The Political Economy of Noncompliance
in Common Markets

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Abstract
States create common markets to accrue consumer welfare gains. Given incentives to cheat to protect domestic firms from foreign competition, they create international regulatory regimes to manage noncompliance. I develop a formal model that explains how the politics of compliance in regulatory regimes systematically distorts the welfare gains that states accrue from developing common markets. The model predicts that regulatory regimes are most effective at enforcing compliance (i.e., at reducing trade barriers) in sectors with intermediate levels of firm homogeneity in terms of productivity. In highly homogenous sectors, regulatory regimes are not effective because noncompliance is minimal enough that litigation is not cost-effective; in highly heterogenous sectors, regulatory regimes are not effective because courts, concerned about noncompliance with their rulings, are unlikely to rule against defendants, deterring plaintiffs from bringing cases. The model also predicts the downstream consequences for the performance of individual firms and consumer welfare.
States create common markets — a form of economic integration in which a regional trade bloc eliminates internal trade barriers — to improve consumer welfare.¹ Common markets improve consumer welfare by altering the composition of the economy: productive, exporting firms gain market share at the expense of unproductive, import-completing firms, causing prices to drop (Melitz 2003; Chaney 2008).² However, governments also have political incentives to cheat by imposing discriminatory trade barriers that protect those unproductive, import-completing firms from foreign competition, reducing the impact of the common market on their profitability. Given the incentives for noncompliance, under what conditions do common markets actually generate welfare gains?

To answer this question, we need to take into account the politics of compliance. Aware of the incentives to protect domestic firms, states rationally design international regulatory regimes to manage noncompliance. In particular, they create international courts to adjudicate disputes over noncompliance. Common markets generate welfare gains when regulatory regimes are effective at enforcing compliance with rules of the market. But these regimes only work when litigants are willing to bring cases and courts are willing to rule against defendants. In practice, there is systematic bias in the noncompliance cases that are litigated (König and Mäder 2014; Fjelstul and Carrubba 2018).

In this paper, I show that common markets are most welfare-enhancing in sectors of the economy where firms are highly heterogenous in terms of their productivity; this is when states are most tempted to erect trade barriers, and therefore when an agreement to eliminate trade barriers does the most to enhance consumer welfare. However, this is also when regulatory regimes are least effective at enforcing compliance (i.e., at reducing trade barriers), undermining the productivity gains that states actually accrue in practice. When the potential economic gains are greatest, the politics are most pernicious.

¹ Trade barriers include tariffs and non-tariff barriers, such as quantitative restrictions and product standards that de facto discriminate against foreign goods.
² Productive firms have lower marginal costs, and they pass on these savings to consumers in the form of lower prices.
To identify the economic conditions under which common markets improve consumer welfare, given the politics of compliance in regulatory regimes, I embed a model of international trade (with firms and consumers) in a model of compliance (with governments, litigants, and a court). I do this by micro-founding the costs of compliance in the economy of the trade model. This allows the costs of compliance to be a function of the distributive consequences of trade liberalization: productive, exporting firms gain market share at the expense of unproductive, import-competing firms. I model governments as having politically motivated preferences over economic outcomes. The trade barriers they choose to impose can then affect those outcomes.

The model predicts the sectors of the economy in which regulatory regimes will be effective at reducing trade barriers as well as the downstream consequences for the performance of individual firms and for consumer welfare gains. Regulatory regimes are most effective at reducing trade barriers in sectors with intermediate levels of firm homogeneity. These are therefore the sectors in which the distributive consequences of a common market are highest and in which member states accrue the largest welfare gains. In highly homogenous sectors, regulatory regimes are not effective because noncompliance is minimal enough that litigation is not cost-effective; in highly heterogenous sectors, regulatory regimes are not effective because courts, concerned about noncompliance with their rulings, are unlikely to rule against defendants, deterring plaintiffs from bringing cases.

The question of how common markets actually affect the political economy of regional blocs is critical to our understanding of the modern global economy. Given the on-going deadlock in World Trade Organization (WTO) negotiations, states have increasingly turned to regional integration as an alternative, which has resulted in a proliferation of common markets. The success of the European Union (EU) — the world’s second largest economy — has also encouraged other regional blocs to develop their own common markets. Currently, 79 states are members of a (semi-)functional common market. Another 42 states are members of regional economic organizations that have announced plans to develop a common market (see Figure 1).
In sum, this paper contributes to the literature on international institutions by developing a theoretical account of how the politics of compliance in international regulatory regimes affects the original economic objective — the development of a complete common market — that the regime was created to achieve. The model predicts the types of sectors — those with intermediate levels of homogeneity — in which regulatory regimes will be more effective. It also predicts the downstream consequences for the performance of individual firms and consumer welfare gains.

**International Regulatory Regimes**

Noncompliance with the rules of common markets (i.e., the imposition of trade barriers) is very common, even in the EU (König and Mäder 2014). To manage noncompliance, states rationally design international regulatory regimes to adjudicate disputes over compliance with the rules of the common market (Koremenos, Lipson and Snidal 2001; Carrubba and Gabel 2015). States create bureaucracies to monitor and prosecute member state noncompliance and international courts to adjudicate disputes over noncompliance. (In some regimes, private actors can also bring noncompliance cases.) Once states create courts, there are two aspects to compliance. There is initial compliance with the rules of the regime (ex ante compliance), and there is compliance with the rulings of courts in noncompliance cases (ex post compliance). There is no guarantee that member states will respect adverse rulings (Garrett, Kelemen and Schulz 1998; Alter 2000; Conant 2002; Slepcevic 2009; Panke 2010; Carrubba and Gabel 2015).

Member state governments, litigants, and international courts all operate strategically within the formal noncompliance procedures of regulatory regimes. Their incentives produce a political process in which regulatory regimes successfully prevent or correct some violations, but permit others (Carrubba and Gabel 2015). Moreover, the politics of compliance generates systematic bias in the types of noncompliance cases that get litigated. Existing literature on compliance provides some general intuition about when noncompliance should
Figure 1. Common Markets

Note: The top map shows existing common markets (some are more complete than others). The middle map shows proposed common markets. The bottom map shows which of these existing and proposed common markets have an international court to adjudicate disputes over noncompliance.
get litigated: it depends on governments’ costs of compliance (e.g., Carrubba and Gabel 2015).

Courts are concerned with ex post compliance with their rulings, and are therefore less likely to rule against governments when the costs of compliance are high (Alter 2000; Pollack 2003; Vanberg 2005; Carrubba 2005; Carrubba, Gabel and Hankla 2008; Carrubba 2009; Gilligan, Johns and Rosendorff 2010; Carrubba et al. 2012; Johns 2012; Carrubba and Gabel 2015; Martinsen 2015; Larsson and Naurin 2016). Litigants anticipate this behavior and drop cases when they are unlikely to win. The literature on international bureaucracies, like the European Commission, has long suspected that institutional litigants strategically choose which noncompliance cases to pursue (Mbaye 2001; Börzel 2003; Thomson, Torenvlied and Arregui 2007; Hartlapp and Falkner 2009; Steunenberg and Rhinard 2010). The most recent literature finds empirical evidence that the Commission drops cases when the costs of compliance are high (König and Mäder 2014; Fjelstul and Carrubba 2018). The key takeaway is that the politics of compliance leads to uneven enforcement outcomes, and that this variation is not random.

Since this bias in which cases are litigated is driven by the costs of compliance, we should expect the value of a regulatory regime to depend on the character of those costs. But without a theoretical model that explains where the costs of compliance come from, we cannot characterize how this bias will affect the ability of the regime to facilitate deep cooperation — the degree to which signing an international agreement causes states to behave differently than they would have otherwise (Downs, Rocke and Barsoom 1996).³

Formal Model

I build up my formal model in three steps. I start with an open economy based on Melitz (2003), which is the starting point for most new-new trade theory (NNTT) models (Chaney

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³ Scholars have studied the conditions under which international institutions can facilitate deep cooperation across a wide variety of contexts (Keohane 1984; Chayes and Chayes 1993; Burley and Mattli 1993; Alter 2001; Rosendorff and Milner 2001; Stone Sweet and Brunell 1998; Rosendorff 2005; Simmons 2009).
2008; Demidova and Rodríguez-Clare 2009; Melitz and Redding 2014; but not Melitz and Ottaviano 2008). Then, I add a policy-making subgame at the start of the game in which governments can choose trade barriers. This model serves as a counterfactual — it identifies the trade barriers that governments would choose in the absence of a regulatory regime. Next, I add a regulatory regime by adding a litigation subgame between the policy-making subgame and the economy subgame. After governments choose trade barriers, litigants can bring noncompliance cases, which a reduced-form court adjudicates. I use comparative statics to identify the sectors of the economy in which regulatory regimes will be most effective at reducing trade barriers relative to the counterfactual. Then, I identify the downstream effects on firm performance and consumer welfare.

I micro-found the costs of compliance in an economy, which allows them to depend on the consequences of trade liberalization. Governments have preferences over distributive outcomes, and they can affect those outcomes by changing trade barriers (like Rosendorff 2005; but unlike Carrubba and Gabel 2015; Johns 2012). Existing models of trade in economics almost always treat trade barriers as exogenous (Melitz 2003; Chaney 2008; an exception is Demidova and Rodríguez-Clare 2009), but I allow governments to choose trade barriers in continuous space. Unlike optimal tariff models from economics, governments are not social planers or welfare-maximizers (e.g., Demidova and Rodriguez-Clare 2009). They have competing, politically motivated preferences: they care about the performance of import-competing domestic firms (due to lobbying) and consumer welfare (due to electoral incentives), both of which depend on ex ante trade barriers and whether they survive litigation.

I base the economy on a standard new-new trade theory (NNTT) model (i.e., Melitz 2003; Chaney 2008; Melitz and Redding 2014), which more accurately captures the process by which firms select into exporting — a firm’s productivity determines whether exporting is profitable — than classical models (Heckscher-Ohlin and Ricardo-Viner) or new trade theory (NTT) models (Krugman 1980). Unlike these other trade theories, NNTT correctly predicts that only the most productive firms export. Firm selection into exporting affects
prices, which affects consumer welfare. Since my objective for the model is to identify how the politics of compliance distorts consumer welfare gains, it is therefore very important to model firm selection correctly.

An Open Regional Economy

I start by modeling a one-sector open regional economy with \( n \) symmetric countries. There are two types of actors: firms and consumers. There is a mass of firms \( M \) in each country. Each firm has a productivity \( \varphi > 1 \), which is drawn from a probability density function, \( g(\varphi) \). Each firm produces a unique variety of good \( \omega \in \Omega \). Thus, while \( \omega \) uniquely identifies a firm, multiple firms can have the same productivity \( \varphi \). In equilibrium, all firms with the same productivity \( \varphi \) will behave identically. Each country has one representative consumer, with income \( I \). Unlike Melitz (2003), I assume that the mass of firms \( M \) in each country and consumer income \( I \) are exogenous, which means that the economy is in partial equilibrium. Solving for a general equilibrium adds considerable complexity to the model without changing any of the results.\(^5\)

The order of play is as follows. Firms choose whether to produce for the domestic market and whether to export to foreign markets. Conditional on serving a market, each firm chooses a price to charge, \( p(\varphi) \). Then, the representative consumer in each country chooses a quantity of each available variety \( q(\omega) \) to purchase.

Demand

The representative consumers have constant elasticity of substitution (CES) preferences (Dixit and Stiglitz 1977). This is the standard approach to modeling consumers in NTT and NNTT models (Krugman 1980; Melitz 2003; Chaney 2008; but not Melitz and Ottaviano

\(^4\) The corresponding cumulative distribution function is \( G(\varphi) \).

\(^5\) A general equilibrium features free entry (firms choose whether to enter the market prior to learning their productivity and only enter when the expected profits exceed a fixed cost of entry) and labor market clearing (total firm revenue equals total labor payments). See Melitz (2003) for details.
The consumer demands at least some of each available variety.\(^6\) In this sense, she has a love for variety. Her income \(I\) limits the quantity of available varieties she can buy. Each representative consumer’s utility is:

\[
 u_c = \left[ \int_{\Omega} q(\omega)^{\frac{\sigma - 1}{\sigma}} d\omega \right]^{\frac{\sigma}{\sigma - 1}},
\]

where \(q(\omega)\) is the quantity of each variety demanded (the choice variable), \(\sigma\) is the elasticity of substitution, and \(\Omega\) is the set of varieties that are available.\(^7\)

CES preferences introduce monopolistic competition. Under monopolistic competition, firms perceive competition from other firms, but pricing is not a strategic game between firms (unlike oligopolistic competition). Firms also have market power, which means that a firm can change consumer demand for its variety by changing the price that it charges. In equilibrium, firms can make a profit in the short run (unlike perfect competition, where firms do not make a profit). Thus, using CES preferences will allow me to study how international regulatory regimes will affect firm performance.

**Supply**

Firms pay a per-unit cost to produce a good. I assume there is only one factor of production and normalize the cost of that factor to one per unit.\(^8\) More productive firms enjoy lower marginal costs. A firm’s marginal cost in the domestic market is the inverse of its productivity, \(c_d(\varphi) = \frac{1}{\varphi}\).

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\(^6\) Whether any given variety \(\omega\) is available for purchase in a given market depends on whether the firm that produces it chooses to produce for that market.

\(^7\) A high \(\sigma\) implies a weaker love of variety because small changes in price will cause a consumer to shift more of her consumption to cheaper varieties. As \(\sigma\) goes to infinity, varieties become perfect substitutes. As it goes to 0, varieties become perfect complements.

\(^8\) In standard NNTT models, the only factor of production is labor. In Chaney (2008) and related models, wages are exogenous and pinned down by the presence of an outside sector.
To produce any amount of goods for any market, a firm must pay a fixed cost $f$.\footnote{The fact that firms pay fixed costs to produce and export introduces increasing returns to scale (Krugman 1980), an innovation of new trade theory (NTT) models and a feature of all NNTT models. Increasing returns to scale account for why we observe intra-industry trade (i.e., trade flows between two countries within the same industry), which is not predicted by classical theories (e.g., the Heckscher-Ohlin and Ricardo-Viner models). Intra-industry trade is prevalent in common markets, which is another reason to base the economy in the model on NNTT instead of classical theories.}

We can think of these fixed costs as marketing costs. Firms pay extra variable costs $b$ to export due to trade barriers. In the next section, I will endogenize these trade barriers $b$ by allowing governments to choose them. The marginal cost of selling one unit in a foreign market is the marginal cost multiplied by trade barriers, $c_x(\varphi) = \frac{b}{\varphi}$.

The net profit that a firm makes in a market is gross profit less fixed costs. Gross profit is the quantity sold $q(\omega)$ times per-unit profit, which is the price of a unit $p(\omega)$ minus the marginal cost $c(\omega)$ of producing it:

$$\pi(\omega) = q(\omega)(p(\omega) - c(\omega)) - f. \quad (2)$$

I assume that firm productivity is Pareto distributed (e.g., Chaney 2008). The empirical literature in economics finds that firm productivity is approximately Pareto distributed (Axtell 2001; Luttmer 2007; Helpman, Melitz and Yeaple 2004; Gabaix 2009). The probability density function (PDF) and the cumulative distribution function (CDF) for the Pareto distribution are, respectively:

$$g(\varphi) = \frac{\theta}{\varphi^{\theta + 1}} \quad \text{and} \quad G(\varphi) = 1 - \varphi^{-\theta}, \quad (3)$$

where $\theta$ is the shape parameter of the distribution.\footnote{We must assume that $\theta \geq \sigma - 1$ for average firm productivity in equilibrium to be finite. Melitz (2003) and Chaney (2008) make the same assumption.} A high $\theta$ means that firms are more homogeneous and a low $\theta$ means that firms are more heterogeneous. We can think of $\theta$ as capturing the structure of the sector in terms of firm productivity.
Open Economy Equilibrium

Proposition 1 summarizes equilibrium behavior in the economy.11 Firms only produce for the domestic market if they are sufficiently productive: \( \varphi > \varphi^*_d \). Similarly, firms only export if they are sufficiently productive: \( \varphi > \varphi^*_x \). Due to the variable costs of trade, firms will only export if they sell to the domestic market: \( \varphi^*_x > \varphi^*_d \). Conditional on selling to a market, firms choose an optimal price \( p^*(\varphi) \), which is a constant markup over marginal cost:
\[
p^*(\varphi) = \left( \frac{\sigma}{\sigma - 1} \right) c(\varphi).
\]

**Proposition 1.** The equilibrium of a one-sector open economy with symmetric countries and heterogeneous firms that produce substitutable varieties under monopolistic competition is:

1. Firms sell to the domestic market if they are sufficiently productive: \( \varphi > \varphi^*_d \).
2. Firms export if they are sufficiently productive: \( \varphi > \varphi^*_x \). Firms will only export if they sell to the domestic market: \( \varphi^*_x > \varphi^*_d \).
3. Conditional on selling to a market, firms choose an optimal price \( p^*(\varphi) \), which is a constant markup over marginal cost.
4. The representative consumer in each country chooses an optimal quantity \( q^*(\varphi) \) of available varieties to consume, subject to an income constraint.

The consumer in each country observes the price of each available variety and chooses an optimal quantity of available varieties to consume, subject to an income constraint. The consumer buys \( q^*(\varphi) = p^*(\varphi)^{\frac{-\sigma}{\sigma - 1}} I(P^*)^{\sigma - 1} \) of each available variety, where \( P^* \) is the equilibrium Dixit-Stiglitz price index (Dixit and Stiglitz 1977; Chaney 2008). The price index is the cost of obtaining one unit of utility. See Appendix B for equilibrium equations and full proofs.12

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11 Throughout, I use an asterisk to indicate equilibrium quantities.

12 Adding free entry, labor market clearing, and solving for a general equilibrium, makes the model significantly more complicated. This additional complication does not change the results.
Comparative Statics

To lay the groundwork for the remainder of the paper, I show how changes in trade barriers and sector homogeneity affect firm behavior — whether a firm produces or exports — and consumer welfare. To shift the productivity distribution such that firms become more homogeneous, I increase the shape parameter of the Pareto distribution, $\theta$. This concentrates more of the density on low productivity firms and decreasing $\theta$ distributes the density more evenly across firms (see Figure 2).

Due to the complexity of the closed-form solutions for the productivity cut-points, I calculate comparative statics numerically using Monto Carlo simulations. See Appendix B for details.

As trade barriers $b$ decreases, the domestic production cut-point increases $\varphi_d^*$ and the exporting cut-point $\varphi_x^*$ decreases (see Figure 3, Panels A and B). This changes the composition of the sector: more firms can afford to export, and fewer firms can afford to produce for the domestic market. More productive firms charge lower prices (they have lower marginal costs and pass some of these savings on to consumers in the form of lower prices), so this decreases the price index $P^*$. This increases consumer welfare $W^*$, which is defined as income divided by the price index.

As the sector becomes more homogeneous (as $\theta$ increases), both productivity cut-points decrease (see Figure 3, Panels C and D). In homogeneous sectors, price competition is less intense and market share is more evenly distributed across firms. This helps less productive firms cover the fixed costs of domestic production and exporting.

**Result 1.** As trade barriers $b$ increase, the domestic production cut-point $\varphi_d^*$ decreases and the exporting cut-point $\varphi_x^*$ increases. As sector homogeneity $\theta$ increases, the productivity cut-points, $\varphi_d^*$ and $\varphi_x^*$, decrease.

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13 Note that changing $\theta$ to make firms more homogeneous necessarily also decreases average productivity. This is a consequence of using the Pareto distribution.

14 It is well-known in the economics literature that deriving smooth comparative statics in models of international trade with monopolistic competition is difficult.
Adding Strategic Policy-Making

Next, I relax the assumption that trade barriers are exogenous by adding a policy-making subgame at the start of the game. In this subgame, symmetric, strategic governments with political preferences can choose optimal trade barriers $\tilde{b}^*$.\(^{15}\) The economy then plays out just as before, conditional on $\tilde{b}^*$. This model serves as a counterfactual by establishing the trade barriers that governments would choose without a regulatory regime.

Governments balance competing interests in setting trade barriers. First, they want to protect at least some domestic firms from foreign competition. Trade barriers help domestic firms retain market share (Melitz 2003). This is especially important for non-exporters, which are less productive than exporters. As such, non-exporters stand to lose more market

\(^{15}\)I use a tilde to denote equilibrium quantities in the counterfactual, without a regulatory regime.
Figure 3. Comparative Statics in an Open Economy

Note: In an open economy, the domestic production cut-point is decreasing in trade barriers and the exporting cut-point is increasing in trade barriers. The domestic production and exporting cut-points are decreasing in sector homogeneity.

Domestic import-competing firms can often overcome their collective action problem and lobby their government to protect them from foreign competition (Grossman and Helpman 1994).

Second, governments want to let in at least some foreign imports. Exporters are more productive than non-exporters, so they charge lower prices. Letting in imports also increases the number of unique varieties that are available in the domestic market. Importers pass on the extra costs of trade barriers to consumers in the form of higher prices (recall that prices are a constant markup over variable cost). Thus, from a consumer perspective, trade barriers are a tax. In addition, trade barriers increase the average prices charged by domestic
firms by insulating unproductive firms (which charge higher prices) from competition. It is more difficult for consumers to overcome their collective action problem, but governments have a basic electoral incentive not to become too autarkic.

Governments want to choose trade barriers to optimally balance these competing producer and consumer interests. They want to strike a balance between lowering the domestic production cut-point to benefit domestic firms and lowering the exporting cut-point to benefit consumers. They cannot do both at the same time (see Result 1), as higher trade barriers \( b \) decrease the domestic production cut-point \( \varphi_d \) and increase the exporting cut-point \( \varphi_x \). To introduce this tradeoff in the model, I make each government’s utility decreasing in both the equilibrium domestic production cut-point \( \varphi_d^* \) and the equilibrium exporting cut-point \( \varphi_x^* \), both of which are functions of trade barriers \( \tilde{b} \):

\[
u_g(\tilde{b}) = -w\varphi_d^* - (1 - w)\varphi_x^*, \tag{4}
\]

where \( w \in (0, 1) \) is the relative weight that governments place on the interests of domestic firms relative to the interests of domestic consumers (a large \( w \) implies a strong preference for protectionism). The government’s utility function is decreasing linearly in both cut-points (but neither cut-point changes linearly with respect to trade barriers, as shown in Figure 3). Equation (4) produces well-behaved, single-peaked preferences.

In equilibrium, the government chooses optimal trade barriers \( \tilde{b}^* \). There is a unique solution.\(^\text{16}\) For intermediate values of \( w \), there is an interior solution, \( 1 < \tilde{b}^* < \infty \). The optimal \( \tilde{b}^* \) is the value at which the absolute marginal change in the domestic production cut-point \( \varphi_d \) equals the absolute marginal change in the exporting cut-point \( \varphi_x \). After the governments choose trade barriers, the economy plays out the same as before, conditional on optimal trade barriers \( \tilde{b}^* \).

\(^{16}\) See Appendix B for an analytical proof.
**Proposition 2.** Governments choose optimal trade barriers $\tilde{b}^*$ in equilibrium, where

$$\tilde{b}^* = \left[ \frac{nw}{1-w} \right]^{\frac{1}{1+\theta}}.$$

Conditional on $\tilde{b}^*$, Proposition 1 describes firm and consumer behavior.

In equilibrium, as firms become more homogeneous, government prefer smaller trade barriers (see Figure 4).\(^{17}\) In homogeneous sectors, price competition is less intense. Market share is more even distributed across firms, and more domestic firms can afford to stay in business. As such, there is less need for governments to protect domestic firms, which means they can reorient their trade policy towards consumer interests. By decreasing trade barriers, they encourage more foreign firms to enter the domestic market (the exporting cut-point is decreasing and the domestic production cut-point is increasing). However, the direct effect of changing sector homogeneity (see Result 1) overwhelms the effect of lower trade barriers. The net result is that both productivity cut-points are decreasing, allowing less productive firms to produce. Since unproductive firms charge higher prices, this decreases consumer welfare. This is the baseline against which I compare equilibrium behavior under a regulatory regime.

**Result 2.** The optimal trade barriers $\tilde{b}^*$ are decreasing in sector homogeneity $\theta$. The productivity cut-points, $\tilde{\varphi}_d^*$ and $\tilde{\varphi}_x^*$, and consumer welfare $\tilde{W}^*$ are also all decreasing in sector homogeneity $\theta$.

**Adding an International Regulatory Regime**

Next, I add an international regulatory regime to the model. A regulatory regime has three basic elements: (a) treaty that establishes a common market by requiring that all member states reduce their trade barriers to a particular level; (b) an international court that can adjudicate noncompliance cases against governments; and (c) a litigant that can initiate

\(^{17}\) I calculate comparative statics numerically using a Monte Carlo simulation. See Appendix B for details.
Figure 4. Comparative Statics with Strategic Policy-Making

Note: With strategic governments, optimal trade barriers, the domestic production cut-point, the exporting cut-point, and consumer welfare are all deceasing in sector homogeneity.

noncompliance cases. To model a regulatory regime, I add a litigation subgame between the policy-making subgame and the economy subgame. Now, after governments choose trade barriers, symmetric litigants in each country choose whether or not to bring a case, and a reduced-form court issues a ruling.

I model the treaty-mandated trade barriers as an exogenous parameter, $b_t \geq 1$. This parameter indicates the specific value of $b$ that is fully compliant. It is common knowledge. A value of $b_t = 1$ indicates that the common market does not permit any intra-regime trade barriers. Higher values indicate a higher tolerance for intra-regime trade barriers —

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18 Since government trade barriers $b$ are also common knowledge, there is no uncertainty about whether governments have committed violations.
and a less complete common market. Since the objective of common markets is to lower trade barriers, I consider a scenario in which the treaty-mandated trade barriers are lower (i.e., more liberal) than the optimal trade barriers the governments would choose in the counterfactual model: $b_t < \bar{b}^*$.

Recent studies on international courts view courts as strategic actors (Vanberg 2015; Carrubba 2005; Carrubba and Gabel 2015, 2017). Courts care about the degree to which member states comply with their treaty obligations (ex ante compliance), but they also care about compliance with their rulings (ex post compliance). As such, a court anticipates how likely a government is to comply when it makes a ruling (Carrubba and Gabel 2015; Martinsen 2015; Larsson and Naurin 2016). A government is more likely to ignore the ruling of the court when the costs of compliance is high.

I incorporate this view of international courts by modeling the court as a reduced-form player: Conditional on the litigant bringing a case, there is some probability $h(c^*)$ of ex post compliance, which is the joint probability that the court rules against the government and that the government complies with the court’s ruling. From the litigant’s perspective, this is the probability of successful litigation. As Carrubba and Gabel (2015) show, this probability is endogenous to the government’s cost of compliance in equilibrium $c^*$. As the cost of compliance increases, the conditional probability of ex post compliance decreases, $h'(c^*) < 0$. The government is less likely to comply with an adverse ruling and, anticipating that, the court is more hesitant to rule against the government.

If the court rules in favor of the government, or if it rules against the government and the government does not comply with the adverse ruling, then the government can continue to keep the equilibrium ex ante trade barriers, $b_1^* = b_0^*$, that it has chosen. However, if the government loses and does comply ex post with the court’s ruling, it comes into compliance with the treaty $b_1 = b_t$. Thus, equilibrium ex post trade barriers $b_1^*$ are either the government’s equilibrium ex ante trade barriers or the treaty-mandated trade barriers,

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19 I use a logistic function as the function form for $h(c^*)$. This converts $c^*$ to a probability.
\( b_1^* \in \{b_0^*, b_t^*\} \), depending on how the litigation subgame plays out. In equilibrium, \textit{ex ante} noncompliance is \( |b_0^* - b_t| \) and \textit{ex post} noncompliance is \( |b_1^* - b_t| \).

The government’s cost of compliance in equilibrium \( c^* \) is the absolute difference between the government’s utility for fully complying the treaty, \( u_g(b_t) \), and its equilibrium utility in the counterfactual, \( u_g(\tilde{b}^*) \), where the government can choose an optimal trade barriers free from institutional constraints: \( c^* = |u_g(b_t) - u_g(\tilde{b}^*)| \). Note that the cost of compliance is always non-negative and that it is an equilibrium quantity because it depends on equilibrium behavior in the counterfactual model.

The new order of play is as follows. Symmetric governments in each country choose \textit{ex ante} trade barriers \( b_0 \). Symmetric litigants in each country observe these trade barriers and choose whether or not to bring a case. If there is a case, there is some probability of \textit{ex post} noncompliance \( h(c^*) \), which determines \textit{ex post} trade barriers. If there is \textit{ex post} compliance, then the government comes into compliance with the treaty, \( b_1 = b_t \); otherwise, it keeps the \textit{ex ante} trade barriers it has already chosen, \( b_1 = b_0 \). If the litigant does not bring a case, \textit{ex post} trade barriers also equal \textit{ex ante} trade barriers, \( b_1 = b_0 \). From this point on, the economy subgame plays out exactly as before, conditional on the \textit{ex post} trade barriers, \( b_1 \in \{b_0, b_t\} \).

**Litigant Preferences**

The litigants care about \textit{ex post} compliance with the treaty, \( |b_1 - b_t| \). I assume that litigants prefer compliance: they suffer policy loss based on the difference between the treaty-mandated trade barriers \( b_t \) and \textit{ex post} trade barriers, \( b_1 \in \{b_0, b_t\} \). I use a simple exponential loss function to model this preference. Litigation is costly. If a litigant brings a case, it pays a cost \( k \), where \( k \) is drawn from a distribution with commutative distribution.

\[\text{The court does not want to issue a ruling that asks a government to come into compliance only for the government to ignore it. What matters, then, from the court’s perspective, is how bad compliance is compared to what the government wants to do (not how bad compliance is compared to whatever policy that government chooses \textit{ex ante}, which in equilibrium will be a compromise).}\]
function $J(k)$. This cost is private information. The utility of the litigants is given by the following piece-wise function:

$$u_l(b_1) = \begin{cases} 
-(b_t - b_0)^2 & \text{if there is no case} \\
-(b_t - b_0)^2 - k & \text{if there is a case and no ex post compliance} \\
-k & \text{if there is a case and ex post compliance.} 
\end{cases} \quad (5)$$

If a litigant brings a case and wins, the government comes into compliance and implements the treaty-mandated trade barriers $b_t$, so the litigant does not suffer any policy loss and only pays the cost of bringing a case $-k$. If the litigant does not bring a case, or does bring a case, but there is ex post noncompliance (i.e., if the court rules in favor of the government or the government ignores an adverse ruling), its policy loss increases with the distance between the government’s choice of trade barriers $b_1$ and the treaty-mandated trade barriers $b_t$.

**Regulatory Regime Equilibrium**

In equilibrium, litigants bring noncompliance cases when the cost of bringing a case is sufficiently small relative to the probability of ex post compliance, $k < k^*$. Otherwise, it does not bring a case. Thus, litigants drop cases when they are unlikely to win. This is consistent with recent empirical work on the European Commission, which finds evidence that the Commission drops costly cases (König and Mäder 2014; Fjelstul and Carrubba 2018), something earlier work had suspected (Mbaye 2001; Börzel 2003; Thomson, Torenvlied and Arregui 2007; Hartlapp and Falkner 2009; Steunenberg and Rhinard 2010). The probability that a litigant brings a case in equilibrium is the probability that a cost draw is below the cut-point: $\Pr(k < k^*)$ or $J(k^*)$.

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21 I use an exponential CDF as the functional form of $J(k)$. With this distribution, low-cost litigation is more likely than high-cost litigation.
**Proposition 3.** Under a regulatory regime, litigants bring noncompliance cases when the cost of bringing a case is sufficiently small: \( k < k^* \equiv h(c^*)(b_t - b_0^*)^2 \).

In equilibrium, governments anticipate the probability that the litigant in their country will bring a case, \( J(k^*) \), and the conditional probability of an adverse court ruling, \( h(c^*) \), and choose \textit{ex ante} trade barriers \( b_0^* \) that maximize their expected utility, which is a function of \textit{ex post} trade barriers, \( b_1 \in \{b_0, b_t\} \):

\[
E[u_g(b_0)] = J(k^*)\left(h(c^*)u_g(b_t) + (1 - h(c^*))u_g(b_0)\right) + (1 - J(k^*))u_g(b_0), \tag{6}
\]

where \( u_g(b_0) \) is given by Equation (4). Equation 6 is a well-behaved, single-peaked concave function. There is a unique solution in which governments choose \textit{ex ante} trade barriers that are optimal in expectation.\(^{22}\) The economy plays out as before (see Proposition 1), conditional on \textit{ex post} trade barriers, \( b_1^* \in \{b_0^*, b_t\} \), which are stochastic. As such, we have to consider the economy in expectation, conditional on expected \textit{ex post} trade barriers, \( E[b_1^*] \). Expected \textit{ex post} trade barriers are:

\[
E[b_1^*] = J(k^*)\left(h(c^*)b_t + (1 - h(c^*))b_0^*\right) + (1 - J(k^*))b_0^* \tag{7}
\]

**Proposition 4.** Under a regulatory regime, governments anticipate the probability that litigants will bring a case, \( J(k^*) \), and the probability of \textit{ex post} compliance, \( h(c^*) \), and choose optimal \textit{ex ante} trade barriers, \( b_0^* \). Conditional on expected \textit{ex post} trade barriers, \( E[b_1^*] \), Proposition 1 describes firm and consumer behavior.

**Systematic Bias in Noncompliance Cases**

I use this equilibrium to show how the politics of compliance in regulatory regimes generate systematic bias in the types of noncompliance cases that get litigated, and that this bias creates a distortion in the economy: regulatory regimes reduce trade barriers most in sectors

\(^{22}\) I demonstrate this using a computational solution. See Appendix B for details.
with intermediate levels of homogeneity. Then, in the next section, I identify the downstream consequences for firm performance and consumer welfare.

I start by calculating the effect of a regulatory regime on \emph{ex ante} trade barriers and \emph{ex post} trade barriers in expectation, the latter being the ones that ultimately affect firms and consumers. To review, equilibrium \emph{ex ante} trade barriers are $b^*_0$, expected equilibrium \emph{ex post} trade barriers are $E[b^*_1]$, and equilibrium trade barriers in the counterfactual are $\tilde{b}^*$. The effect of the regime on \emph{ex ante} trade barriers is the difference between equilibrium \emph{ex ante} trade barriers and equilibrium trade barriers in the counterfactual: $b^*_0 - \tilde{b}^*$. Similarly, the effect of the regime on expected \emph{ex post} trade barriers is $E[b^*_1] - \tilde{b}^*$. \emph{Ex ante} noncompliance is $|b^*_0 - b_t|$ and expected \emph{ex post} noncompliance is $|E[b^*_1] - b_t|$.

In equilibrium, a regulatory regime causes member state governments to reduce \emph{ex ante} trade barriers in equilibrium, $b^*_0 - \tilde{b}^* < 0$. Governments make a concession to the regime in order to lower the probability of enforced compliance, which is the joint probability of a case and \emph{ex post} compliance, $J(k^*)h(c^*)$. Figure 5 gives an example of an optimal concession. In equilibrium, \emph{ex ante} trade barriers in expectation are less than optimal trade barriers in the counterfactual, but higher than the treaty-mandated trade barriers: $b_t < b^*_0 < \tilde{b}^*$. The width of Region 1, $b^*_0 - b_t$, indicates remaining \emph{ex ante} noncompliance and the width of Region 2, $\tilde{b}^* - b^*_0$, indicates the size of the concession.

\textbf{Result 3.} Regulatory regimes cause member state governments to make optimal concessions by reducing expected \emph{ex ante} trade barriers: $b^*_0 - \tilde{b}^* < 0$. This also reduces \emph{ex post} trade barriers in expectation: $E[b^*_1] - \tilde{b}^* < 0$.

In equilibrium, \emph{ex ante} trade barriers $b^*_0$ are strictly decreasing in sector homogeneity (see Figure 6), just like equilibrium trade barriers $\tilde{b}^*$ in the counterfactual (see Result 2). This means that expected \emph{ex ante} noncompliance is strictly decreasing in sector homogeneity.

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23I use Monte Carlo simulations for this and all subsequent results. I randomly draw values for exogenous parameters using probability distributions, solve the model numerically, and then calculate the effect of the regime on equilibrium quantities (relative to the counterfactual). I develop a computational algorithm to sign monotonic and non-monotonic comparative statics for sets of parameter values that yield interior solutions. See Appendix B for details.
Figure 5. Equilibrium Concession with a Regulatory Regime

Note: Governments make a concession to avoid costly litigation. This concession is the effect of the regulatory regime on equilibrium trade barriers. The width of Region 1 indicates the amount of *ex ante* noncompliance and the width of Region 2 indicates the size of the concession.

This is also true of *ex post* noncompliance in expectation, $E[b_t^*]$. (Note that *ex post* trade barriers are strictly less than *ex ante* trade barriers in expectation, $E[b_t^*] < b_0^*$, because they are a convex combination of *ex ante* trade barriers $b_0^*$ and the treaty-mandated trade barriers, $b_t < b_0^*$.)

However, the fact that both *ex ante* and *ex post* compliance are improving as sector homogeneity increases does not mean that regulatory regimes are most effective at reducing trade barriers in highly homogeneous sectors. In fact, a regulatory regime has the biggest impact on trade barriers for intermediate levels of sector homogeneity. Panel A of Figure 6 plots *ex ante* trade barriers against equilibrium trade barriers in the counterfactual. Panel C
Figure 6. Effect of a Regulatory Regime on Equilibrium Trade Barriers

Note: The negative effect of a regime on equilibrium trade barriers (ex ante and ex post) is largest for sectors with intermediate levels of homogeneity.

does the same for ex post trade barriers. The vertical difference between these lines ($b_0^* - \tilde{b}^*$ in Panel A and $E[b_1^*] - \tilde{b}^*$ in Panel C), plotted in Panels B and D, represents the effect of a regulatory regime on equilibrium trade barriers. That difference is greatest in sectors with intermediate levels of homogeneity.

Result 4. As sector homogeneity $\theta$ increases, ex ante noncompliance, $|b_0^* - b_1|$, decreases. The negative effect of a regulatory regime on equilibrium ex ante trade barriers, $b_0^* - \tilde{b}^* < 0$, is largest for sectors with intermediate levels of homogeneity. The same is true for expected ex post trade barriers in equilibrium, $E[b_1^*]$. 
The intuition behind this result is as follows. As firms become more homogeneous, governments prefer lower trade barriers. This is because price competition is less intense, and there is less need to protect domestic firms from foreign competition (see Result 2). This allows governments to reorient their trade policies towards consumer interests. Thus, as firms become more homogeneous, the costs of compliance decrease (see Figure 7, Panel A). As the cost of compliance decreases, the court becomes more likely to rule against a government (more likely to rule in favor of a litigant) because it is more likely that the government will comply with the court’s ruling (see Figure 7, Panel B). In other words, ex post compliance is more likely.

The fact that the court becomes more likely to rule in favor of litigants incentivizes litigants to bring noncompliance cases against governments. When firms are heterogeneous, ex ante noncompliance is high, so litigants would like to correct it. But they are not likely to actually bring cases because the probability that the court will rule against governments is low. Thus, bringing a case is unlikely to be worth the cost of litigating. As firms become more homogeneous, litigants become more likely to bring a case because the court is more likely to rule against governments.

At the same time, however, governments prefer to choose lower, more complaint trade barriers (see Figure 4, Panel A), which means that the benefits of correcting noncompliance are dropping. At some point, the costs of litigation are no longer justified, even if the court is likely to rule against governments and governments are likely to comply with that ruling. These competing incentives to litigate mean that the probability of a case is highest for sectors with intermediate levels of homogeneity (see Figure 7, Panel C).

Governments anticipate the behavior of litigants and the court. They want to avoid enforced compliance, which is the joint probability that the litigant brings a case, that the court rules against the government, and that the government comes into compliance (see Figure 7, Panel D). Since the probability that the litigant brings a case is highest in sectors with intermediate levels of homogeneity, so too is the probability of enforced compliance. As the probability of enforced compliance increases, governments make larger and larger
Figure 7. Comparative Statics with a Regulatory Regime

Note: With a regulatory regime, the costs of compliance are decreasing in the costs of compliance. The conditional probability of ex post compliance is increasing. The probability of a case and the probability of enforced compliance are largest for sectors with intermediate levels of homogeneity.

concessions in an attempt to avoid litigation. Thus, the effect of the regulatory regime on ex ante trade barriers and expected ex post trade barriers is also largest for sectors with intermediate levels of homogeneity (see Figure 6).

In sum, the politics of compliance generate systematic bias in the types of noncompliance cases that get litigated. Litigants drop cases (a) in very heterogeneous sectors, where the costs of compliance are high, and a court is unlikely to rule against a government; and (b) in very homogeneous sectors, where the costs of litigation are high relative to the degree of noncompliance. Thus, while compliance is always better in more homogeneous sectors, regu-
ulatory regimes reduce trade barriers most in sectors with intermediate levels of homogeneity — causing a systematic distortion in the economy.

**Distributive Consequences and Consumer Welfare Gains**

Regulatory regimes affect firm performance by reducing trade barriers. Reducing trade barriers helps productive, exporting firms to gain market share at the expense of unproductive, non-exporting firms (e.g., Melitz 2003; Chaney 2008). But the politics of compliance create a systematic distortion in the economy — regulatory regimes reduce compliance most in sectors with intermediate levels of homogeneity — which has downstream effects on firm performance and consumer welfare. In this section, I identify the distributive consequences of regulatory regimes for firms and the implications for consumer welfare. Then, I show how the politics of noncompliance distorts these economic consequences of common markets by differentially reducing trade barriers across sectors.

By incentivizing governments to lower trade barriers, regulatory regimes increase the domestic production cut-point, \( \varphi_d^* - \bar{\varphi}_d^* > 0 \), and decrease the exporting cut-point, \( \varphi_x^* - \bar{\varphi}_x^* < 0 \). More firms can profitably export, but fewer can profitably produce for the domestic market. This change in the composition of the sector has implications for consumer welfare. Since the most unproductive firms go out of business, the average productivity of firms increases. This lowers the price index \( P^* \) (the cost of one unit of utility) and increases consumer welfare \( W^* \) (income divided by the price index).

**Result 5.** International regulatory regimes increase the domestic production cut-point and decrease the exporting cut-point: \( \varphi_d^* - \bar{\varphi}_d^* > 0 \) and \( \varphi_x^* - \bar{\varphi}_x^* < 0 \). Firms that only produce for the domestic market perform worse under the regime, and firms that export perform better. The least profitable firms exit the market and the most productive firms that produce for the domestic market start to export. Of the firms that start to export, only the most productive of these perform better under the regime. These distributive consequences improve consumer welfare, \( W^* - \bar{W}^* > 0 \).
Figure 8 shows how a regulatory regime distorts firm performance by plotting firm performance (i.e., total expected net profit from domestic and foreign markets) in equilibrium as a function of productivity in a world with a regime and in a world without a regime (the counterfactual). The regime increases the domestic production cut-point from point $A$ to point $B$ and decreases the exporting cut-point from point $C$ to point $D$. The shaded areas between these two sets of points represent the magnitude of these effects. Firms to the left of point $E$ (where the profit lines intersect) perform worse because of the regime and firms to the right of point $E$ perform better. These points divide the productivity space into six regions. How exactly a regulatory regime will impact the behavior and profitability of an individual firm depends on which of these regions it falls into.

Firms in Region 1 are so unproductive that they never enter the market, and are therefore not affected by the regime. Firms in Region 2 exit the domestic market because of the regime. They are productive enough to produce without the regime (point $A$), but not with the regime (point $B$). Firms in Region 3 produce for the domestic market either way, but they perform better without the regime. Firms in Regions 4 and 5 start to export because the existence of the regime lowers the exporting cut-point by inducing member states to make concessions (i.e., to reduce trade barriers). They are not productive enough to export without the regime (point $C$), but they are productive enough with the regime (point $D$). Firms in Region 4 perform worse even though they start exporting but firms in Region 5 perform better because they start exporting. Firms in Region 6 export either way but perform better because of the regime.

To determine how the politics of compliance in regulatory regimes systematically distorts the distributive consequences of liberalization, I calculate the effect of a regulatory regime on the productivity cut-points — the difference in the cut-points with the regime and without the regime — as a function of sector homogeneity (see Figure 9, Panels A and C). This is sufficient because a firm’s productivity relative to these changing cut-points fully determines the distributive consequences of liberalization for that firm — whether the firm is a winner or loser from the development of a common market.
Figure 8. Distributive Consequences of a Regulatory Regime

Note: Firms in Regions 1, 2, 3, and 4 perform worse under an international regulatory regime, whereas firms in Regions 5 and 6 perform better. Firms in Region 1 never enter the domestic market. Firms in Region 2 exit the domestic market because of the regime. Firms in Region 3 lose market share. Firms in Regions 4 and 5 start to export. Firms in Region 5 become more profitable, but firms in Region 4 become less profitable. Firms in Region 6 continue to export but gain market share.

The effect of the regime on the domestic production cut-point is always positive and the effect of the regime on the exporting cut-point is always negative (see Result 5), but sector homogeneity conditions the magnitude of these effects. The positive effect of the regime on the domestic production cut-point is largest for intermediate levels of homogeneity (see Figure 9, Panel B). The negative effect of the regime on the exporting cut-point is also largest for intermediate levels of homogeneity (see Figure 9, Panel D). These distortions — due to bias in which cases get litigated — matter to individual firms. Firms in highly homogeneous sectors or highly heterogeneous sectors do not face the distributive consequences of common markets to the same degree as those in sectors with intermediate levels of homogeneity.
Figure 9. Effect of a Regulatory Regime on Firm Behavior and Consumer Welfare

Note: The effect of a regulatory regime on the domestic production cut-point (positive), the exporting cut-point (negative), and consumer welfare (positive) are largest for sectors with intermediate levels of homogeneity.
(for better or worse). Sufficiently productive firms miss out on gains, whereas sufficiently unproductive firms avoid loses.

These effects carry over to consumer welfare: the positive effect of the regime on consumer welfare is also largest for sectors with intermediate levels of homogeneity (see Figure 9, Panels E and F). Consumers who tend to purchase goods from highly heterogeneous sectors or highly homogeneous sectors miss out on the welfare gains from common markets, making them relatively worse off than consumers who tend to purchase goods from sectors with intermediate levels of homogeneity.

**Result 6.** The positive effect of a regulatory regime on the domestic production cut-point, $\varphi^*_d - \bar{\varphi}^*_d > 0$, the negative effect of the regime on the exporting cut-point, $\varphi^*_x - \bar{\varphi}^*_x < 0$, and the positive effect of the regime on consumer welfare, $W^* - \bar{W}^* > 0$, are largest for sectors with intermediate levels of homogeneity $\theta$.

In sum, by reducing trade barriers, regulatory regimes create distributive consequences: they allow new firms to export and push unproductive firms out of business. This raises average firm productivity, lowers average prices, and improves consumer welfare. But the politics of noncompliance generates systematic bias in the types of cases that get litigated, causing the regime to constrain trade barriers more in sectors with intermediate levels of homogeneity. Thus, these effects on firm performance and consumer welfare are largest in sectors with intermediate levels of homogeneity.

**Conclusion**

Countries create common markets to accrue consumer welfare gains. To ensure that they actually realize these gains, they rationally design international regulatory regimes to manage noncompliance with the rules of the common market. But the politics of compliance generates systematic bias in the types of noncompliance cases that get litigated. I develop a formal model that explains how the politics of compliance in regulatory regimes systematically distorts the welfare gains that states accrue — the very reason they create common
markets in the first place. I show that if we do not take into account the politics of compliance, our theoretical predictions about the distributive consequences of trade liberalization — which firms win and lose — and the conditions under which member states will accrue consumer welfare gains by creating common markets will be biased.

The model predicts the sectors in which regulatory regimes will be effective at reducing trade barriers — those with intermediate levels of homogeneity in terms of firm productivity — as well as the downstream consequences for the performance of individual firms and for consumer welfare gains. Regulatory regimes are most effective at reducing trade barriers in sectors with intermediate levels of firm homogeneity. In highly homogeneous sectors and highly heterogeneous sectors, regulatory regimes are not effective at helping member states accrue consumer welfare gains.

However, the reason why regulatory regimes are ineffective in highly heterogeneous sectors is very different than the reason they are ineffective in highly homogeneous sectors. In heterogeneous sectors, price competition is higher, giving governments more incentive to erect trade barriers to protect domestic firms. Regulatory regimes are ineffective because governments are unlikely to comply with adverse court rulings, making the court hesitant to rule against them (Carrubba and Gabel 2015). This deters litigants from bringing non-compliance cases, creating a compliance deficit (König and Mäder 2014).

In homogeneous sectors, on the other hand, regulatory regimes are ineffective because the benefits of successfully prosecuting noncompliance are low relatively to the costs of litigation. In homogeneous sectors, price competition is low and governments are more willing to comply. The court is more likely to rule in favor of the litigant, but compliance is good enough that the benefits of bringing governments into compliance are not worth the costs of litigating. In homogeneous sectors, the regime is ineffective because it is not used, not because it cannot correct violations.

The fact that common markets are less ineffective at generating welfare gains in certain sectors of the economy may put political pressure (from firms and consumers) on member states whose economies depend on those sectors — in terms of production or in terms of
consumption. This may help explain variation in public support for common markets across countries. The long-term consequences of uneven welfare gains for the political stability of common markets is an important question for future work.

In sum, if member states always complied with the rules of a common market, variation in sector homogeneity would not create systematic distortions in which firms win and lose from trade liberalization through the development of a common market, and consumer welfare gains would be constant across sectors of the economy. Thus, taking into account the politics of compliance in regulatory regimes is critical to our understanding of how well common markets work. This has implications for the long-term stability of several of the world’s largest economies.
References


