

# Trade Agreements, Incomplete Contracts and Offshoring

A Mini Course: CESifo Munich, March 25-27 2014

## Abstract

I present three self-contained but related lectures. In a first lecture, I begin with the observation that there are many puzzling features of real-world trade agreements -- relating to (i) the design of rules, (ii) the settlement of disputes and (iii) the prominence of renegotiation -- that are hard to square with a complete contracts perspective. I ask: Can the design and operation of trade agreements be understood from an incomplete contracts perspective? My focus is on rules (Horn, Maggi and Staiger, 2010), disputes (Maggi and Staiger, 2011) and renegotiation (Maggi and Staiger, forthcoming). In a second lecture I focus further on explaining the outcomes of trade disputes (Maggi and Staiger, 2013). In a third lecture, I start with a fundamental question for modern research on commercial policy: What is the purpose of international trade agreements? I describe two broad views: internalizing international policy externalities, and helping governments make commitment to their own private sectors. I observe that the first view dominates in accounting for observed features of trade agreements; but there remains the question, what form does the international externality take? And if the form of the externality changes, must trade agreements change to remain successful? I then emphasize two themes. First, the nature of international price determination is a key determinant of the nature of the international externality, and it can have a profound impact on the design of an effective trade agreement (Antràs and Staiger, 2012a). And second, the rise of offshoring may alter the design of effective trade agreements through its impact on the nature of price determination (Antràs and Staiger, 2012b).

## Readings

Antràs and Staiger (2012a), "[Trade Agreements and the Nature of Price Determination](#)," American Economic Review Papers and Proceedings, May.

Antràs and Staiger (2012b), "[Offshoring and the Role of Trade Agreements](#)," American Economic Review, December.

Bagwell and Staiger (2001), "[Domestic Policies, National Sovereignty and International Economic Institutions](#)," Quarterly Journal of Economics, May.

Horn, Maggi and Staiger (2010), "[Trade Agreements as Endogenously Incomplete Contracts](#)," American Economic Review, March.

Maggi and Staiger (2011), "[The Role of Dispute Settlement Procedures in International Trade Agreements](#)," Quarterly Journal of Economics, February.

Maggi and Staiger (2013), "[Trade Disputes and Settlement](#)," mimeo, November.

Maggi and Staiger (forthcoming), "[Optimal Design of Trade Agreements in the Presence of Renegotiation](#)," American Economic Journal: Microeconomics, forthcoming.