

Firms' Use of FTA Schemes in Exporting and Importing: Is There a Two-way Relationship?

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Abstract: In this paper, by employing a unique survey data for Japanese affiliates in ASEAN countries, we examined the state dependence of free trade agreement (FTA) utilization (i.e., FTA utilization in exporting (importing) at the previous year affects that in exporting (importing) at the current year) and the cross-effects in FTA utilization (i.e., FTA utilization in exporting (importing) at the previous year affects that in importing (exporting) at the current year). To do that, we estimate the dynamic random-effect bivariate probit model, which takes into account both firms' unobserved heterogeneity and the correlation in FTA utilization between exporting and importing. As a result, we found the significant state dependence in FTA utilization in both importing and exporting but not the cross effects in FTA utilization between importing and exporting.

Keywords: FTA; dynamic random-effect bivariate probit; sunk costs

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