

Kaplan, Lennart C.; Kohl, Tristan; Martínez-Zarzoso, Inmaculada

**Working Paper**

## The effects of the CEECS's accession on sectoral trade: A value added perspective

cege Discussion Papers, No. 272

**Provided in Cooperation with:**

Georg August University of Göttingen, Department of Economics

*Suggested Citation:* Kaplan, Lennart C.; Kohl, Tristan; Martínez-Zarzoso, Inmaculada (2016) : The effects of the CEECS's accession on sectoral trade: A value added perspective, cege Discussion Papers, No. 272, University of Göttingen, Center for European, Governance and Economic Development Research (cege), Göttingen

This Version is available at:

<https://hdl.handle.net/10419/126077>

**Standard-Nutzungsbedingungen:**

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

**Terms of use:**

*Documents in EconStor may be saved and copied for your personal and scholarly purposes.*

*You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.*

*If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.*

Number 272 – January 2016

---

**THE EFFECTS OF THE CEECS'  
ACCESSION ON SECTORAL TRADE:  
A VALUE ADDED PERSPECTIVE**

---

Lennart C. Kaplan  
Tristan Kohl  
Inmaculada Martínez-Zarzoso

GEORG-AUGUST-UNIVERSITÄT GÖTTINGEN

# The Effects of the CEECs' Accession on Sectoral Trade: A Value Added Perspective\*

LENNART C. KAPLAN

*Georg-August-Universität Göttingen*  
*lennart.kaplan@wiwi.uni-goettingen.de*

TRISTAN KOHL

*University of Groningen*  
*t.kohl@rug.nl*

INMACULADA MARTÍNEZ-ZARZOSO

*Georg-August-Universität Göttingen*  
*Universitat Jaume I*  
*imartin@gwdg.de*

January 2016

## Abstract

International fragmentation of production and economic integration change the structure of international trade. Novel datasets reveal how production processes are unbundled across borders and connected internationally through Global Value Chains (GVCs). Yet, the impact of Economic Integration Agreements (EIAs) on GVCs is still poorly understood. This paper investigates how the accession of 10 Central and Eastern European Countries (CEECs) to the European Union (EU) affected trade in value added in Europe. Using a gravity model of international trade for a sample of 40 countries over the period 1995-2009, we find that EU accession mainly fostered Eastern entrants' integration in other CEECs' value chains. Smaller integration benefits arise for East-West trade in services stemming from low-skill value adding activities.

**Keywords:** Economic integration, international fragmentation, gravity model, European Union (*JEL* F13, F15).

---

\*The authors thank Tibor Besedeš, Steven Brakman, Axel Dreher, Arevik Gnutzmann-Mkrtchyan, Christoph Moser, Emanuel Ornelas, participants at the Spring 2015 Meeting of the Midwest International Economics Group, the 8<sup>th</sup> FIW Research Conference, and seminars at Georgia Tech, University of Göttingen, University of Hannover and University of Heidelberg for stimulating discussions and helpful comments. Special thanks to Gaaitzen de Vries for sharing a MATLAB code to process data from the World Input-Output Database. All errors are our own.

# 1 Introduction

International fragmentation of production processes is changing the nature of international trade. Well-known case studies on the consumer electronics and the automobile industries illustrate that countries and industries are interconnected through Global Value Chains (GVCs), in which every country contributes specialized (intermediate) goods and services (Dudenhöffer, 2005; Baldwin, 2006; Dedrick et al., 2010). Several novel datasets on trade in value added have recently been made available, enabling research in international trade policy to move beyond conventional gross trade statistics (see, e.g., Johnson and Noguera, 2012*a*; Koopman et al., 2014; Timmer et al., 2015).

By now, a large literature deals with the question how trade liberalization and the associated decrease in trade costs affects a country's exports, which ultimately refers to the demand for goods from this country (see, e.g., Baier et al., 2014; Head and Mayer, 2014; Kohl, 2014; Maggi, 2014). These studies typically employ a gravity equation to determine the impact of Economic Integration Agreements (EIAs) on *gross* trade flows. Yet, how trade policy impacts *value added* trade is an appealing question and largely unexplored territory.

A more interesting question is whether reductions in trade costs influence a country's Value Added eXports (VAX), which embody demand for the exporter's factors of production (e.g., capital and labor) throughout GVCs, and how this translates into higher relative demand for the production factors used intensively in production.

The main aim of this paper is twofold. First, to quantify and compare the effects of the 2004 EU enlargement on gross and value added exports. Second, to investigate how the demand for production factors has changed as a result of this enlargement.

Our paper is related to Noguera (2012), who estimated the effect of EIAs on trade in value added. We depart from his paper in two respects. We focus on a specific agreement and more importantly, we disentangle the mechanisms linking European integration with changes in members production structures. To our knowledge, this is the first paper that estimates the effects of the EU enlargement on trade in value added and on the embodied demand of production factors.

In this spirit, the paper aims to determine how the European integration process has shaped economic fragmentation in Europe’s GVCs. Specifically, we estimate how the 2004 accession of 10 Central and Eastern European Countries (CEECs) to the European Union (EU) has shaped Europe’s specialization patterns in the context of global fragmentation. We apply Baier and Bergstrand (2007)’s state-of-the-art version of the gravity equation, accounting for both endogenous trade policy and phase-in effects over a 5-year period, to the World Input-Output Dataset (WIOD)’s time-series data on trade in value added for 40 countries in the 1995-2009 period (Timmer et al., 2015).

We find that EU enlargement has primarily caused Eastern entrants to become more integrated in regional value chains with *other* CEECs both in manufacturing and services. In the case of EU15 countries, value-added exports to Eastern entrants increased in manufacturing, but not services.<sup>1</sup> In contrast, EU enlargement strengthened the entrants’ value added exports to the West in services, but not in manufacturing. These exports in services are to a large extent linked to low-skilled services, suggesting that enlargement has led to a decrease in labor-skill intensity of entrants’ trade in services.

The remainder of this paper is structured as follows. Section 2 reviews the literatures on economic integration and economic fragmentation. The data and methodology are subsequently presented in section 3. Our main results are presented in section 4 and sensitivity analyses in section 5. Section 6 discusses the implications of our findings and concludes.

## 2 Theoretical Framework

Widespread industrialization and declining trade costs have given rise to an increase of trade in intermediate goods (Jones and Kierzkowski, 1990; Krugman and Venables, 1995; Feenstra and Hanson, 1996). As Baldwin (2006) and Grossman and Rossi-Hansberg (2006) explain, internationally traded goods and services have become “unbundled” into internationally tradable jobs, tasks and skills. As a result, this phenomenon of economic fragmentation has caused the domestic value added share in gross exports to drop by 10-15 percentage points in the last four decades (Johnson, 2014).

---

<sup>1</sup>EU15 refers to the 15 mainly Western European states that were already members of the EU before the 10 CEECs acceded in 2004 to form the EU25. Bulgaria and Romania joined in 2007.

Case studies on specific export goods described the partly surprising division between gross trade and trade in value added. Influential examples are Dedrick et al.’s (2010) study on portable devices and Dudenhöffer’s (2005) on the Porsche Cayenne. These studies shed light on the different shares of value added that were captured by firms and nations. However, only specific tradable goods at one point in time were investigated, making it impossible to draw in-depth conclusions about the nature of economic fragmentation, its sectoral and factoral contributions and international trade policy. Yet, such data on the factor content of trade (e.g., capital and the skill levels of labor) are needed to assess national competitiveness (Trefler and Zhu, 2010) and have only recently become available thanks to comprehensive multi-country input-output tables (Timmer et al., 2015).

The novel data on value-added trade enables a re-assessment of trade theory and may help prevent drawing misleading conclusions from research based on gross trade statistics. Our focus here is especially on factoral specialization patterns due to trade integration. While specialization may arise due to Ricardian trade based on technological advantages, recent research suggests that Heckscher-Ohlin-Vanek (HOV) trade—endowment driven specialization—is more relevant (Morrow, 2010; Egger et al., 2011). However, HOV predictions performed ambiguously in past studies (Trefler, 1995). Particularly, the common assumption that all countries have a similar input-output structure (proxied by US-technology) masked specialization patterns in previous studies (Schott, 2003). Our analysis circumvents this limitation because WIOD relies on *national* input-output tables.

Following HOV predictions, we expect that trade integration will push CEECs to specialize in goods and services that intensively use their relatively abundant factors of production, i.e., lower-skilled labor. In contrast, EU15 countries are expected to specialize in goods and services that are intensive in capital and high-skilled labor. According to Stehrer et al. (2012), advanced countries should be exporters of goods and services intensive in high-skilled labor activities, and off-shore medium-skilled manufacturing jobs. Today, increasingly more low- and medium-skill jobs seem to be sourced from abroad, so that economies pursuing “catching-up” strategies may be expected to shift to higher value-added activities. It is in this context that our paper focuses on the specific example of the 10 new member states, which acceded to the EU in 2004. In order to examine the effect of trade integration on VAX

and its composition, a more detailed understanding is needed of the mechanisms linking regional integration processes with changes in members' production structures.

The accession of CEECs was gradually phased-in and liberalization already took place partly within the framework of the Europe Agreements during the 1990s. Although pre-2004 liberalization lowers additional benefits of full membership as of 2004, the EU entry was expected to give further impetus to the CEECs' growth for the following reasons: Full EU membership increased financial inflows due to political stabilization (Baldwin et al., 1997) and a further reduction of trade frictions in terms of abolished border controls and product standard harmonization facilitated integration into value chains of the EU15 (Martinez-Zarzoso et al., 2015). Moreover, entrants liberalized economic exchange among themselves asymmetrically in either the Central European Free Trade Agreement (CEFTA) or the Baltic Free Trade Agreement (BAFTA), with different subsets of CEECs in either agreement, with complete harmonization only arising after full EU accession.

### 3 Methodology

This section describes the underlying data and outlines the empirical methodology used to answer the main questions.

#### 3.1 Data

Data on the factor content of trade in value added are from the World Input-Output Database (WIOD; November 2013 release). The database covers 40 advanced and emerging countries, which is equivalent to approximately 85% of world GDP, and provides annual time-series data for the 1995-2009 period for 14 manufacturing and 20 services industries (see Timmer et al., 2015). The Appendix provides details about country coverage (**Table A.1**), industry coverage (**Table A.2**), and descriptive statistics (**Table A.3**).

Our dependent variable of interest, VAX, is a measure of a country's "domestic value added embodied in final expenditures abroad" (Timmer et al., 2015, p. 580). While Johnson and Noguera (2012*a*) and Koopman et al. (2014) provide similar measures, there are differences in how these data are constructed. Johnson and Noguera (2012*a*)'s Value Added

measure builds on the seminal contribution of Leontief (1936), who introduced a framework to describe the international Input-Output structure and follow up intermediate production steps to the  $n^{th}$  tier via the so-called Leontief inverse  $L$ . This is appealing in a fragmented world economy as it reveals the VA contribution from domestic production steps in final products, e.g., in terms of VAX from country  $a$  to  $b$ :

$$VAX_{ab} = v_a * L * d_b, \tag{1}$$

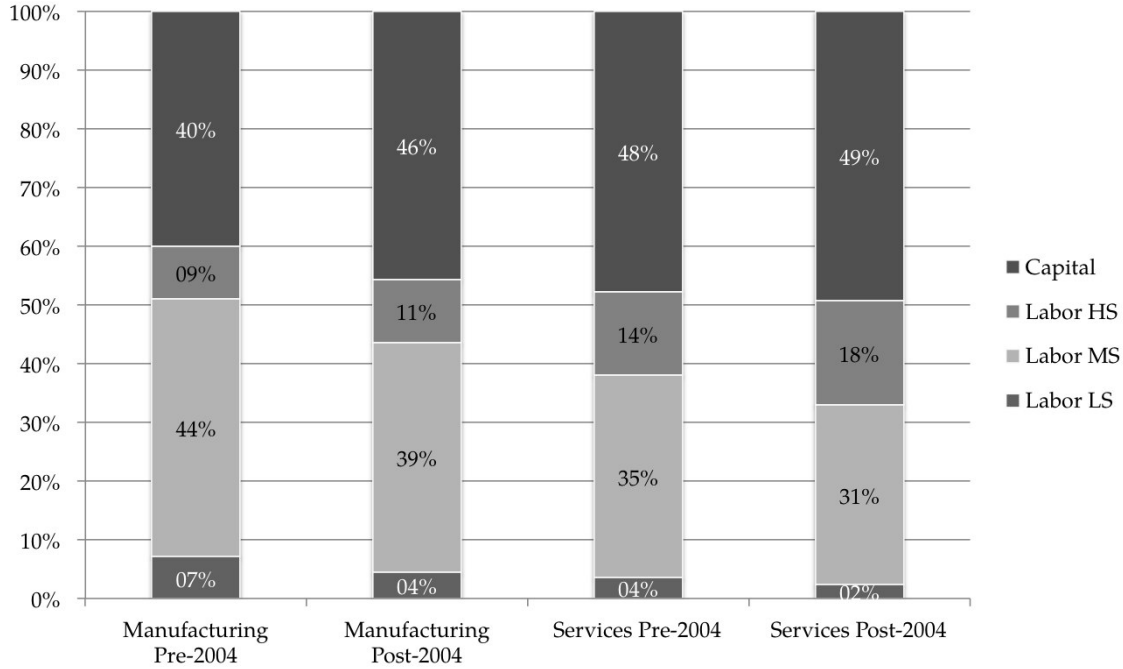
where VAX is calculated by multiplying a vector of value added inputs of domestic sectors  $v_a$  from country  $a$  with the international production structure exhibited by the Leontief inverse  $L$ . The product is then post-multiplied via the final demand vector in foreign country  $b$ ,  $d_b$ .

A major advantage of the data obtained from WIOD is that it provides a factoral decomposition of VAX in terms of its capital and labor components. Moreover, the latter is measured in terms of educational attainment, which makes it possible to identify specialization patterns in terms of low, medium and high-skilled labor. For this purpose the Value Added vector  $v_a$  is pre-multiplied with a matrix of factoral shares  $F_a$ , which describes the input share of the respective factor.

When using these data, one has to consider that comprehensive databases like WIOD have to build on partly strong assumptions. One of them is that the average production structure in an industry is assumed to be constant for all products and all firms for details, see Timmer et al., 2015. Firms that produce for the domestic market, however, differ significantly from firms following internationalization patterns, as do their products (Helpman et al., 2008; Altomonte et al., 2011).



**Figure 1** Composition of CEECs' VAX to EU27



Note: Labor HS, MS and LS refer to high-skilled, medium-skilled and low-skilled labor, respectively. Source: Authors' calculations based on WIOD.

**Figure 1** displays the factoral decomposition of VAX from entrants to the EU in the pre- and post-accession period for manufacturing and services. Service sectors' VAX build to a larger extent on capital and high-skilled labor. In contrast, CEECs' manufacturers' exporting to the EU27 have a higher medium-skilled labor intensity. Although capital and high-skilled labor intensity in the post-accession period have increased in both sectors, the changes differ in magnitude. The shift to a higher capital intensity is more marked for manufacturing firms (6%), while the share of high-skilled labor has grown stronger in service exports to the EU27 (4%).

### 3.2 Model specification

We now proceed to determine, empirically, how European integration affects international fragmentation. Drawing on the rich literature on the gravity equation of international trade<sup>2</sup> we employ a log-linear gravity model à la Baier and Bergstrand (2007):

<sup>2</sup>For surveys, see Head and Mayer (2014) and Kohl (2014).

$$\ln(E_{ijt}) = \beta_1 \ln(Y_{it}) + \beta_2 \ln(Y_{jt}) + \beta_3 \ln(D_{ij}) + \beta_4 EU_{ijt} + \gamma_{it} F_{it} + \delta_{jt} F_{jt} + \phi_{ij} F_{ij} + \epsilon_{ijt}, \quad (2)$$

where  $E_{ijt}$  is country  $i$ 's exports to country  $j$  in year  $t$ ,  $Y$  is GDP,  $D$  is geographic distance,  $EU$  a binary variable equal to 1 if the country-pair is in the EU and 0 otherwise, and  $\epsilon$  is the error term. For estimation, we use three sets of fixed effects. Exporter-year ( $F_{it}$ ) and importer-year fixed effects control for time-varying multilateral resistance terms. These fixed effects essentially capture all variables that vary by country-year, i.e., GDP. A further concern when assessing the effectiveness of EIAs relates to the potential endogeneity of these agreements. Trade policy might not be strictly exogenous as well-informed policy makers take factors into account that influence trade already before the conclusion of the agreement. In the case of the Eastern EU enlargement, cultural similarities between the accession states might have contributed both to the selection into the agreement and increased trade levels *ex ante* by facilitating transactions. In a classical cross-sectional gravity model point estimates would be biased (an issue discussed at length in Baier and Bergstrand, 2007).

One strategy to account for the biased estimate of endogenous EIAs is the use of instrumental variables. Previous studies, however, obtained fragile results (Baier and Bergstrand, 2002; Magee, 2003). For this reason, we will focus on a panel data model in first differences (Magee, 2008) and dyadic fixed effects (Baier and Bergstrand, 2007). Both are different ways to address time-invariant dyadic unobservables.<sup>3</sup> What is more, inclusion of these fixed effects captures geographic distance (i.e.,  $D_{ij}$ ).<sup>4</sup> This yields:

$$\ln(E_{ijt}) = \beta_1 EU_{ijt} + \gamma_{it} F_{it} + \delta_{jt} F_{jt} + \phi_{ij} F_{ij} + \epsilon_{ijt}, \quad (3)$$

---

<sup>3</sup>For the period of observation the unobservables of interest --e.g., cultural differences or complementary resource endowments-- are assumed to be time-invariant or slow-moving.

<sup>4</sup>Note that regressing VAX on GDP would give rise to endogeneity because GDP measures domestic value added. The fact that GDP is fully captured by country-time effects enables us to estimate a gravity equation of trade in value added without the need to estimate parameters for GDP.

or, in first-differences:

$$\begin{aligned} d\ln(E_{ij,t-(t-1)}) &= \beta_1 dEU_{ij,t-(t-1)} + \gamma_{i,t-(t-1)} dF_{i,t-(t-1)} \\ &+ \delta_{j,t-(t-1)} dF_{j,t-(t-1)} + v_{ij,t-(t-1)}, \end{aligned} \quad (4)$$

assuming that  $v_{ij,t-(t-1)} = \epsilon_{ijt} - \epsilon_{ij,t-1}$  is white noise. Wooldridge’s (2002) test for serial correlation, reported in **Table A.4**, rejects the null hypothesis of no autocorrelation in all instances in which the fixed effects (**Equation 3**) are used. This is less of a concern for the first-differences variant (**Equation 4**), which is the more efficient and our preferred alternative. A further advantage of first differencing is that stationarity of the data is induced, which is especially important as trade flows can be assumed to follow a unit-root process. Fixed effects by differencing around the mean would not account for this properly, thus, potentially causing spurious regressions (Baier and Bergstrand, 2007). In all cases, parameter estimates are obtained with dyad-clustered robust standard errors to mitigate potential bias due to serial correlation and heteroskedasticity (Wooldridge, 2002, p. 283).

Following the literature, we include lagged EIA terms to allow for “phase-in effects” that capture integration effects materializing in the period following the *de jure* accession in the concurrent year (i.e., 2004). Recall that WIOD provides data up to 2009, so that our phase-in period is 5 years. Even though the literature by now suggests a phase-in period of 10 years, the most significant part of the phase-in effects seems to be in the first 5 years post-enforcement (see Baier and Bergstrand, 2007, p. 89-91). At the very least, our results provide lower bound estimates of EU accession effects on (value-added) trade. Altogether, this yields:

$$\begin{aligned} d\ln(E_{ij,t-(t-1)}) &= \beta_1 dEU_{ij,t-(t-1)} + \beta_2 dEU_{ij,(t-1)-(t-2)} + \beta_3 dEU_{ij,(t-2)-(t-3)} \\ &+ \beta_4 dEU_{ij,(t-3)-(t-4)} + \beta_5 dEU_{ij,(t-4)-(t-5)} + \beta_6 dEU_{ij,(t-5)-(t-6)} \\ &+ \gamma_{i,t-(t-1)} dF_{i,t-(t-1)} + \delta_{j,t-(t-1)} dF_{j,t-(t-1)} + v_{ij,t-(t-1)}. \end{aligned} \quad (5)$$

In addition to distinguishing between gross and VA exports, we are also interested in the accession impacts at a factorial level. Therefore, **Equation 5** is estimated in six models with different dependent variables: (1) Gross Exports, (2) VA eXports (VAX), (3) VAX attributable to capital, (4) to high-skilled labor, (5) medium-skilled labor and (6) low-skilled labor.

As the latter factorial contributions are based on scaling the underlying VAX measure, it can be assumed that the errors of regressions (3)-(6) are correlated. For this reason, we will make use of the seemingly unrelated regression (SUR) model introduced by (Zellner, 1962), which allows for a non-zero covariance matrix between residuals. The model builds on a two step approach, in which the covariance matrix  $\Sigma$  of the stacked error terms  $\epsilon_m$  of the related regressions is estimated in a first step. This covariance matrix is then used in a subsequent step to obtain a consistent and unbiased estimator via Feasible Generalized Least Squares (FGLS). Allowing for the correlation of residuals across models, we are able to compare coefficients of different regression models and interpret changes in capital-labor and labor-skill ratios.

## 4 Findings

**Table 1** presents our estimates of **Equation 5**.<sup>5</sup> Multicollinearity is not a concern because all correlation coefficients are  $\leq 0.2$  (not reported). To save space, we do not report the individual parameter estimates for each and every lagged EIA term. Instead, we calculate the total Average Treatment Effect (ATE) as the sum of the significant coefficients of the (lagged) EIA terms and report values from joint-significance tests for the corresponding variables.

---

<sup>5</sup>All estimates were obtained using the *reg2hdfe* user-written package in Stata 11, which significantly reduces computation time with high-dimensional fixed effects (for details, see Carneiro et al., 2012).

**Table 1** Total Average Treatment Effects (ATEs)

	(1)	(2)	(3)	(4)	(5)	(6)
	Gross Exports	Value Added eXports (VAX)	VAX by Capital	VAX by Labor HS	VAX by Labor MS	VAX by Labor LS
<b>Manufacturing</b>	0.109 (0.2515)	0.1179** (0.0077)	0.0921 (0.1654)	0.1056 (0.1897)	0.1138 (0.1275)	0.1317 (0.1113)
<b>Services</b>	-0.288 (0.0818)	0.0939* (0.0263)	0.0730* (0.0281)	-0.0073 (0.1468)	0.0905* (0.0127)	0.0903* (0.0168)

Notes: Estimates for **Equation 5**. Dependent variables are reported in the second row. To save clutter, country-time fixed effects are not reported.  $p$ -values of joint-significance of the coefficients in parentheses. \*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$ .

For the manufacturing sector, column (1) indicates that the accession led to an average increase of gross exports among members by about 11.5%, which is however not statistically significant.<sup>6</sup> In contrast, VAX (column 2) shows a positive effect of EU enlargement of 12.2%. This effect can be decomposed by factorial contributions (column 3-6). We find that the effect of EU enlargement for capital and high-skilled labor in VAX is lowest (9.4% and 10.8%), and highest for medium- and low-skilled labor (11.7% and 11.9%). However, none of the ATEs for the factorial VAX is significant.

For value-added trade in services, EU enlargement induced a significant and positive ATE of 9.6% that can be attributed to capital (7.6%), medium-skilled labor (9.3%) and low-skilled labor (9.2%). In contrast, VAX by high-skilled labor is not significantly affected and, thus, a decline in the labor-skill ratio is suggested, which is significant based on the results from seemingly unrelated regressions in **Table A.5**.<sup>7</sup>

Our findings may be driven by economic and policy asymmetries between entrants and incumbents, such as changes in entrants' export structures. In order to examine these changes in more detail, we add binary variables to **Equation 5** so as to account for the direction of trade, i.e., from entrants (CEECs) to incumbents (EU15), from entrants to other entrants (intra-CEEC), and from incumbents to entrants.<sup>8</sup>

<sup>6</sup>Estimates of percentage changes are for all estimations referring to the summation of baseline and phase-in effects following  $(exp(baseline) - 1) + (exp(phase - in) - 1)$ , which explains marginal differences in results using  $(exp(ATE) - 1)$ .

<sup>7</sup>The *decline* in gross exports of services is not in line with our expectations and may be related to data quality issues in WIOD. For services, inconsistencies and lack of data for all countries made it necessary to take the average of use structures for all imported services across time and countries (Timmer, 2012).

<sup>8</sup>Results with a full set of (lagged) EIA terms are provided in **Tables A.6-A.7**.

For manufacturing, **Table 2** shows that EU enlargement did not have any significant effect on entrants' gross exports to the EU15. Surprisingly, we also do not find any significant accession effects when we account for global fragmentation with value added exports. This is in contrast to our expectation that the CEECs would become integrated in Western-European countries' value chains once they accede to the EU. This could be attributed to the asymmetric process of EU enlargement, which already led in the 1990s to preferential liberalization of exports from aspirant entrants to incumbents in the framework of the Europe Agreements.<sup>9</sup>

Interesting is our finding that EU accession brought about stronger regional integration *among* CEECs in terms of gross exports (43.6%).<sup>10</sup> The estimated ATE for VAX is slightly lower at 36.1% and driven by VAX of capital (32.4%) as well as low-skilled (26.2%), medium-skilled (25.6%) and high-skilled labor (23.1%). Although coefficient sizes differ markedly, the SUR results suggest that only those of high- and medium-skilled labor are significantly different (see **Table A.5**).

Turning to the trade effects for incumbents, we find positive effects for gross (23.6%) and value added exports (10.6%) to new member states. VAX by capital increases by 17.23%. Among the labor-skill types, the effects on medium- and low-skilled labor were 19.6% and 19.7% respectively.

For *gross* exports in services (lower part of **Table 2**), we do not find evidence of meaningful accession effects for either incumbents or entrants.<sup>11</sup> However, the CEECs' contribution to *value added* exports with the EU15 increased by 12.3%. This effect is attributed largely to low-skilled labor (12.6%), whereas medium-skilled labor is affected to a smaller extent (6.4%). The results from the seemingly unrelated regressions support the notion that enlargement fostered specifically low-skilled services exports to incumbents, which contrasts pre-enlargement expectations of an increase of high-skilled exports in services (Marin, 2004). Hence, accession had a depressing effect on the skill-structure of East-West services exports.

---

<sup>9</sup>However, looking more closely at the results in **Table A.6**, significant lags for the year 2009 suggest that five years might be a timeframe too short to capture the full accession impact on CEEC-EU15 trade.

<sup>10</sup>While the strong intra-CEEC effect of manufacturer's gross exports is confirmed in Hornok (2010), note that our studies are not comparable due to her usage of bi-annual data for 1999-2007 and exclusion of Cyprus, Malta and Greece from the sample.

<sup>11</sup>The significance of the ATE for service gross exports among CEECs and incumbents is surprising, yet may be explained by the fact that "services" involve several, heterogeneous sectors.

**Table 2** Total ATEs: Differential Accession Impacts

	(1)	(2)	(3)	(4)	(5)	(6)
	Gross Exports	Value Added eExports (VAX)	VAX by Capital	VAX by Labor HS	VAX by Labor MS	VAX by Labor LS
<b>Manufacturing</b>						
CEEC→EU15	0.0000 (0.6625)	0.0732 (0.2318)	0.0772 (0.9445)	0.0169 (0.9328)	0.0197 (0.9776)	0.0213 (0.9004)
Intra-CEEC	0.362** (0.0088)	0.388*** (0.0000)	0.2839** (0.0049)	0.1869* (0.0420)	0.2093* (0.0260)	0.278* (0.0235)
EU15→CEEC	0.269*** (0.0002)	0.0922*** (0.0000)	0.159* (0.0417)	0.173 (0.0530)	0.179* (0.0336)	0.180* (0.0336)
<b>Services</b>						
CEEC→EU15	-0.461* (0.0171)	0.1195* (0.0255)	0.0003 (0.1490)	-0.0201 (0.3304)	0.0622* (0.0309)	0.1218* (0.0269)
Intra-CEEC	-0.340 (0.4060)	0.1340** (0.0075)	0.253*** (0.0005)	0.2169*** (0.0005)	0.2259*** (0.0001)	0.2287*** (0.0004)
EU15→CEEC	0.0000 (0.4335)	0.1064 (0.1787)	0.1220 (0.0845)	0.0572 (0.2590)	0.0976 (0.1495)	0.0598 (0.2176)

Notes: Estimates for **Equation 5**. Dependent variables are reported in the second row.  $p$ -values of joint-significance of the coefficients in parentheses. \*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$ .

As with manufacturing, EU enlargement had a positive effect on value-added trade in services (25.4%) between entrants. Here, the gains range between 22.9% for high-skilled labor and 27.1% for capital. However, the factorial ATEs are not significantly different. Therefore, unlike for services exports among entrants and incumbents, no low-skill bias is induced for East-East trade. Finally, the EU15's (value added) exports in services to the new member states were not significantly affected by the EU enlargement.

Taken together, we find that EU enlargement has mainly promoted the CEECs' integration in regional value chains with other CEECs in both manufacturing and services, but not with incumbent EU15 countries. In contrast to pre-enlargement expectations (Sinn, 2007), accession did not increase entrants' manufacturing (value added) exports to the incumbent members. Yet, the CEECs exported more lower-skilled services to the incumbents after 2004. The enlargement has also increased the EU15's (value added) exports of manufactured goods to the CEECs, but not for services.

## 5 Sensitivity Analyses

### 5.1 Endogeneity and Anticipation Effects

While our panel data approach already controls for endogeneity bias, an additional test for strict exogeneity can be performed to ensure that our findings are not still somehow subject to this bias. A lead term (in levels) is included in **Equation 5** to ensure that the assumption of strict exogeneity is not violated (see Wooldridge, 2002, p. 283). This term could also indicate possible “anticipation effects,” i.e., changes in trade flows prior to the *de jure* enforcement of the EIA. A significant parameter estimate of the lead EIA term indicates that it is correlated with the concurrent trade flow, so that the model may still be subject to endogeneity bias.

Indeed, **Table 3** shows one negative and statistically significant lead terms for VAX-related exports in manufacturing. However, this tends to be very small (-1.4%). Moreover, including these anticipation effects does not dramatically alter the size of the Total ATEs. The coefficients are negative except for one case, suggesting a “delay” of trade integration until *de jure* accession (a similar interpretation is given in Baier and Bergstrand, 2007, p. 90).

**Table 3** Anticipation and Phase-In Effects

	(1)	(2)	(3)	(4)	(5)	(6)
	Gross Exports	Value Added eExports (VAX)	VAX by Capital	VAX by Labor HS	VAX by Labor MS	VAX by Labor LS
<b>Manufacturing</b>						
EU <sub>ij,t+5</sub>	-0.0320 (0.065)	-0.0151* (0.015)	-0.0115 (0.1883)	-0.0126 (0.1260)	-0.0127 (0.1240)	-0.0121 (0.1430)
Total ATE	0.109 (0.2190)	0.133** (0.0045)	0.115 (0.0575)	0.1307* (0.0455)	0.1391* (0.0310)	0.14* (0.0309)
<b>Services</b>						
EU <sub>ij,t+5</sub>	0.00507 (0.731)	-0.00663 (0.257)	-0.00387 (0.521)	-0.00652 (0.440)	-0.0103 (0.202)	-0.0134 (0.104)
Total ATE	-0.293 (0.2190)	0.1398* (0.0377)	0.0768 (0.0502)	0.0875 (0.1068)	0.1407** (0.0063)	0.1574** (0.0039)

Notes: Estimates for **Equation 5** including lead term in levels (5 years). Dependent variables are reported in the second row. *p*-values of joint-significance of the coefficients in parentheses. \* *p* < 0.05, \*\* *p* < 0.01, \*\*\* *p* < 0.001.



## 5.2 Prior membership in BAFTA and CEFTA

Another potential concern is that the CEECs had formerly been integrated in regional integration initiatives, i.e., the Baltic Free Trade Area (BAFTA) and the Central European Free Trade Agreement (CEFTA). Although the CEECs left these agreements upon their EU accession, our EU accession variables may actually capture lagged effects of former involvement in BAFTA and/or CEFTA.

In order to test whether it is not the *de jure* accession impact which is driving our results, but rather pre-2004 liberalization in BAFTA/CEFTA, we re-estimate our model with placebo accession effects. In doing so, we recode the EU dummy to indicate that EU enlargement occurred in 2000, 2001, 2002 or 2003.

**Table 4** shows that the Total ATEs are mostly insignificant if the accession is assumed to have started in 2000, 2001, 2002 or 2003. Additionally, the parameter estimates are dwarfed by the *de jure* accession effects of 2004 and can be mostly attributed to lags occurring in the actual accession period.<sup>12</sup> Therefore, we argue that the ATEs from **Table 1** and **Table 2** can be specifically ascribed to the 2004 enlargement rather than to pre-accession liberalization under BAFTA/CEFTA.

---

<sup>12</sup>For instance, the fifth lag of a 2000 placebo accession is in 2005, one year after the true EU accession.

**Table 4** Total ATEs for Placebos

Year	Gross Exports	Value Added eExports (VAX)	VAX by Capital	VAX by Labor HS	VAX by Labor MS	VAX by Labor LS
<b>Manufacturing</b>						
2004	0.109 (0.2515)	0.1179** (0.0077)	0.0921 (0.1654)	0.1056 (0.1897)	0.1138 (0.1275)	0.1317 (0.1113)
2003	0.109 (0.1553)	0.0157** (0.0048)	0.0008 (0.5923)	0.0265 (0.6450)	0.0277 (0.6938)	0.0294 (0.7348)
2002	0.109 (0.2012)	0.0157** (0.0059)	0.0008 (0.9030)	0.0265 (0.7634)	0.0277 (0.7122)	0.0294 (0.7709)
2001	0.109 (0.1957)	0.0157** (0.0059)	0.0008 (0.4311)	0.0265 (0.4580)	0.0277 (0.4014)	0.0294 (0.4188)
2000	-0.054 (0.0812)	-0.0206** (0.0039)	0.0008 (0.6751)	-0.0053 (0.7084)	0.0277 (0.6749)	0.0294 (0.6536)
<b>Services</b>						
2004	-0.288 (0.0818)	0.0939* (0.0263)	0.0730** (0.0093)	0.1062 (0.0628)	0.0905* (0.0197)	0.0903 (0.0670)
2003	-0.288 (0.0986)	0.0007 (0.1344)	0.0000 (0.9985)	-0.0468 (0.8988)	-0.0008 (0.6469)	-0.0053 (0.7621)
2002	0.0000 (0.8069)	0.0306 (0.0911)	0.0000 (0.1945)	0.0000 (0.1181)	-0.0008 (0.0990)	-0.0053 (0.2666)
2001	0.0000 (0.9685)	0.0306** (0.0458)	0.0000 (0.0738)	0.0403* (0.0172)	-0.0008* (0.0325)	0.0663 (0.1462)
2000	0.0000 (0.7565)	-0.0124* (0.0175)	-0.0500 (0.9403)	-0.0086 (0.5960)	-0.0397 (0.6033)	-0.0438 (0.9479)

Notes: Estimates for **Equation 5** for different “placebo” years of entry. Dependent variables are reported in the second row.  $p$ -values of joint-significance of the coefficients in parentheses. \*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$ .

## 6 Discussion & Conclusion

This paper’s main objective is to assess the nature of the Eastern European enlargement distinguishing between (i) gross and value added exports and (ii) putting a specific focus on the factor content of trade at a sectoral and factoral level. Our results indicate that while gross exports of manufacturers grew thanks to EU enlargement, it is not the case for CEECs’ service providers. However, this result can be attributed to the fact that services are used largely as inputs for manufacturing products (Timmer et al., 2013): Czech financial services do not “cross the border,” but are implicitly embedded in Czech car parts destined for export markets. Another explanation may be that the European internal market for goods was already more liberalized than the market for services.<sup>13</sup>

Nevertheless, positive accession effects can be observed for both sectors when value added exports (VAX) are taken as a preferred measure for trade flows, rather than gross trade flows. Interestingly, the results indicate that EU enlargement has predominantly caused new member states to become more integrated in regional value chains with other Eastern entrants, rather than with the incumbent EU members. CEECs’ export focus on the EU15 prior to enlargement and the relatively higher incomes of incumbents led to the expectation that it is mainly the old member states’ demand that fosters gross and VAX growth (Baldwin et al., 1997). In contrast, our paper’s results indicate that it is the demand from new entrants that exerts a strong impulse. Our interpretation is that EU15 demand was already close to its natural level due to pre-accession liberalization. In contrast, trade among new EU members experienced further trade barrier reductions in the course of their accession. Moreover, the CEECs’ post-enlargement demand (GDP) grew relatively faster than in the EU15 (2.9% vs. 1.1% annually) (IMF, 2014). Thus, entrants seem to participate less than expected in Western European value chains and there is no evidence for the establishment of a hub-and-spoke structure between core and periphery (De Benedictis et al., 2005).

---

<sup>13</sup>For a draft of the EU directive on services in the internal market 2006/123/EG, European Commissioner Bolkenstein proposed that services in the EU internal market be provided according to the laws of the service provider’s country of origin. This triggered public concerns of social dumping in the context of Eastern enlargement. The adopted version of the directive no longer contains this “country of origin” principle.

One might assume path dependency of previous agreements that were established between the new member states prior to the EU accession. Notwithstanding, placebo tests that assume EU enlargement would have taken place prior to 2004 indicate that there are membership gains between old and new member states for CEECs that can be ascribed specifically to the 2004s accession. While the enlargement promoted manufacturing value added exports from incumbents to entrants, there is no increase in the reversed direction. This is due to the asymmetric nature of enlargement—while CEECs gained preferential access to Western European markets before *de iure* integration in light of the Europe Agreements, incumbent exporters waited until 2004 to be exempt from tariffs.

Significant effects can be found, however, for Eastern service suppliers' value added exports to the EU15. In contrast to pre-enlargement accounts (Marin, 2004), CEEC entrants gained most from contributing lower-skilled labor-intensive activities to EU15 members. Hence, trade with incumbents had adverse effects on entrants' labor-skill ratios rather than inducing production upgrading processes in the acceding economies. An explanation for this finding is that VAX of products with low skill intensity are disproportionately favored by the reduction of trade impediments. Referring to Johnson and Noguera (2012*b*), goods with a high domestic value added content “travel further” than goods with lower shares. On the one hand, the goods with high domestic value added shares are on average the goods involving high value added activities, related to capital and high-skill labor. On the other hand, low value added shares in gross exports are attributable to production steps involving low value adding activities associated with lower-skilled labor. If trade is liberalized and barriers are reduced, traded tasks do not have to be that profitable anymore in order to justify the trade costs—trade in low-skill tasks benefits relatively more from trade liberalization. This effect is consequently larger, the further trade liberalization proceeds.

Applying these findings to the EU enlargement of 2004, the effect of economic integration can be perceived as relatively deep compared to global trade integration. Therefore, in intra-EU trade relations, low value adding activities would be favored vis-à-vis trade of EU members with other parts of the world. The result would be the previously found over-proportional increase in low-skill value added exports from the CEECs to the EU. This is not per se unfavorable for the CEECs if they continue increasing their absolute contribution

of value added exports. Nevertheless, in the long run, new member states may need to foster industrial upgrading processes regarding intra-EU trade, in order to avoid being stuck with exclusively exporting low-skilled activities. This could also become especially relevant when new countries competing in low- and medium-skilled labor sectors join the EU in the future.

Our findings may be used as a stepping stone for future research to gain a more nuanced understanding of the economic effects of the CEECs' accession by further decomposing data for the manufacturing and services sectors. The more general topic of economic fragmentation and its sensitivity to trade policy offers various interesting fields for new empirical work. First, recently announced updates of WIOD would make it possible to assess the long-term impacts of accession. This is important in light of long-run phase-in effects of EIAs on trade Baier and Bergstrand (2007). Second, more comprehensive data for larger country samples and more detailed factoral decompositions would be instrumental to assess the economic implications of a variety of EIAs. This would be especially helpful to obtain a better understanding of how trade policy shapes specialization in an increasingly fragmented world economy.

## References

- Altomonte, Carlo, Aquilante, Tommaso and Ottaviano, Gianmarco I.P. 2011. The Triggers of Competitiveness: The EFIGE Cross-Country Report. Technical report.
- Baier, Scott L. and Bergstrand, Jeffrey H. 2002. On the endogeneity of international trade flows and free trade agreements. Working paper.
- Baier, Scott L. and Bergstrand, Jeffrey H. 2007. ‘Do Free Trade Agreements Actually Increase Members’ International Trade?’. *Journal of International Economics* 71(1), 72 – 95.
- Baier, Scott L., Bergstrand, Jeffrey H. and Feng, Michael. 2014. ‘Economic integration agreements and the margins of international trade’. *Journal of International Economics* 93(2), 339 – 350.
- Baldwin, Richard E. 2006. Globalisation: The Great Unbundling(s). Working paper.
- Baldwin, Richard E., Francois, Joseph F. and Portes, Richard. 1997. ‘The Costs and Benefits of Eastern Enlargement: The Impact on the EU and Central Europe’. *Economic Policy* (24), 125–176.
- Carneiro, Anabela, Guimares, Paulo and Portugal, Pedro. 2012. ‘Real Wages and the Business Cycle: Accounting for Worker, Firm, and Job Title Heterogeneity’. *American Economic Journal: Macroeconomics* 4(2), 133–152.
- De Benedictis, Luca, De Santis, Roberta and Vicarelli, Claudio. 2005. ‘Hub-and-Spoke or else? Free trade agreements in the ‘enlarged’ European Union’. *The European Journal of Comparative Economics* 2(2), 245–260.
- Dedrick, Jason, Kraemer, Kenneth L. and Linden, Greg. 2010. ‘Who Profits from Innovation in Global Value Chains?: A Study of the iPod and Notebook PCs’. *Industrial and Corporate Change* 24(5), 81–116.
- Dudenhöffer, Ferdinand. 2005. How Much “Germany” is there in Porsche?. Working paper.
- Egger, Peter, Marshall, Kathryn G. and Fisher, Eric. 2011. ‘Empirical foundations for the resurrection of Heckscher-Ohlin theory’. *International Review of Economics & Finance* 20(2), 146–156.
- Feenstra, Robert C. and Hanson, Gordon H. 1996. ‘Globalization, Outsourcing, and Wage Inequality’. *The American Economic Review* 86(2), 240–245.
- Grossman, Gene M. and Rossi-Hansberg, Esteban. 2006. ‘The Rise of Offshoring: It’s Not Wine for Cloth Anymore’. *Proceedings of the Economic Policy Symposium, Federal Reserve of Kansas City* pp. 59–102.
- Head, Keith and Mayer, Thierry. 2014. Gravity Equations: Workhorse, Toolkit, and Cookbook. in Elhanan Helpman, Kenneth Rogoff and Gita Gopinath., eds, ‘Handbook of International Economics’. Vol. 4 of *Handbook of International Economics*. Elsevier. pp. 131 – 195.

- Helpman, Elhanan, Melitz, Marc and Rubinstein, Yona. 2008. ‘Estimating Trade Flows: Trading Partners and Trading Volumes’. *The Quarterly Journal of Economics* 123(2), pp. 441–487.
- Hornok, Cecília. 2010. ‘Trade-Enhancing EU Enlargement and the Resurgence of East-East Trade’. *Focus on European Economic Integration* (3), 79–94.
- IMF. 2014. ‘World Economic Outlook Database’.
- Johnson, Robert C. 2014. ‘Five Facts about Value-Added Exports and Implications for Macroeconomics and Trade Research’. *Journal of Economic Perspectives* 28(2), 119–42.
- Johnson, Robert C. and Noguera, Guillermo. 2012a. ‘Accounting for Intermediates: Production Sharing and Trade in Value Added’. *Journal of International Economics* 86(2), 224 – 236.
- Johnson, Robert C. and Noguera, Guillermo. 2012b. Fragmentation and Trade in Value Added over Four Decades. Working Paper 18186. National Bureau of Economic Research.
- Jones, Ron W. and Kierzkowski, Henryk. 1990. The Role of Services in Production and International Trade: A Theoretical Framework. in R.W. Jones and Anne Krueger., eds, ‘The Political Economy of International Trade’. Basil Blackwell. Oxford. pp. 31–48.
- Kohl, Tristan. 2014. ‘Do We Really Know that Trade Agreements Increase Trade?’. *Review of World Economics* 150(3), 443–469.
- Koopman, R., Wang, Z. and Wei, S.-J. 2014. ‘Tracing Value-added and Double Counting in Gross Exports’. *American Economic Review* 104, 459–494.
- Krugman, Paul and Venables, Anthony J. 1995. ‘Globalization and the Inequality of Nations’. *The Quarterly Journal of Economics* 110(4), pp. 857–880.
- Leontief, Wassily W. 1936. ‘Quantitative Input and Output Relations in the Economic Systems of the United States’. *The Review of Economics and Statistics* 18(3), pp. 105–125.
- Magee, Christopher S.P. 2003. ‘Endogenous preferential trade agreements: An empirical analysis.’. *Contributions to Economic Analysis & Policy* 2(1), 1 – 19.
- Magee, Christopher S.P. 2008. ‘New Measures of Trade Creation and Trade Diversion’. *Journal of International Economics* 75(2), 349 – 362.
- Maggi, Giovanni. 2014. International Trade Agreements. in Kenneth Rogoff Elhanan Helpman and Gita Gopinath., eds, ‘Handbook of International Economics’. Vol. 4 of *Handbook of International Economics*. Elsevier. pp. 317 – 390.
- Marin, Dalia. 2004. A Nation of Poets and Thinkers Less so with Eastern Enlargement? Austria and Germany.. Discussion Paper 4358. Centre for Economic Policy Research.
- Martinez-Zarzoso, Inmaculada, Vidovic, Martina and Voicu, Anca. 2015. ‘Central East European Countries’ Accession into the European Union: Role of Extensive Margin for Trade in Intermediate and Final Goods’. *Empirica. Journal of European Economies* .

- Morrow, Peter M. 2010. ‘Ricardian-Heckscher-Ohlin comparative advantage: Theory and evidence’. *Journal of International Economics* 82(2), 137–151.
- Noguera, Guillermo. 2012. Trade Costs and Gravity for Gross and Value Added Trade. Working paper.
- Schott, Peter K. 2003. ‘One Size Fits All? Heckscher-Ohlin Specialization in Global Production’. *The American Economic Review* 93(3), 686–708.
- Sinn, H.-W. 2007. *Can Germany Be Saved? The Malaise of the Worlds First Welfare State*. The MIT Press. Cambridge, MA.
- Stehrer, Robert, Foster, Neil and de Vries, Gaaitzen J. 2012. Value Added and Factors in Trade: A Comprehensive Approach. Working Paper 7. WIOD.
- Timmer, Marcel P. 2012. The World Input-Output Database (WIOD): Content, Sources and Methods. Working Paper 10. WIOD.
- Timmer, Marcel P., Dietzenbacher, Erik, Los, Bart, Stehrer, Robert and de Vries, Gaaitzen J. 2015. ‘An Illustrated User Guide to the World Input Output Database: the Case of Global Automotive Production’. *Review of International Economics* 23(3), 575–605.
- Timmer, Marcel P., Los, Bart, Stehrer, Robert and de Vries, Gaaitzen J. 2013. ‘Fragmentation, Incomes and Jobs: An Analysis of European Competitiveness’. *Economic Policy* 28(76), 613–661.
- Trefler, Daniel. 1995. ‘The Case of the Missing Trade and Other Mysteries’. *The American Economic Review* 85 (5), 1029–1046.
- Trefler, Daniel and Zhu, Susan Chun. 2010. ‘The Structure of Factor Content Predictions’. *Journal of International Economics* 82(2), 195 – 207.
- Wooldridge, J.M. 2002. *Econometric Analysis of Cross Section and Panel Data*. The MIT Press. Cambridge, MA.
- Zellner, A. 1962. ‘An Efficient Method of Estimating Seemingly Unrelated Regressions and Tests for Aggregation Bias.’. *Journal of the American Statistical Association* 57, 348–368.



## Appendix

**Table A.1** Country Coverage of WIOD

Australia	Czech Republic	India	Malta	South Korea
Austria	Denmark	Indonesia	Mexico	Spain
Belgium	Estonia	Ireland	Netherlands	Sweden
Brazil	Finland	Italy	Poland	Russia
Bulgaria	France	Japan	Portugal	Taiwan
Canada	Germany	Latvia	Romania	Turkey
China	Greece	Lithuania	Slovakia	UK
Cyprus	Hungary	Luxembourg	Slovenia	USA

**Table A.2** Industry Coverage in WIOD

ISIC Rev. 3 Code	Industry
AtB	Agriculture, hunting, forestry and fishing
C	Mining and quarrying
15t16	Food, beverages and tobacco
17t18	Textiles and textile products
19	Leather, leather products and footwear
20	Wood and products of wood and cork
21t22	Pulp, paper, printing and publishing
23	Coke, refined petroleum and nuclear fuel
24	Chemicals and chemical products
25	Rubber and plastics
26	Other non-metallic minerals
27t28	Basic metals and fabricated metal
29	Machinery, not elsewhere classified
30t33	Electrical and optical equipment
34t35	Transport equipment
36t37	Manufacturing, not elsewhere classified; recycling
E	Electricity, gas and water supply
F	Construction
50	Sale and repair of motor vehicles and motorcycles; retail sale of fuel
51	Wholesale trade, except of motor vehicles and motorcycles
52	Retail trade and repair, except of motor vehicles and motorcycles
H	Hotels and restaurants
60	Inland transport
61	Water transport
62	Air transport
63	Other supporting transport activities
64	Post and telecommunications
J	Financial intermediation
70	Real estate activities
71t74	Renting of machinery and equipment and other business activities
L	Public administration and defence; compulsory social security
M	Education
N	Health and social work
O	Other community, social and personal services
P	Private households with employed persons

Descriptive statistics of gross exports, Value Added eXports (VAX) and the factoral decomposition of VAX by capital and labor (skills) are presented in **Table A.3**. For each of these variables of interest, a total of 23,400 observations were obtained from WIOD (15 years  $\times$  40 exporters  $\times$  39 potential importers). The highest share of non-positive values was detected in gross exports of services (55 out of 23,400 observations, or 0.24%). Such values may be attributed to negative changes in importing countries' inventories. Overall, zero 'trade' flows are not prevalent in the data.

**Table A.3** Descriptive Statistics (in Millions of US\$)

Variable	Mean	Median	Max.	Min.	Std. Dev.
<b>Manufacturing</b>					
(1) Gross Exports	2919.7	288.1	292331.7	0.00	11018.78
(2) VAX	1217.1	133.43	149851.3	-0.22	4733.7
(3) VAX by Capital	481.4	54.58	100421.1	-17.22	2211.7
(4) VAX by Labor HS	193.5	13.20	17567.9	-0.01	812.7
(5) VAX by Labor MS	378.4	33.56	36487.3	-0.01	1562.1
(6) VAX by Labor LS	163.8	16.16	24348.8	-.08	603.2
<b>Services</b>					
(7) Gross Exports	837.2	86.7	90597.9	0.00	2781.3
(8) VAX	1405.4	179.7	128842.2	0.18	4717.0
(9) VAX by Capital	621.1	80.9	70668.5	0.04	2327.8
(10) VAX by Labor HS	282.0	28.4	20872.4	0.03	1008.0
(11) VAX by Labor MS	381.7	41.6	39208.0	0.03	1343.18
(12) VAX by Labor LS	120.6	14.8	8373.4	0.01	349.91

Source: Authors' calculations based on WIOD.

**Table A.4** Wooldridge (2002) Test for Autocorrelation

Model	(1) Gross Exports	(2) Value Added eXports (VAX)	(3) VAX by Capital	(4) VAX by Labor HS	(5) VAX by Labor MS	(6) VAX by Labor LS
<b>Manufacturing</b>						
FE	196.113 (0.0000)	324.653 (0.0000)	436.405 (0.0000)	300.29 (0.0000)	246.392 (0.0000)	282.519 (0.0000)
FD	0.654 (0.4187)	2.408 (0.1209)	0.048 (0.8273)	9.485 (0.0021)	11.753 (0.0006)	7.938 (0.0049)
<b>Services</b>						
FE	547.768 (0.0000)	1792.998 (0.0000)	1380.092 (0.0000)	1756.719 (0.0000)	1693.634 (0.0000)	1804.236 (0.0000)
FD	100.428 (0.0000)	10.446 (0.1209)	7.638 (0.0002)	22.110 (0.0000)	12.173 (0.0000)	8.572 (0.0000)

Note: F-values, with p-values in parentheses.

**Table A.5** Test for Coefficient Equality Based on Seemingly Unrelated Regressions

	(1)	(2)	(3)	(4)	(5)	(6)
	Capital Labor HS	Capital Labor MS	Capital Labor LS	Labor HS Labor MS	Labor HS Labor LS	Labor MS Labor LS
<b>Manufacturing</b>						
Overall	Equality (0.7941)	Equality (0.9266)	Equality (0.8441)	<b>Inequality*</b> <b>(0.0322)</b>	Equality (0.0881)	Equality (0.5248)
CEEC→EU15	Equality (0.9868)	Equality (0.8703)	Equality (0.7523)	Equality (0.2772)	Equality (0.2107)	Equality (0.3502)
Intra-CEEC	Equality (0.1275)	Equality (0.2288)	Equality (0.2562)	<b>Inequality*</b> <b>(0.0479)</b>	Equality (0.1516)	Equality (0.7331)
EU15→CEEC	Equality (0.7126)	Equality (0.9619)	Equality (0.9587)	Equality (0.0515)	Equality (0.2356)	Equality (0.9782)
<b>Services</b>						
Overall	Equality (0.2007)	Equality (0.6573)	Equality (0.7663)	<b>Inequality*</b> <b>(0.0322)</b>	Equality (0.0606)	Equality (0.8478)
CEEC→EU15	Equality (0.4207)	Equality (0.1865)	Equality (0.1714)	<b>Inequality***</b> <b>(0.0005)</b>	<b>Inequality*</b> <b>(0.0106)</b>	Equality (0.7199)
Intra-CEEC	Equality (0.9555)	Equality (0.6810)	Equality (0.9743)	Equality (0.5979)	Equality (0.9752)	Equality (0.5100)
EU15→CEEC	Equality (0.3059)	Equality (0.4879)	Equality (0.3437)	Equality (0.4281)	Equality (0.8720)	Equality (0.5248)

Note:  $p$ -values in parentheses. \*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$ .

**Table A.6** Full Lag Structure: Differential Accession Impacts for Manufacturing

	(1) Gross Exports	(2) Value Added eExports (VAX)	(3) VAX by Capital	(4) VAX by Labor HS	(5) VAX by Labor MS	(6) VAX by Labor LS
<b>Manufacturing</b>						
CEEC→EU15 <sub><i>ij,t-(t-1)</i></sub>	-0.0505 (0.430)	-0.0341 (0.2480)	-0.0687* (0.013)	-0.0576* (0.0026)	-0.0562* (0.031)	-0.0557* (0.032)
CEEC→EU15 <sub><i>ij,(t-1)-(t-2)</i></sub>	-0.00579 (0.927)	0.0181 (0.4790)	0.0772** (0.005)	0.0304 (0.240)	0.0295 (0.256)	0.0296 (0.254)
CEEC→EU15 <sub><i>ij,(t-2)-(t-3)</i></sub>	-0.0988 (0.098)	-0.0342 (0.2380)	-0.0531 (0.0054)	-0.0476 (0.065)	-0.0452 (0.082)	-0.0467 (0.071)
CEEC→EU15 <sub><i>ij,(t-3)-(t-4)</i></sub>	0.0602 (0.422)	0.0176 (0.6190)	0.00578 (0.833)	0.0783 (0.761)	0.00798 (0.758)	0.0836 (0.746)
CEEC→EU15 <sub><i>ij,(t-4)-(t-5)</i></sub>	-0.0420 (0.478)	-0.0144 (0.6520)	-0.0140 (0.61)	-0.0128 (0.617)	-0.0103 (0.691)	-0.00464 (0.857)
CEEC→EU15 <sub><i>ij,(t-5)-(t-6)</i></sub>	0.0434 (0.490)	0.0732** (0.0270)	0.0482 (0.078)	0.0745*** (0.0004)	0.0759*** (0.003)	0.0770*** (0.003)
<b>ATE: CEEC→EU15</b>	0.0000 (0.6625)	0.0732 (0.2318)	0.0772 (0.9445)	0.0169 (0.9328)	0.0197 (0.9776)	0.0213 (0.9004)
<hr/>						
Intra-CEEC <sub><i>ij,t-(t-1)</i></sub>	0.362*** (0.0000)	0.263*** (0.0000)	0.219*** (0.0000)	0.239*** (0.0000)	0.246*** (0.0000)	0.247*** (0.0000)
Intra-CEEC <sub><i>ij,(t-1)-(t-2)</i></sub>	-0.124 (0.132)	-0.0454 (0.256)	0.0438 (0.205)	-0.0192 (0.553)	-0.0190 (0.559)	-0.0196 (0.547)
Intra-CEEC <sub><i>ij,(t-2)-(t-3)</i></sub>	-0.116 (0.118)	-0.0625 (0.110)	-0.0495 (0.149)	-0.0938*** (0.0004)	-0.0886** (0.006)	-0.0900** (0.005)
Intra-CEEC <sub><i>ij,(t-3)-(t-4)</i></sub>	-0.0253 (0.765)	-0.0146 (0.719)	-0.0435 (0.204)	-0.00830 (0.796)	-0.0147 (0.0649)	-0.0183 (0.570)
Intra-CEEC <sub><i>ij,(t-4)-(t-5)</i></sub>	-0.101 (0.208)	-0.0759 (0.0770)	-0.0821* (0.016)	-0.0693* (0.031)	-0.0671* (0.037)	-0.0623 (0.053)
Intra-CEEC <sub><i>ij,(t-5)-(t-6)</i></sub>	0.0551 (0.476)	0.125** (0.003)	0.147*** (0.0000)	0.111*** (0.0001)	0.119*** (0.0000)	0.121*** (0.0000)
<b>ATE: Intra-CEEC</b>	0.362** (0.0088)	0.388*** (0.0000)	0.2839** (0.0049)	0.1869* (0.0420)	0.2093* (0.0260)	0.278* (0.0235)
<hr/>						
EU15→CEEC <sub><i>ij,t-(t-1)</i></sub>	0.269*** (0.0000)	0.168*** (0.0000)	0.159*** (0.0000)	0.173*** (0.0000)	0.179*** (0.0000)	0.180*** (0.0000)
EU15→CEEC <sub><i>ij,(t-1)-(t-2)</i></sub>	-0.0702 (0.0860)	-0.0361* (0.0500)	-0.0360 (0.188)	-0.0388 (0.130)	-0.0383 (0.138)	-0.0389 (0.131)
EU15→CEEC <sub><i>ij,(t-2)-(t-3)</i></sub>	0.0569 (0.1240)	0.0208 (0.2540)	0.0249 (0.363)	0.0158 (0.537)	0.0199 (0.440)	0.0193 (0.455)
EU15→CEEC <sub><i>ij,(t-3)-(t-4)</i></sub>	-0.0509 (0.1750)	-0.0397* (0.0360)	-0.0456 (0.096)	-0.0267 (0.298)	-0.0332 (0.199)	-0.0369 (0.152)
EU15→CEEC <sub><i>ij,(t-4)-(t-5)</i></sub>	-0.0143 (0.733)	-0.0157 (0.423)	-0.0115 (0.676)	-0.0226 (0.379)	-0.0217 (0.401)	-0.0196 (0.447)
EU15→CEEC <sub><i>ij,(t-5)-(t-6)</i></sub>	-0.0111 (0.808)	0.0285 (0.263)	0.0449 (0.101)	0.0198 (0.441)	0.0276 (0.284)	0.0293 (0.255)
<b>ATE: EU15→CEEC</b>	0.269*** (0.0002)	0.0922*** (0.0000)	0.159* (0.0417)	0.173 (0.0530)	0.179* (0.0336)	0.180* (0.0336)
<i>N</i>	21832	21838	21775	21838	21838	21838
<i>R</i> <sup>2</sup>	0.203	0.492	0.579	0.523	0.494	0.521

Notes: For each trade direction the ATEs refer to the summation of significant coefficients, which are also reported in **Table 2**. Robust standard errors of the coefficients in parentheses. \*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$ .

**Table A.7** Full Lag Structure: Differential Accession Impacts for Services

	(1) Gross Exports	(2) Value Added eExports (VAX)	(3) VAX by Capital	(4) VAX by Labor HS	(5) VAX by Labor MS	(6) VAX by Labor LS
<b>Services</b>						
CEEC→EU15 $_{ij,t-(t-1)}$	0.134 (0.097)	0.0182 (0.525)	0.0131 (0.618)	0.0128 (0.630)	0.0282 (0.266)	0.0182 (0.483)
CEEC→EU15 $_{ij,(t-1)-(t-2)}$	0.0743 (0.461)	0.00714 (0.829)	0.00332 (0.899)	0.0120 (0.651)	0.0170 (0.503)	0.0264 (0.309)
CEEC→EU15 $_{ij,(t-2)-(t-3)}$	-0.0275 (0.720)	0.0565* (0.0350)	0.0433 (0.100)	0.0684* (0.010)	0.0647* (0.011)	0.0607* (0.019)
CEEC→EU15 $_{ij,(t-3)-(t-4)}$	0.0786 (0.317)	0.0255 (0.372)	0.0329 (0.211)	0.0152 (0.567)	0.0267 (0.293)	0.0148 (0.568)
CEEC→EU15 $_{ij,(t-4)-(t-5)}$	-0.461*** (0.0000)	-0.0702 (0.130)	-0.0736* (0.005)	-0.0885** (0.001)	-0.0577* (0.0230)	-0.0406 (0.118)
CEEC→EU15 $_{ij,(t-5)-(t-6)}$	0.000877 (0.9910)	0.0630* (0.034)	0.0739** (0.005)	0.0434 (0.102)	0.0552* (0.030)	0.0611* (0.019)
<b>ATE: CEEC→EU15</b>	-0.461* (0.0171)	0.1195* (0.0255)	0.0003 (0.1490)	-0.0201 (0.3304)	0.0622* (0.0309)	0.1218* (0.0269)
<hr/>						
Intra-CEEC $_{ij,t-(t-1)}$	0.0250 (0.831)	0.105 (0.057)	0.0910** (0.006)	0.117*** (0.0000)	0.113*** (0.000)	0.0947** (0.0030)
Intra-CEEC $_{ij,(t-1)-(t-2)}$	-0.0459 (0.695)	0.0115 (0.789)	0.0137 (0.676)	0.0106 (0.750)	0.0298 (0.348)	0.0489 (0.131)
Intra-CEEC $_{ij,(t-2)-(t-3)}$	0.0981 (0.301)	0.0385 (0.334)	0.0177 (0.589)	0.0629 (0.058)	0.0531 (0.094)	0.0470 (0.147)
Intra-CEEC $_{ij,(t-3)-(t-4)}$	-0.0322 (0.742)	-0.0142 (0.721)	-0.0219 (0.505)	-0.00439 (0.895)	-0.0210 (0.507)	-0.0351 (0.279)
Intra-CEEC $_{ij,(t-4)-(t-5)}$	-0.340* (0.045)	0.0116 (0.860)	0.0160 (0.627)	-0.00401 (0.904)	0.000870 (0.9780)	-0.00970 (0.764)
Intra-CEEC $_{ij,(t-5)-(t-6)}$	-0.0147 (0.880)	0.134** (0.003)	0.162*** (0.0000)	0.0999** (0.003)	0.119*** (0.0000)	0.134*** (0.0000)
<b>ATE: Intra-CEEC</b>	-0.340 (0.4060)	0.1340*** (0.0075)	0.253*** (0.0005)	0.2169*** (0.0005)	0.2259*** (0.0001)	0.2287*** (0.0004)
<hr/>						
EU15→CEEC $_{ij,t-(t-1)}$	-0.0979 (0.202)	0.0523* (0.067)	0.0500* (0.057)	0.0572* (0.031)	0.0520* (0.040)	0.0598** (0.021)
EU15→CEEC $_{ij,(t-1)-(t-2)}$	-0.0911 (0.225)	-0.0171 (0.525)	-0.0191 (0.469)	-0.00413 (0.876)	-0.00422 (0.868)	-0.0181 (0.4850)
EU15→CEEC $_{ij,(t-2)-(t-3)}$	0.0570 (0.353)	-0.00434 (0.852)	0.00719 (0.785)	-0.00494 (0.852)	-0.00551 (0.828)	-0.00689 (0.7910)
EU15→CEEC $_{ij,(t-3)-(t-4)}$	0.0293 (0.6620)	-0.0133 (0.550)	-0.0227 (0.389)	-0.00518 (0.845)	-0.0182 (0.473)	-0.0135 (0.603)
EU15→CEEC $_{ij,(t-4)-(t-5)}$	-0.115 (0.3530)	0.0218 (0.540)	0.0237 (0.368)	-0.00503 (0.850)	0.0199 (0.4320)	0.0154 (0.553)
EU15→CEEC $_{ij,(t-5)-(t-6)}$	-0.0142 (0.8530)	0.0541* (0.0630)	0.0720*** (0.006)	0.0355 (0.181)	0.0456* (0.0720)	0.0416 (0.1080)
<b>ATE: EU15→CEEC</b>	0.0000 (0.4335)	0.1064 (0.1787)	0.1220* (0.0845)	0.0572 (0.2590)	0.0976 (0.1495)	0.0598 (0.2176)
<i>N</i>	21772	21840	21840	21840	21840	21840
<i>R</i> <sup>2</sup>	0.228	0.486	0.510	0.504	0.490	0.556

Notes: For each trade direction the ATEs refer to the summation of significant coefficients, which are also reported in **Table 2**. Robust standard errors of the coefficients in parentheses. \*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$ .