

Wasteful Trade Barriers in Oligopoly

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Abstract

Trade barriers are known to exist in various forms, not limited to tariffs. Based on a bilateral trade model under international oligopolistic competition, we show that RTBs can always exist under which governments can endogenously determine red tape barriers (RTBs), which are trade barriers caused by wasteful administrative procedures. We also find that RTBs can have the opposite reaction to tariffs. In particular, we find that the fall in the RTBs level can be larger than the rise in tariffs (Backlash effects) and hence lower total trade costs, and that tariff increases improve consumer and social surpluses in this case.

Keywords: Red-tape Barriers(RTBs), Oligopolistic Competition, Backlash, Welfare.

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