# A Simple Theory of Deep Trade Integration


Abstract

We consider a Ricardian trade model with imperfect competition where countries set standards to curb the externalities associated with the consumption of goods. Countries differ in their regulatory preferences over these externalities and choose different consumption standards under autarky. In an open economy, a firm may export to other country if it adjusts its production to the destination's standard. Countries benefit from trade through the surplus of their producers if and only if the Ricardian gains arising from technological differences outweigh their asymmetric concerns over these externalities. In the absence of terms-of-trade effects, the purpose of a trade agreement is the coordination of countries on their standards and its implementation requires mutual concessions across sectors. In the presence of highly-dispersed regulatory preferences, the gains from a multilateral trade policy are small, which leads the emergence of socially optimal trade blocs.