

Non-Enforceability of Trade Treaties and Investment Distortions.¹

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Abstract The paper considers incentives for irreversible investments in exports when governments are imperfectly committed to their trade obligations. Once investments have been undertaken, *ex post*, it is frequently optimal for the governments to renegotiate *ex ante* trade barriers. In our game, these negotiations are costly; the greater the policy adjustment, the greater the expenses. We find that when the governments cannot fully commit to their trade obligations, bilateral trade agreements may be welfare superior to multilateral ones. We suggest that high costs of trade regime changes serve as a mechanism alleviating investment distortions stemming from low enforceability of international law.

Keywords: Trade Agreements, Enforcement, Time-inconsistent, Kemp-Wan, Imperfect Commitment, Game Theory and Bargaining

JEL classification: F02, F13, C7

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