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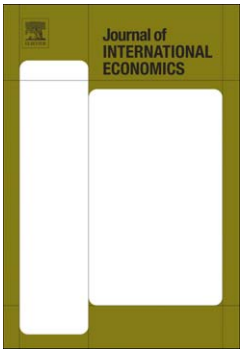

Reciprocity in Trade Negotiations and Welfare

Pascalis Raimondos, Alan Woodland

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ACCEPTED MANUSCRIPT

Reciprocity in Trade Negotiations and Welfare

Pascalis Raimondos*†
Queensland University of Technology

Alan Woodland‡
University of New South Wales

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Abstract. We propose a reciprocity rule for use in multilateral trade policy negotiations that is guaranteed to raise welfare of all participating countries under minimal assumptions. Our reciprocity rule requires all countries to raise the quantities of their net imports by the same proportion. We show that, starting from a Nash tariff equilibrium, a tariff reform that delivers proportional increases in all countries' net imports will unambiguously raise welfare in each country. The structure imposed by the quantity-based reciprocity rule delivers this strong welfare result for a household welfare maximizing government without concern for general equilibrium price impacts. However, it does not generalize to the wide range of political economy welfare functions handled by Bagwell and Staiger.

JEL Classification: F02, F13, F15.

Keywords: Trade negotiations, reciprocity, tariff reform.

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†*Corresponding author*: School of Economics and Finance, QUT, Brisbane QLD 4000, Australia. *Telephone:* 61-7-3138-1014, *E-mail:* pascalis.raimondos@qut.edu.au.

‡School of Economics, University of New South Wales, Sydney, NSW 2052, Australia. *Telephone:* 61-2-9385-9707, *E-mail*: a.woodland@unsw.edu.au.

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