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THE IMPACT OF POLITICAL ECONOMIC SENSITIVITIES ON TRADE REGIMES AMONG POLITICALLY ASYMMETRIC COUNTRIES**Abstract:**

This paper examines the impact of political economic sensitivities of the trade regime among politically asymmetric countries. Our concerns focus on the effects of firm's lobbying activity in each country, not only tariff setting, but also on the trade regime's decision, especially considering the countries' asymmetries in political economic sensitivities. We derive the following conclusion from our oligopolistic political economy model. If the country has a greater political bias, then the domestic government prefers to participate in unilateral trade regime or bilateral trade regimes. However, if the country's political factor is insignificant, then the government prefers to carry out complete free trade. These results imply that Korea-China-Japan FTA negotiation could be accelerated when three countries' political sensitivities are larger. Moreover, China, which has the greatest political sensitivity, would be more likely to participate in Korea-China-Japan FTA. We find that the sharp contrast between these results and the previous literature stems mainly from the asymmetries of political economic sensitivities when domestic governments determine the political tariff and trade regime.

Keywords:

Political Economic Sensitivities; Trade Regime; Lobbying; Strategic Trade Policy