

Economic Integration and Rules of Origin under International Oligopoly

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Abstract

Free trade areas (FTAs) have rules of origin (ROOs) to prevent tariff circumvention by firms of non-member countries. This paper points out that in imperfectly competitive markets, ROOs have another role which has been overlooked in the existing literature. We examine the effects of ROOs on profits, prices, tariff revenue, and welfare. Under some conditions, ROOs benefit the firm producing a good originating outside the FTA and hurt the firm producing a good originating within the FTA. Under some other conditions, ROOs generate a collusive effect. Our analysis also sheds light on the FTA versus customs union comparison.

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