A theory of new trade agreements

Date: Thursday, 1 March – 2 pm

Venue: Seminar Room, Department of Economics and Management

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Abstract

This paper develops a model where countries set quality standards to solve the externalities associated with the consumption of goods. Countries differ in their assessment of the externality and set different standards in autarky. When opening to trade, both countries can stick to their standard, accept the other country’s standard (mutual recognition) or negotiate a middle way (harmonization). We show that trade is not necessarily welfare enhancing when countries choose very different standards in autarky and that a comparison of autarky prices is not sufficient to determine the effects of international trade. The model captures some of the key trade policy issues which emerged during TTIP and CETA negotiations, helping to guide the evaluation of deep trade agreements.