Regional Free Trade Networks

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Abstract

We consider endogenous free trade network formation and tariff determina-
tion under asymmetric transport costs. We discuss a three-stage model where
countries form an FTA network, which is the collection of FTAs established be-
tween countries, in the first stage, the countries determine the tariff-rates in the
second stage, and firms engage in Counot competition in the third stage. We
derive pairwise stable networks and socially efficient networks in which the sum
of welfare of all countries is maximized. Moreover, we compare stable networks
and socially efficient networks.

**Keywords: Free trade agreements, Tariff, Transport costs, Net-
work formation**

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