

Abstracts

On the Role of Political Economy in PTA Formation for the Prospect of Global Free Trade (Job market paper)

In this paper, using a dynamic preferential trade agreement (PTA) formation model, we show that the presence of exporting lobby (export lobby) and import competing lobby (import lobby) substantially impacts the nature and extent of PTA formation. On one hand, under a free trade agreement (FTA) formation, the extent of export and import lobby generates exclusion incentive of members and free riding incentive of nonmember that constrains the expansion to global free trade. On the other hand, in a customs union (CU) formation game, we show that only exclusion incentive of CU members constrains expansion to global free trade. To this end, we propose a relatively flexible trade model that integrates competing exporters and competing importers model in a unified framework. This hybrid trade model has important implications on PTA member's external tariff that drives exclusion incentive and free riding incentive. In addition, we endogenize the choice between FTA and CU to show that export and import lobby generates tension between flexibility benefit of FTA and coordination benefit of CU. These tensions reveal that, while the ability to form FTA always serve as PTA building block relative to CU formation only, but CU may serve as PTA building block or PTA stumbling block relative to FTA formation only. These merits of FTA may explain a striking phenomenon that more than 90% of PTAs take the form of FTAs.

Role of Economies of Scale on the Extent of PTA Formation

In this paper, we look at the nature of economies of scale, and its implication on Preferential Trade Agreement (PTA) formation. We endogenize the choice of Free Trade Agreement (FTA) and Custom Union (CU), the two types of PTAs. Using Markov perfect equilibrium concept, we analyze a dynamic setting, and observe that countries develop exclusion incentive, free riding incentive across different levels of economies of scale that prevents free trade from emerging. In addition, countries also generate myopic and farsighted incentives across different patience levels that dictates the evolution of trade agreement formations. Merging all incentives, the countries consider flexibility benefit under FTA and myopic and farsighted coordination benefit under CU, that reveals a striking phenomenon: the ability to form FTA never hurts the prospects of free trade, while the ability to form CU may serve as PTA stumbling block.

Bilateralism vs Multilateralism: Role of Political Economy for the Prospect of Global Free Trade

In this paper, using a static endogenous trade agreement formation model coupled with coalition proof Nash equilibrium (CPNE) concept, we investigate how the freedom to pursue free trade agreements (FTAs) affects the prospect of global free trade in the presence of heterogeneity in political pressures from exporting and import competing sectors. To this end, we propose a relatively flexible trade model where countries can be sole exporter, sole importer, competing exporters in some sectors and competing importers in other sectors. To the best of our knowledge, this paper is the first paper integrating competing exporters and competing importers models in a unified framework with endogenous trade agreement formation where political pressures for trade policy setting and trade agreement formation arise both from exporting and import competing sectors. We first show that as the relative strengths of import and export lobby change, the nature and extent of equilibrium trade agreement responds and thus the ability to form bilateral FTAs can act as building or stumbling blocks. When import lobby is sufficiently strong relative to export lobby, there exists no incentive to form bilateral FTAs while two countries always have incentives to form an agreement in a multilateral basis. Under such a case, we argue that FTAs act as partial stumbling blocks. As the strength of the export lobby increases, bilateral FTAs arise while global free trade is a CPNE under multilateralism, implying that FTAs act as strong stumbling blocks. Finally, when export lobby is sufficiently weak and import lobby is moderately strong, free trade emerges only when countries are able to form FTAs, implying that FTAs act as strong building blocks.