

GEOPOLITICS AND THE WORLD TRADING SYSTEM

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- Albert Hirschman, in his 1945 book on National Power and the Structure of Foreign Trade
 - *Foreign trade would lead to relationships of dependence and influence between nations.*

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 - To continue to serve as a forum for trade cooperation, the WTO may need to undertake measured adaptation of its key principles (the reciprocity norm and the nondiscrimination rule)
- These findings are robust to broader interpretations of geopolitics that include government concerns about *dependence* in addition to the quest for dominance

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 - It follows that

$$\begin{aligned}p &= (1 + \tau)p^w \equiv p(\tau, p^w) \\ p^* &= p^w/(1 + \tau^*) \equiv p^*(\tau^*, p^w)\end{aligned}$$

with $p^w(\tau, \tau^*)$ decreasing in τ and increasing in τ^* under standard conditions

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- Mirrors reduced form formalization of rivalry in the IR literature (Snidal, 1991); could be micro-founded with the addition of a second period where war is possible (Powell, 1991)

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- Intuition: Beginning from original Nash tariffs where each gov is indifferent to a small increase in its tariff, the introduction of rivalry causes each gov to want to increase its tariff further to hurt its rival

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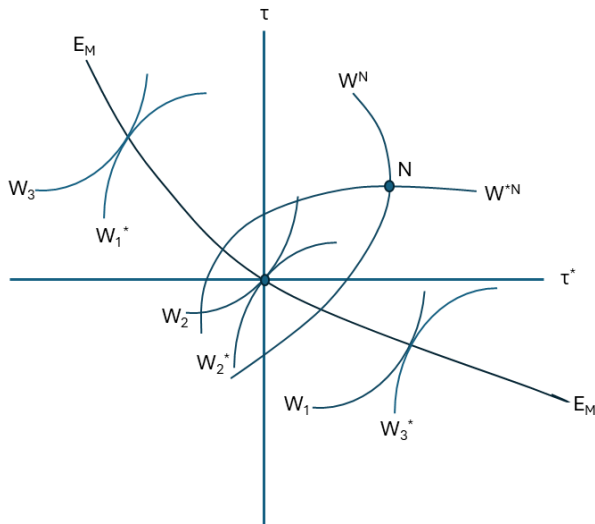
- Forming the Lagrangian, taking FOCs and eliminating the Lagrange multiplier yields

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Figure 1: Internationally Efficient Tariffs in the Absence of Rivalry



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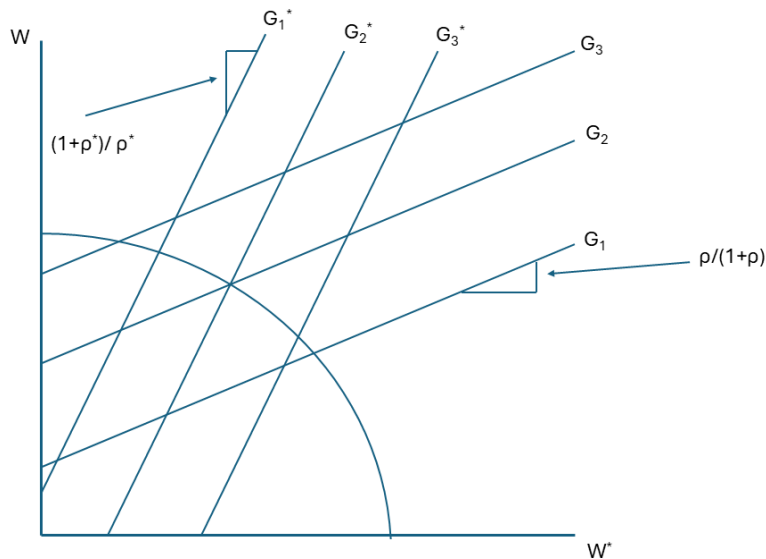
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- **Proposition 2** *The rise of geopolitical rivalry leaves the set of internationally efficient tariff pairs unchanged.*

Figure 2: The International Efficiency Frontier



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- **Proposition 3** *A role for trade policy cooperation persists in the presence of geopolitical rivalry unless domination becomes the sole objective of each rival.*

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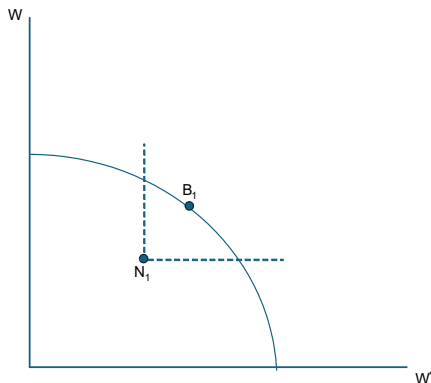
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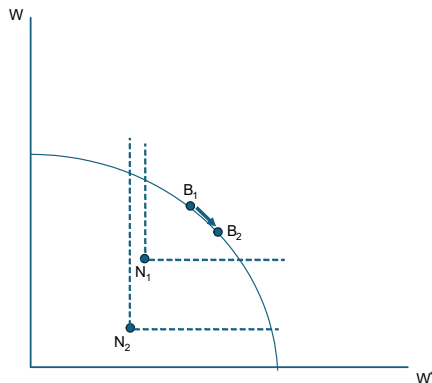
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Responding to the Rise of Geopolitics (Nash Bargaining)



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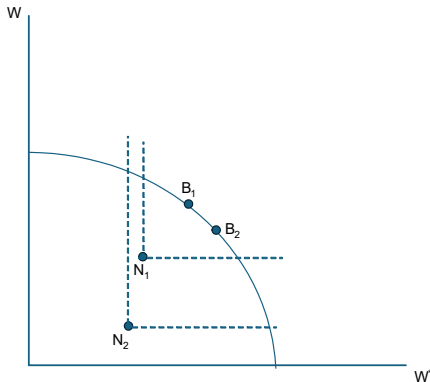
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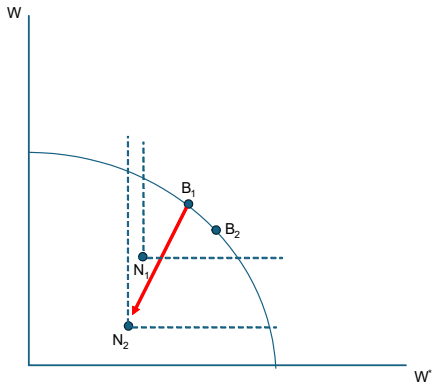
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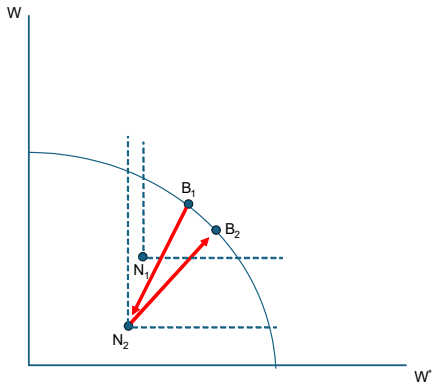
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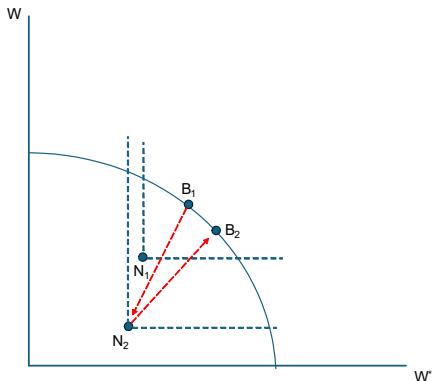
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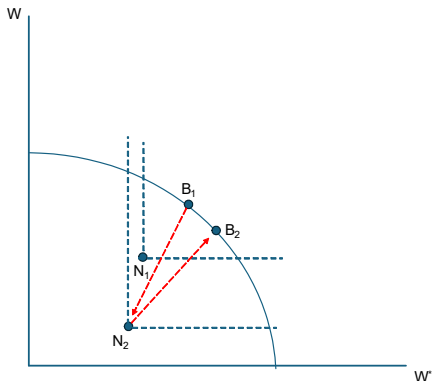
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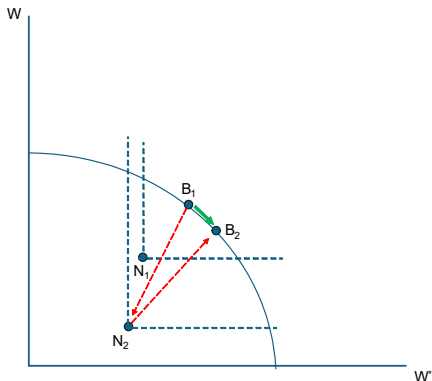
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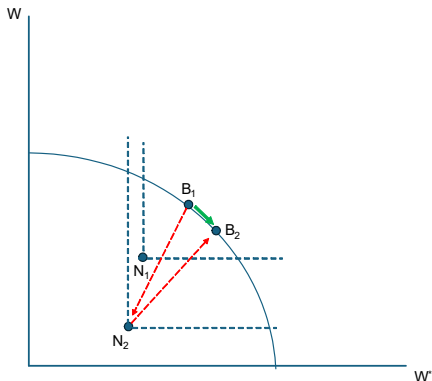
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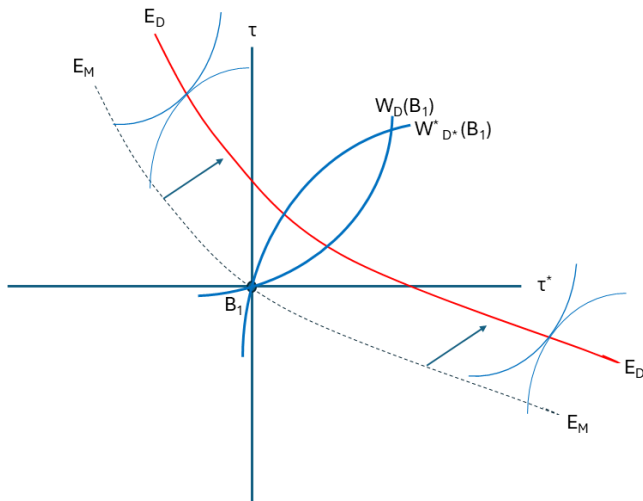
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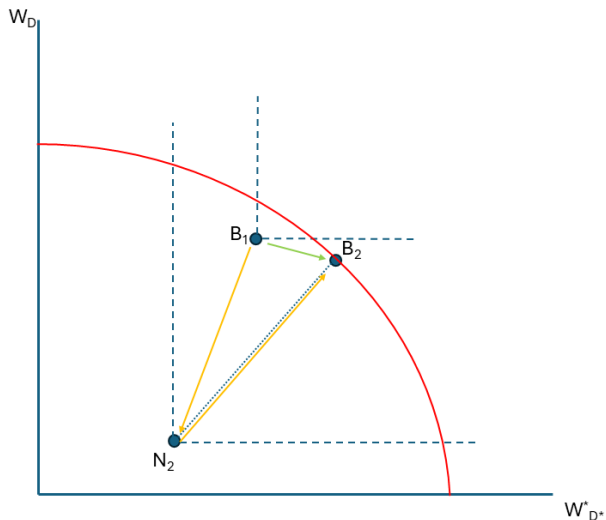


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- Figure 5: Responding to the Rise of New Concerns Over Both Dominance and Dependence

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- **Proposition 8** *It is not possible for two rival countries to make non-discriminatory tariff adjustments that transfer surplus between them without altering the surplus of the neutral third country, but this would be possible if the rival countries could make use of discriminatory tariff adjustments.*

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