Trade Blocs: Economics and Politics

Preferential trade blocs are in vogue. Despite the successes achieved in liberalizing trade by multilateral trade negotiations sponsored by the World Trade Organization (WTO), numerous countries have separately negotiated preferential trade treaties with one another. Representing a significant departure from the WTO’s central principle of non-discrimination among member countries, preferential trade blocs are now the subject of an intense academic and policy debate. The first section of this book presents a rudimentary and intuitive introduction to the economics of preferential trade agreements. The following chapters present the author’s theoretical and empirical research on a number of questions surrounding the issue of preferential trade agreements, including the design of necessarily welfare-improving trade blocs, the quantitative (econometric) evaluation of the economic (welfare) impact of preferential trade liberalization, and the impact of preferential trade agreements and the multilateral trade system.

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Contents

List of Figures  page viii
List of Tables  ix
Acknowledgments  xi

1 Introduction and Overview  1
  1.1 Objectives  1
  1.2 Outline and Summary of Major Results  7

2 The Economics of Preferential Trade Areas  11
  2.1 Trade Creation and Trade Diversion  14
  2.2 Revenue-Transfer Effects  19

3 Necessarily Welfare-Improving Preferential Trade Areas  23
  3.1 Customs Unions  25
    3.1.1 Non-Economic Objectives  29
## Contents

3.2 Free Trade Areas 36  
3.2.1 Partial Equilibrium Analysis 37  
3.2.2 Proof in the General Case 45  
3.2.3 Intermediate Inputs 50  
3.2.4 Rules of Origin Necessary to Prevent Trans-Shipments 52  
3.3 Implementation 57  
3.3.1 Barriers to Trade with Non-Members 58  
3.3.2 Internal Barriers to Trade 61  
3.3.3 Rules of Origin 63  

4 Geography and Preferential Trade Agreements: The "Natural" Trading Partners Hypothesis 69  
4.1 Modeling Preferential Trade Liberalization: Theory 74  
4.2 Modeling Preferential Trade Liberalization: Econometrics 79  
4.3 Data and Estimation Results 91  
4.3.1 Data 91  
4.3.2 Estimation Results 93  

5 Preferential Trading and Multilateralism 107  
5.1 Endogenous PTAs and Multilateralism: A Lobbying Model 108  
5.1.1 Bilateral Tariff Reductions 115  
5.1.2 Multilateral Tariff Liberalization 124  

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## Contents

5.2  Endogenous PTAs and Multilaterism: A Median Voter Model 132

5.2.1  Domino Effects 136

### Appendices

Appendices 139

References 183

Index 193
Figures

2.1 Trade-Creating Tariff Preferences  page 15
2.2 Trade-Diverting Tariff Preferences  16
2.3 Revenue-Transfer Effects  20
3.1 Welfare-Improving PTA Design  38
3.2 Welfare-Improving PTAs with Internal Production  41
4.1 Welfare Changes and Distance: Laspeyeres Index  102
4.2 Welfare Changes and Distance: Fisher Ideal Index  103
5.1 Trade Diversion and Preferential Liberalization  122
5.2 PTAs and Incentives for Multilateral Liberalization  130
5.3 Median Voter Choices: PTA vs. Multilateral Free Trade  135
# Tables

4.1 ML Estimates of Own- and Cross-Price Effects: Laspeyres Index

<table>
<thead>
<tr>
<th>Page</th>
</tr>
</thead>
<tbody>
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<td>Laspeyres Index</td>
</tr>
</tbody>
</table>

4.2 ML Estimates of Own- and Cross-Price Effects: Fisher Ideal Index

<table>
<thead>
<tr>
<th>Page</th>
</tr>
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<td>Fisher Ideal Index</td>
</tr>
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</table>

4.3 Testing the “Natural Trading Partners” Hypothesis

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<td>“Natural Trading Partners” Hypothesis</td>
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In the last decade, much academic and policy attention has been focused on how to design institutions that would induce nations toward the widely held ideal of global free trade. Given the rapid proliferation of preferential trading agreements (PTAs) both implemented and proposed in this period, it is not surprising that much of this discussion centered on the desirability of preferential trading. Many old questions relating to the economic consequences of preferential trade blocs have been revisited, and several new questions have emerged concerning the impact of trade blocs on the multilateral trade system. This book presents the results of some of my research on these questions.

Although I have accumulated many intellectual debts in the course of this work, I am especially beholden to Jagdish Bhagwati, who first turned my attention to the issue of...
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Brown University was my home institution for the last several years (1995–2004). During the course of this research, I also spent a year (1997–1998) at Stanford University, took up an appointment as John Olin Visiting Professor at the University of Chicago (2000–2001), and spent another year (2002–2003) as visiting fellow at the International Economics Section at Princeton University. These were all very stimulating research environments and I remain most grateful for their intellectual and financial support and for their hospitality.