
WORKING PAPER 285/2025

**Understanding Trade Agreement Formation:
The Role of Global Uncertainty and
Geopolitical Closeness**

Reshma Ann Gigi



MADRAS SCHOOL OF ECONOMICS

Gandhi Mandapam Road

Chennai 600 025

India

July 2025

Understanding Trade Agreement Formation: The Role of Global Uncertainty and Geopolitical Closeness

Reshma Ann Gigi

WORKING PAPER 285/2025

July 2025

Price : Rs. 35

**MADRAS SCHOOL OF ECONOMICS
Gandhi Mandapam Road
Chennai 600 025
India**

Phone: 2230 0304/2230 0307/2235 2157

Fax: 2235 4847/2235 2155

Email : info@mse.ac.in

Website: www.mse.ac.in

Understanding Trade Agreement Formation: The Role of Global Uncertainty and Geopolitical Closeness

Reshma Ann Gigi

Abstract

Trade agreements are praised for promoting international trade and cooperation among member nations. However, as the global economy becomes more uncertain and geopolitically fragmented, countries increasingly rely on trade pacts to counteract these challenges. Under these circumstances, this paper aims to statistically measure and quantify the likelihood of countries signing trade agreements amid uncertainty and to explore whether geopolitical closeness influences this probability. The econometric approach uses a panel logit model to analyze how global uncertainty and geopolitical closeness impact the formation of trade agreements from 1990 to 2021. The results show that global uncertainty tends to increase the chances of forming trade agreements, emphasizing the role of economic integration in reducing risks during uncertain times. Additionally, geopolitical closeness significantly encourages trade agreement formation, highlighting the importance of shared political ideologies, especially in today's globalized world.

Keywords: *Trade agreements, Uncertainty, Geopolitical Closeness, Logit Model*

JEL Codes: *F15, F19, F50, C25*

MSE Monographs

- * Monograph 36/2017
Underlying Drivers of India's Potential Growth
C.Rangarajan and D.K. Srivastava
- * Monograph 37/2018
India: The Need for Good Macro Policies (4th Dr. Raja J. Chelliah Memorial Lecture)
Ashok K. Lahiri
- * Monograph 38/2018
Finances of Tamil Nadu Government
K R Shanmugam
- * Monograph 39/2018
Growth Dynamics of Tamil Nadu Economy
K R Shanmugam
- * Monograph 40/2018
Goods and Services Tax: Revenue Implications and RNR for Tamil Nadu
D.K. Srivastava, K.R. Shanmugam
- * Monograph 41/2018
Medium Term Macro Econometric Model of the Indian Economy
D.K. Srivastava, K.R. Shanmugam
- * Monograph 42/2018
A Macro-Econometric Model of the Indian Economy Based on Quarterly Data
D.K. Srivastava
- * Monograph 43/2019
The Evolving GST
Indira Rajaraman
- * Monograph 44/2025 Landscape Analysis of the Labour Market of the Freight Logistics Sector in India
Gopal Krishna Roy, Brinda Viswanathan, Ashrita. B, Madhuritha Murali and Mohit Sharma
- * Monograph 45/2025 The Fisc and India's Energy Transition
Laveesh Bhandari

Recent Issues

- * Working Paper 276/2025
Short Term Employment Transitions in Urban India: Role of Minimum Wages
Mohit Sharma and Brinda Viswanathan
- * Working Paper 277/2025
Financial Inclusion and Electricity Consumption: A Cross-Country Study of Upper-Middle and Lower-Middle Income Countries
Rajesh Barik and Parthajit Kayal
- * Working Paper 278/2025
Impact Evaluation of Cash Transfer: Case Study of Agriculture, Telangana
Sonna Vikhil and K.S. Kavi Kumar
- * Working Paper 279/2025
Weaning away from China – Trade and Welfare Implications
Devasmita Jena, Uzair Muzaffar and Rahul Nath Choudhury
- * Working Paper 280/2025
Time-Use Patterns of Youth in India (2019): NEET vs. others
Ronak Maheshwari and Brinda Viswanathan
- * Working Paper 281/2025
Determination and Analysis of Weather over Administrative Regions of India: 1951 to 2021
Anubhab Pattanayak and K.S. Kavi Kumar
- * Working Paper 282/2025
Assessing Market Liquidity Amidst Crisis: Evidence from Indian Stock Market
Sidharth J
- * Working Paper 283/2025
Mean-Variance Portfolio Optimization Using Jackknife Empirical Likelihood Estimation of Tail Conditional Variance
Rupel Nargunam and Sudheesh K. K.
- * Working Paper 284/2025
Co-residence with Adult Children and Elderly Mental Health: Evidence from India
Lakshmi Ullas and Amrita Chatterjee