Globalization and Cooperation in Trade Policy

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Abstract

This paper analyzes a relationship between trade costs and tariff policy, and explores the effects of globalization on tariff determined by governments. Traditional trade theory has augured the situation where trade policy setting by governments for national welfare induce higher tariff than cooperative trade policy. This result is caused by externality on exports of foreign country and also observed in this paper. We construct simple two country model with trade costs and show that globalization in terms of decreasing trade costs induces non cooperative governments to employ the trade policy preventing international trade. In contrast, under the cooperative trade policy setting, the governments tend to agree to remove trade barriers and implement the policy to generating international trade with the progress of globalization.

JEL classification: F12, F13, F68
Keywords : Trade Costs, Tariff Policy, Cooperative Trade Policy, Imperfect Competition

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