose entry mode and form alliances: The China experience. *Journal of International Business Studies* 28:779–805. doi:10.1057/palgrave.jibs.8490119

The World Bank. 2015. World Data Bank [Online]. http://databank.worldbank.org/data/home.aspx

United States Trade Representative. 2015. Free Trade Agreements [Online]. https://ustr.gov/trade-agreements/free-trade-agreements

Vernon, R. 1966. International investments and international trade in the product life cycle. *Quarterly Journal of Economics* 80:190–207.

Viju, C., and W. A. Kerr. 2012. Protectionism during recession-why are trade barriers no longer the preferred policy choice? *Procedia-Social and Behavioral Sciences* 62:1366–70. doi:10.1016/j.sbspro.2012.09.233

Viner, J. 1950. *The customs union issue*. New York: Carnegie Endowment for International Peace.

World Trade Organization. 2014. Regional Trade Agreements [Online]. http://www.Wto.Org/English/Tratop_E/Region_E/Region_E.Htm (Accessed November 8, 2014).

World Trade Organization. 2015. List of all RTAs in force, by country/territory [Online]. http://rtais.wto.org/UI/publicPreDefRepByCountry.aspx

Xie, Y. H., H. J. Zhao, Q. J. Xie, and M. Arnold. 2011. On the determinants of post-entry strategic positioning of foreign firms in a host market: A "strategy tripod" perspective. *International Business Review* 20:477–90. doi:10.1016/j.ibusrev.2010.09.005

Xu, D., and O. Shenkar. 2002. Institutional distance and the multinational enterprises. *Academy of Management Review.* 27:608–18.

Xu, D., Y. Pan, and P. W. Beamish. 2004. The effect of regulative and normative distance on MNE ownership and expatriate strategies. *Management International Review* 44:285–307.