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In regions where enemy countries do not trade with each other, would the institutional settings of free trade

hostilities. Siqueira (2003) presents a theoretical analysis of third-party intervention in which the third party acts as a peacemaker in reducing con□ict, irrespective of the

1999). We extend the two-country

state, the

of arming. Nevertheless, arming generates an output-distortion e□ect that reduces welfare since allocating more resources to □ghting lowers civilian goods production for domestic consumption. This third e□ect constitutes the marginal cost (MC) of arming. These three e□ects interact simultaneously in

…$\tau_c^A \hat{} \tau_a^C \hat{} 0$† on their imports from each other and, in the meanwhile, country *C* sets an optimal tari τ^C

These results imply that

$$CI^S > CI^M: \tag{24}$$

We thus have:

PROPOSITION 3. *Relative to the multiple FTAs between a third-party state with*

nations help reduce the political hostility bevc&mL[vthe ']3□V8

time-consistency issues. In the 'worst-case scenario' where there is a reneging problem, the outcome would be a trade war with Nash tari□s. The analysis of this paper is static and hence ignores the dynamic aspects of con□icting interactions over time. Finally, it should also be mentioned that our

Appendix A-3 that the partial equilibrium analysis can be closed by introducing a traded numeraire good and that the trade balance conditions will not qualitatively alter this paper's primary results.

14. See X_a^A in (2a) for country A and

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$$P_b^B \hat{} \frac{1}{2\beta} \mathrm{f} 2\alpha \quad \beta\tau_b^C$$

$$\tau_c^{A;PR} \hat{} \frac{3}{7\beta}; \tau_c^{B;PR} \hat{}$$

$$ED_z^C \hat{} \tfrac{1}{3\beta} \cdots \tfrac{1}{3}\beta\tau_c^A \ddagger \tfrac{1}{3}\beta\tau_c^B \quad \tfrac{2}{3}R\dagger \ldots \beta\tau_c^A \quad 3\alpha \ddagger \beta\tau_c^B \ddagger R\dagger \ddagger \tfrac{1}{4\beta} \cdots$$

5.*R*