

“Feasible Multilateralism and the Effects of Regionalism”

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Recent research has underlined the efficiency of the GATT/WTO rules from the standpoint of politically motivated governments, emphasizing that the current multilateral rules are capable of delivering a politically efficient equilibrium. Such equilibrium may, however, be economically inefficient. Global free trade, in particular, is unattainable even in a fully cooperative world, provided that governments have distributive motivations. In such a context, we show that regional trade agreements can help move the world towards a better, welfare superior, equilibrium. The reason is that members of regional trade agreements tend to reduce their multilateral tariffs as they lower trade barriers against their regional partners. Once we account for these endogenous changes---and only then---we find that regionalism can raise world welfare even in a fully cooperative (but political) world.

JEL Classification: F13, F15, D72, O19.

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