

Syllabus

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Course: Topics in International Trade: Trade Policy and International Trade Agreements

Professor: Emanuel Ornelas

2017 JULY

PROGRAM

This course will cover advanced topics in trade policy, with a focus on the economics of international trade agreements. We will discuss the instruments of trade policy, their effects on resource allocation, and the political economy factors that shape them, with an emphasis on the driving forces and the consequences of multilateral and regional trade integration.

Observe that the course **International Trade** is *not* a pre-requisite for this course.

BIBLIOGRAPHY

The following texts are useful:

- K. Bagwell & R. W. Staiger (eds.), Handbook of Commercial Policy, Elsevier/North Holland, , 2016. (HNB)
- Bagwell, K. and R. W. Staiger, The Economics of the World Trading System, MIT Press, 2002. (B&S)
- Feenstra, R.C., Advanced International Trade: Theory and Evidence, Princeton University Press, 2004. (F)

In the following list, the readings marked with a "*" are the most likely to be covered in class.

I. Trade Policy: Facts and Effects

* HNB, part A, ch. 1, by C.P. Bown & M.A. Crowley.

* HNB, part A, ch. 3, by P.K. Goldberg, N. Pavcnik.

Caliendo, Lorenzo, Robert C. Feenstra, John Romalis, and Alan M. Taylor. "Tariff Reductions, Entry, and Welfare: Theory and Evidence for the Last Two Decades." NBER WP 21768, 2015.

* Lileeva, A. and Trefler D. (2010). "Improved Access to Foreign Markets Raises Plant-Level Productivity... for Some Plants." Quarterly Journal of Economics, 125(3), 1051-1099.

II. Basic Theory of Trade Policy

F, Ch. 7-8.

Brander, J. "Strategic Trade Policy," in G. Grossman & K. Rogoff (eds.), *Handbook of International Economics* v.3, 1995.

Broda, C., Limao, N. and D. Weinstein. "Optimal Tariffs and Market Power: The Evidence," *AER* 98(5): 2032-2065, 2008.

III. The Political Economy of Trade Policy

* G. Grossman and E. Helpman. "[Protection for sale](#)," *AER*, 833-850, 1994.

* Goldberg, P. K. and G. Maggi. "[Protection for sale: An empirical investigation](#)," *AER*, 1135-1155, 1999.

HNB, part A, ch. 2, by J. McLaren.

Ludema, R., A. M. Mayda and P. Mishra. "Protection for Free? The Political Economy of U. S. Tariff Suspensions," mimeo, Georgetown (March 2016).

Trefler, D. "Trade Liberalization and the Theory of Endogenous Protection - an Econometric Study of United-States Import Policy," *JPE* 101(1), 138-160, 1993.

IV. The Economics of Trade Agreements: Overview, institutional background, and some empirics

B&S, Ch. 1-3.

* K. Bagwell and R. Staiger. "[The World Trade Organization: Theory and Practice](#)," *Annual Review of Economics*, 223-256, 2010.

* Maggi, G. "International Trade Agreements," in E. Helpman, K. Rogoff and G. Gopinath (eds.), *Handbook of International Economics* v.4, Elsevier: North Holland, Chapter 6, pp. 317-390, 2014.

Bagwell, K., C. Bown and R. Staiger. "Is the WTO Passé?" *Journal of Economic Literature*, 2016.

HNB, part A, ch. 7, by G. Grossman.

HNB, part A, ch. 8, by K. Bagwell, R.W. Staiger.

* A. Rose. "Do We Really Know That the WTO Increases Trade?" *American Economic Review* vol. 94(1), 98-114, 2004.

* Subramanian, A. and S. J. Wei. "The WTO Promotes Trade, Strongly but Unevenly," *JIE* 72(1), 151-175, 2007.

Eicher, T. & Henn, C. "In search of WTO trade effects: Preferential trade agreements promote trade strongly, but unevenly," *JIE* 83(2), 137-153, 2011.

V. Dumping & Anti-dumping Policies

F, Ch. 7.

HNB, part B, ch. 3, by B.A. Blonigen, T.J. Prusa.

Blonigen, B., and S. Haynes. "Antidumping Investigations and the Pass-Through of Exchange Rates and Antidumping Duties." *AER* 92, 1044-1061, 2002.

■ See also *comment* by B. Kelly (2010, *AER*)

Blonigen, B. and J.H. Park. "Dynamic Pricing in the Presence of Antidumping Policy: Theory and Evidence," *AER* (March 2004).

VI. The biggest trade policy shock ever: the end of the MFA

Harrigan, J. and G. Barrows (2009). "Testing the Theory of Trade Policy: Evidence from the Abrupt End of the Multifiber Arrangement." *Review of Economics and Statistics* 91, 282-294.

Khandelwal, A., P. Schott and S.-J. Wei (2013). "Trade Liberalization and Embedded Institutional Reform: Evidence from Chinese Exporters." *AER* 103(6), 2169-95.

Defever, F. and E. Ornelas (2016). "Trade Liberalization and Third-Market Effects," mimeo.

VII. The Terms-of-Trade Theory of Trade Agreements

B&S, Ch. 4-6.

* Bagwell, K. and R.W. Staiger. "An Economic Theory of GATT," *AER* (March 1999).

Grossman, G. and E. Helpman. "[Trade wars and trade talks](#)," *JPE*, 675-708, 1995.

* Bagwell, K. and R.W. Staiger. "What Do Trade Negotiators Negotiate About? Empirical Evidence from the World Trade Organization," *AER* (June 2011).

Ludema, R. and A.M. Mayda. "Do terms-of-trade effects matter for trade agreements? Theory and evidence from WTO countries," *QJE*, 128 (4), 1837-1893, 2013.

VIII. The Commitment Theory of Trade Agreements

* Maggi, G. and A. Rodriguez-Clare, "[The value of trade agreements in the presence of political pressures](#)," *JPE* (June 1998).

Maggi, G. and A. Rodriguez-Clare, "A Political-Economy Theory of Trade Agreements," AER (Sept. 2007).

IX. The Market Power View of Trade Agreements

Ossa, R. "A 'New Trade' Theory of GATT/WTO Negotiations," JPE (Feb. 2011).

Ossa, R. "Trade Wars and Trade Talks with Data." AER 104(12): 4104-46, December 2014.

Mrazova, Monika. "Trade Agreements when Profits Matter," mimeo, 2011.

X. Developing Countries in the World Trading System

Ozden, C. and E. Reinhardt. "The perversity of preferences: GSP and developing country trade policies, 1976–2000." Journal of Development Economics 78 1–21, 2005.

Hakobyan, Shushanik. "Accounting for Underutilization of Trade Preference Programs: The U.S. Generalized System of Preferences," CJE 48(2), 2015.

Frazer, Garth and Johannes Van Biesebroeck. 2010. "Trade Growth under the African Growth and Opportunity Act." Review of Economics and Statistics 92(1), 128-144.

HNB, part B, ch. 7, by E. Ornelas.

XI. The Political Economy of Regional Trade Agreements

* Freund, C. and E. Ornelas. "Regional Trade Agreements," Annual Review of Economics (Volume 2, 2010).

* Grossman, G. and E. Helpman. "The Politics of Free Trade Agreements," AER 85: 667-90, 2005.

* Krishna, P. "Regionalism and Multilateralism: A Political Economy Approach," QJE 113: 227-51, 1998.

* Ornelas E. "Rent destruction and the political viability of free trade agreements," QJE 120: 1475-506, 2005.

Ornelas E. "Trade Creating Free Trade Areas and the Undermining of Multilateralism." EER 49(7), 1717-1735, 2005.

Ornelas, E. "Feasible Multilateralism and the Effects of Regionalism," JIE 74(1), 2008.

Liu, X. and Ornelas, E. "Free Trade Agreements and the Consolidation of Democracy." AEJ Macro, 2014.

XII. The Empirics of Preferential vs. Multilateral Liberalization

* Limao, N. "Preferential Trade Agreements as Stumbling Blocks for Multilateral Trade Liberalization: Evidence for the U.S." AER 96: 896-914, 2006.

Karacaovali, B., Limao N. "The clash of liberalizations: preferential vs. multilateral trade liberalization in the European Union." JIE 74: 299-327, 2008.

* Estevadordal, A., Freund, C. and E. Ornelas. "Does Regionalism Affect Trade Liberalization toward Non-Members?" QJE 123: 1531-75, 2008.

Calvo-Pardo H., Freund C., Ornelas E. "The ASEAN free trade agreement: impact on trade flows and external trade barriers." In R. Barro, J. Lee (eds.), Costs and Benefits of Regional Economic Integration. Oxford: Oxford University Press, 2010.

Fuggaza, M., Robert-Nicoud F. "The emulator effect of the Uruguay Round on U.S. regionalism." Review of International Economics, 22(5), 1049-1078, 2014.

* Ketterer, T., D. Bernhofen, and C. Milner. "Preferences, rent destruction and multilateral liberalization: The building block effect of CUSFTA." JIE 92, 63-77, 2014.

* Crivelli, P. "Regionalism and Falling External Protection in High and Low Tariff Members." JIE, 2016.

XIII. Gravity Estimations of the Causes and the Determinants of RTAs

HNB, part B, ch. 6, by N. Limao.

Baier S., Bergstrand J. "Economic determinants of free trade agreements." JIE 64: 29-63, 2004.

Baier S., Bergstrand J. "Do free trade agreements actually increase members' international trade?" JIE 71: 72-95, 2007.

Time permitting:

XIVa. Outsourcing

Antras, P. and R. Staiger. "Offshoring and the Role of Trade Agreements," AER (Dec. 2012).

E. Ornelas and J. Turner. "Protection and International Sourcing," Economic Journal 122(559), 26-63, 2012.

Antras, P. and R. Staiger. "Trade Agreements and the Nature of International Price Determination," AER P&P (May 2012).

XIVb. Enforcement

Maggi, G. "The Role of Multilateral Institutions in International Trade Cooperation," AER (March 1999).

Bown, C. "On the Economic Success of GATT/WTO Dispute Settlement," REStat (August 2004).

Bown, C. and M. Crowley. "Self-Enforcing Trade Agreements: Evidence from Time-Varying Policies," AER 103(2): 1071-90, 2013.

XIVc. Trade Policy Uncertainty

Handley, Kyle. 2014. "Exporting under trade policy uncertainty: Theory and evidence." Journal of International Economics 94, 50-66.

Handley, Kyle, and Nuno Limao. 2015. "Trade and Investment under Policy Uncertainty: Theory and Firm Evidence." American Economic Journal: Economic Policy 7(4), 189-222.

Pierce, J. and P. Schott. "The Surprisingly Swift Decline of U.S. Manufacturing Employment." American Economic Review 106, 7, 1632-62.

HNB, part B, ch. 6, by N. Limao.

GRADING

There are three course requirements: (i) an examination at the end of the course (50 points); (ii) two "referee reports" on (preferably unpublished) articles, in the syllabus (not discussed in class) or not, which needs to be approved by me beforehand (30 points); (iii) participation in class discussions and in the international conference, and occasional homeworks (20 points).

PROFESSOR - EMAILS

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DETAILED PROGRAM

(tentative)

Class #	date	time	content
1	03/jul	14.00-15.50	Introduction; Trade Policy: Facts and Effects
2-3	05/jul	14.00-17.40	Basic theory of trade policy; The political economy of trade policy I
4	07/jul	14.00-15.50	The political economy of trade policy II; Empirical analyses of the political economy of trade policy
5	10/jul	14.00-15.50	Anti-dumping policies
6-7	12/jul	14.00-17.40	General view on the economics of trade agreements; Trade agreements and terms of trade; Empirical analyses of trade agreements
8	17/jul	14.00-15.50	The economics of preferential trade agreements
9-10	19/jul	14.00-17.40	The political economy of preferential trade agreements
11	21/jul	14.00-15.50	Empirical analyses of regional trade integration
12-13	24/jul	14.00-17.40	The consequences of trade liberalization
14-15	31/jul	14.00-17.40	Examination