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Self-Enforcing Trade Agreements and Lobbying

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Abstract

In an environment where international trade agreements must be enforced via promises of future cooperation, the presence of an import-competing lobby has important implications for optimal punishments. When lobbies work to disrupt trade agreements, a Nash reversion punishment scheme must balance two conflicting objectives. Longer punishments help to enforce cooperation by increasing the government's costs of defecting, but, because the lobby prefers the punishment outcome, this also incentivizes lobbying effort and with it political pressure to break the agreement. Thus the model generates an optimal length for Nash reversion punishments, and it depends directly on the political influence of the lobbies. Trade agreement tariffs are shown to be increasing in the political influence of the lobbies, as well as their patience levels.

Keywords:

trade agreements, lobbying, optimal punishments, repeated games, enforcement

1. Introduction

In the absence of strong external enforcement mechanisms for international trade agreements, we generally assume that cooperation is enforced by promises of future cooperation, or, equivalently, promises of future punishment for exploitative behavior. When repeated-game incentives are used to enforce cooperation and prevent players from defecting in a prisoner's dilemma-style stage game, the strongest punishment is

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