THE OXFORD HANDBOOK OF

THE POLITICAL ECONOMY OF INTERNATIONAL TRADE

Edited by

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CHAPTER 1

INTRODUCTION

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Introduction

International trade offers opportunities and risks to countries, groups, and individuals. Opening an economy up to trade with other economies provides potential advantages for all, as it allows for specialization that leads to higher levels of productivity and efficiency, enlarges the markets available to firms, and increases the scope for consumer choice. However, the process of specialization entails redeployment of assets that is costly for some actors, and exposure to the global economy can create new sources of risk. For these reasons, trade is highly politicized. No government in the modern state system has ever pursued an entirely hands-off approach to trade policy.

This volume features chapters that view the politics of international trade from a wide variety of angles. It considers the concepts that have driven trade policy, the interests that compete over it, and the institutions that channel these interests. The actors that care about trade policy range from individuals and firms to interest groups, government agencies, and international institutions. Economists have made great strides in understanding the factors that create a demand for international trade and the economic consequences of trade for various actors. Many of the approaches studied in this volume build on such economic models. However, the focus here is very much on politics: who wins and who loses from different policies, who is able to organize and to influence governments, and thus how politics influences actual patterns of trade.

In this introductory chapter I provide some historical and conceptual background to the more advanced theoretical perspectives and sophisticated empirical work showcased in the rest of the volume. The next section looks at the progression of eras of trade policy, from the mercantilism that emerged along with the modern state system to today's landscape of global, regional, and bilateral trade institutions. The third section turns to theories, providing an overview of economic models of trade that help us understand the interests that go into making trade policy and the domestic and international institutions that aggregate these interests. Finally, I briefly discuss the organization of this volume.

Historical Overview

In a very broad-brush sense, the history of the politics of international trade is about movement from extensive government intervention and control of trade, to an appreciation of the potential value of freer trade, to a search for mechanisms that liberalize trade while providing some basic protections against the pressures of international competition. However, within this big picture of long-term trends there is a tremendous amount of variation. Pressures for protection ebb and flow with business cycles, political trends, and new ideas. Some countries now have only modest impediments to trade, while others continue with more protectionist policies. Some industries lobby for more openness to trade, while others demand protection. This volume is about explaining such variations. This section highlights some of the major shifts in general trends in trade policy over time.

Prior to 1500, trade between economic and political units was rare, costly, and thus concentrated in luxury goods. However, as European states began conquering and settling the rest of the world at the turn of the sixteenth century, regular patterns of trade emerged within Europe and between European countries and their colonies. European governments engaged in colonization largely because of their desire to assure access to natural resources and markets in the rest of the world. The economic and political doctrine that informed this period of expansion was mercantilism. Under mercantilism, military power and state wealth were understood as opposite sides of the same coin. As Thomas Hobbes famously proclaimed during this era, "Wealth is power, and power is wealth" (Viner 1948, 15). During the mercantilist era, which roughly covered the sixteenth through the eighteenth centuries, imperial governments established monopolies that controlled trade. Governments regulated and intervened extensively in these new trading networks, manipulating the terms of trade (the ratio of the cost of imports to exports) to enrich themselves and their domestic supporters.

Under mercantilism, European monarchies put in place laws and policies that ensured they gained access to resources from their colonies at artificially low prices. Trade between colonies and states other than the colonial power was prohibited or extremely limited. In addition, imperial powers required that their colonies import manufactured goods only from them, thus constraining supply and driving up the prices of their exports. This meant that colonists paid high prices for imported manufactured goods and received low prices for the commodities that they exported to Europe; in exchange, they received military protection from the empire. For example, Thomas (1965) estimated that English restrictions on trade with the thirteen North American colonies cost the colonists approximately $2,255,000 per year, primarily through the artificially low prices the colonies received for exports of tobacco and rice to Britain.

During the three centuries that mercantilism dominated the pursuit of international politics, underlying economic and political interests, as well as the ideas structuring trade, underwent fundamental changes.[1] The next major era of international trade can be dated from 1815, when the Napoleonic wars ended with the defeat of France by Britain and its allies, to 1914 and the outbreak of World War I. Known as the Pax Britannica, this period was characterized by growing economic exchange among European powers—the first era of what we now recognize as globalization. This period saw, in general, more cooperation and less warfare among European states, as well as the spreading Industrial Revolution. Peace and more integrated economies via increased capital flows led to rapidly expanding international trade and substantial economic growth in much of the world. The end of mercantilist doctrines took hold first in Britain, the vanguard of the Industrial Revolution. Industrialists opposed restrictions on the import of food and other resources, as this raised the costs of their workforce and other industrial operations. They also strongly desired the end of protectionism, which blocked them from exporting to other markets. Urban areas of Britain thus became opponents of restrictive devices such as the British Corn Laws (which taxed imported grain) and proponents of free trade. While remaining protectionist interests in Britain, especially farmers, lobbied in favor of maintaining government restrictions on trade, by the 1840s Britain had overturned most of its mercantilist policies.

Other governments, both in Europe and the Americas, followed Britain's lead and began dismantling their systems of trade protection. They built on this unilateral liberalization with bilateral, and then multilateral, agreements to reduce trade barriers. If we focus on the rich countries of the late nineteenth century, we see that their trade over the course of the century grew at a rate that was nearly three times that of the growth of those rich-countries' economies. By 1900 trade represented a much larger share of the global economy than it had in 1800, up to eight times as large (Maddison 1995, 38). Beyond changes in doctrine and spreading industrialization, the growth of trade was encouraged by new technologies, such as telephones and steamships, and the concomitant rapidly declining costs of long-distance trade. In addition, the establishment of the classical gold standard throughout most of the industrialized world and beyond facilitated trade as well as global movements of capital and people.[2]

As the twentieth century began, the relative decline of Britain and rise of Germany, as well as the ongoing collapse of remaining empires within Europe (Ottoman, Austro-Hungarian, and Russian), led to rising tension in Europe and the formation of rigid alliances. These alliances contributed to the outbreak of World War I in 1914, and the growing importance of the United States and Japan meant that this war spread far beyond European boundaries. The war devastated European economies and the trade networks that had grown over the previous century, and neither recovered rapidly when the war ended in 1917. The United States emerged as the major economic power in the world during the war and increased its international trade and investment to a remarkable degree during this time. However, after the war isolationist forces won political battles back home, and the United States pulled back from its participation in European economies.

Lack of leadership and very weak economies during the interwar period meant that trade did not return to prewar levels. This situation was exacerbated by the Great Depression beginning in 1929, which was characterized by competitive devaluations and renewed protectionism that devastated international trade as well as national economies. World War II brought an initially reluctant United States fully back into European politics and economics, and the economic destruction caused by that war left it the undisputed leader in the global economy. With the advent of the Cold War, the Eastern bloc broke nearly all of its economic ties with the West, and the United States set out to create renewed economic integration within the West. One novel aspect of the postwar economic order was its highly institutionalized nature, as the existing network of bilateral and multilateral trade agreements was overlaid with more formal global and regional trade organizations. Attempts to create a far-reaching International Trade Organization (ITO) failed, largely because they were too ambitious and ran into resistance in the United States. However, the failed ITO negotiations left in their wake the General Agreement on Tariffs and Trade (GATT), an informal set of deals to reduce barriers to trade. Under the GATT, impediments to trade fell rapidly over the next decades, and trade flows increased.[3]

While the GATT was intended as simply an interim accord, by default it became the institutional basis for global trade. Rounds of multilateral negotiations greatly expanded its reach, both to new types of trade and to more of the world. The GATT allowed for regional trade agreements (RTAs) that even further liberalized trade, and countries took advantage by creating and strengthening RTAs, especially beginning in the 1980s.[4] Many developing countries, especially in Latin American, initially resisted the trend toward liberalization, following instead policies of import-substituting industrialization (ISI). While the early years of ISI saw some notable successes, such as the establishment of automobile industries in Brazil and Mexico, the debt crises of the 1980s forced most developing-country governments to drop ISI and follow the export-led development strategies that were pioneered in East Asia. Liberalization thus spread beyond the rich world to the developing world and new democracies. By the 1990s, measures of global economic integration including trade flows were back to pre-World War I levels. In 1995 the GATT was replaced by the more formal and institutionalized World Trade Organization (WTO).

The existing trade regime faces a number of challenges. As the WTO has expanded to include economies in which the state plays a major role, such as China, other members worry that these states are breaking the rules and undermining the system. Many worry that the WTO's proliberalization agenda undermines local economies and culture. Ambitious negotiations within the WTO to further expand its scope have not resulted in major new trade deals, although the ongoing dispute resolution mechanisms of the WTO are an essential element of the global trade regime.[5] In the absence of breakthroughs in the WTO, further liberalization has occurred primarily through the proliferation of RTAs and other preferential trade agreements (PTAs). In spite of protectionist pressures, global trade flows have remained surprisingly robust. For example, in the initial stages of the Great Recession in 2008, many expressed concern that the economic downturn would empower protectionist forces and lead to decreased trade. While trade did show a small dip as economies contracted, fears of a surge of protection and collapse of trade proved unfounded.

Global forces, particularly the rise of China, could in the future lead to another fundamental transformation in the pattern and practice of international trade. However, for the medium term the current system seems stable. A network of organizations and agreements promote liberalized trade while offering loopholes that governments use to offer temporary protection to threatened industries.[6] Economic integration, on both global and regional scales, rules the day. The countries that have resisted integration into the modern trade system, such as North Korea, are remarkably rare. Economic integration, in turn, has created vested interests in the current system that are a major source of its stability.

Approaches to the Study of International Trade

Studies of the politics of international trade aim to explain variation in the demand for and supply of protection over time, across countries, and across sectors. To do so, they build on understandings of economic interests, domestic institutions, and international institutions. The chapters in this volume explore those factors, and their interaction, in great detail. In this section I provide some basic background on the major economic models of interests and types of institutions that go into analyses of the politics of trade.

To understand the interests that go into the making of trade policy, we need to begin with theories of what kinds of goods countries are likely to export or import. This analysis is rooted in the concept of comparative advantage, as explained in 1776 by Adam Smith, the founder of classical economics (Smith 1937). When countries trade with one another, they no longer need to be self-sufficient and can specialize in producing goods that they make more efficiently than other goods; that is, in the goods in which they have a comparative advantage. The process of specialization leads to gains in productivity and improvements in aggregate welfare for all countries. However, to build on this insight to explain the specifics of trade policy, we require a theory of comparative advantage. How do we know what goods a particular country will be able to produce the most efficiently?

The dominant approach to this question was developed in the 1920s by Swedish economists Eli Heckscher and Bertil Ohlin. The Heckscher-Ohlin model focuses on countries' factor endowments: the distribution of resources that go into production of goods and services. Typically we divide these factors into three groups: land, labor, and capital. Many modern analyses further divide capital into capital for investment and human capital. Countries differ in their capital endowments. Rich countries are abundant in capital and relatively scarce in labor compared to poor countries. Heckscher-Ohlin models argue that a country will produce most efficiently the goods that use the endowments that it has in abundance. Thus, rich countries will specialize in producing capital-intensive goods such as complex machinery or high-technology products. Countries abundant in land will tend to be agricultural exporters, while countries abundant in unskilled labor will focus on production and export of consumer goods such as clothing and simple manufactured goods.

In 1941 Wolfgang Stolper and Paul Samuelson built on the Heckscher-Ohlin approach to trade to develop a model of the losers and winners within each country from increased exposure to trade. The Stolper-Samuelson theorem argues that abundant factors within a country will benefit from increased trade, as resources will flow into sectors that use abundant factors as trade opens and new export markets become available. For example, China is abundant in unskilled labor. As China opened to trade, resources poured into the basic manufacturing sector there, benefiting workers in that sector and leading to the massive income gains that China has experienced over the last decades. In contrast, scarce factors will tend to be hurt by increased exposure to trade, as resources leave their sector and returns to the scarce factor decrease. In the United States unskilled labor is a scarce factor, and the wages of unskilled labor have fallen as trade has increased, as resources have left sectors such as textiles and apparel.

The Stolper-Samuelson (or HOSS) model predicts that abundant factors within a country will tend to support freer trade, while scarce factors will prefer protectionist policies. In the aggregate, the HOSS model is a good place to start developing an understanding of domestic interests regarding trade. Labor in rich countries such as the United States does lean toward protectionism, while those who are well educated (endowed with human capital) and rich tend to support free trade. Where land is scarce, for example in much of Western Europe or crowded developing countries, the agricultural sector is highly protectionist. Many models of trade politics thus build on the HOSS approach.

However, empirically we can also identify plenty of situations that don't fit the HOSS predictions, and economists have developed alternative models of interests regarding trade policy. Analysts frequently observe that the predicted split between labor and capital over trade policy does not obtain. For example, HOSS would predict that in debates over protection for the automobile industry in the United States, capital within the industry would lobby for reduction in levels of protection, while labor in the automobile industry would lobby for increased protection. However, most debates over protection for General Motors or Ford have not played out in that manner. Instead, we usually find that both capital and labor within the industry strongly support protection.[7] How do we account for these anomalies?

The HOSS model makes a strong assumption about the mobility of factors of production (their ability to move from one productive activity to another). It assumes that factors are fully mobile within a country (but not at all mobile across countries). So, for example, it assumes that if the US automobile industry is under pressure from imports, capital within that industry can easily deploy to a new use, such as production of pharmaceuticals. So capital's interests are not determined by the specific industry in which it is invested. Obviously factors are not always fully mobile; sometimes they are barely mobile at all, being sunk in a particular industry and very costly to redeploy (Hiscox 2002). An alternative to the HOSS model is thus known as the specific factors approach, or the Ricardo-Viner model. Ricardo-Viner assumes that factors are tied to particular industries. Thus, when that industry is under threat from imports, all factors tied to it will support protection. Likewise, when an industry is highly productive and gaining export markets, all factors within it will favor freer trade. While HOSS predicts cleavages in trade policy based on broad categories of factors (land, labor, capital) (Rogowski 1990), Ricardo-Viner predicts cleavages based on the specific sector in which a factor is invested or employed. In periods, countries, or industries in which factor mobility is limited, Ricardo-Viner may provide a better starting point for understanding economic interests than HOSS.

Modern work in economics has challenged the assumptions of both HOSS and Ricardo-Viner and provides theoretical frameworks that may better fit a globalized world in which capital and other factors freely flow across international borders. New trade theory, which Paul Krugman and others developed in the late 1970s, challenged the assumption of constant returns to scale in production. If instead production exhibits increasing returns to scale—that is, production becomes more efficient when carried out on a large scale—then industries and countries that initially begin production can outcompete new, smaller entrants into the industry (Krugman 1979). This model can provide justification for government protection of new industries, so that they can get a head start on potential competitors and grow in scale to become efficient exporters.[8] In addition, new trade theory assumes that consumers prefer to have choice among a number of brands within an industry; thus, for example, the variety of luxury car brands that we observe. These assumptions lead to models that help to explain why we observe so much trade among countries with similar factor endowments, while HOSS predicts trade among dissimilar countries on the basis of comparative advantage. Under new trade theory, countries specialize in producing a few brands of a given product and will trade these brands with one another. Germany exports BMWs to Sweden, and Sweden exports Volvos to Germany.

While new trade theory drew attention to the industry as the major unit of analysis, the so-called new new trade theory delves even deeper, focusing on variation among firms within an industry (Melitz 2003). Within any industry in a country, firms will vary in their level of productivity. When trade opens up, the most productive firms will become exporters, and the least productive firms will be driven out of business. Thus, even within an industry we expect to observe variation in preferences for protection, with globally competitive, productive firms preferring free trade and less productive firms demanding protection. With international competition, the population of firms changes as the least productive are driven out of business. Within this new, smaller population of remaining firms, the threshold at which firms are productive enough to export rises, so firms that were formerly marginally in support of freer trade can now become protectionist instead. Empirical explorations of new new trade theory are emerging, providing the foundation for a wave of work in political science asking about individual-level preferences for protection.[9]

One additional foundational economic model of trade, this one focused on the political economy of trade, has become essential to the analysis of the politics of trade. Gene Grossman and Elhanan Helpman, in what has become known as the protection-for-sale (PFS) or Grossman-Helpman model, examine the interplay between governments and sectors that demand protection.[10] They assume that the government values both aggregate welfare in the country, which is harmed by trade protection, and contributions from economic actors who demand protection in exchange. Sectors of the economy can be either organized or not. Organized sectors can offer the government a specified contribution in exchange for a particular level of protection. The government chooses to provide protection to some industries, until it reaches a point where further protection would reduce aggregate welfare enough to make the government worse off.

This model offers some clear predictions about the level of protection given to various industries and has received substantial empirical evaluation. Some of the main insights of the PFS model are discussed here. First, governments that more highly value aggregate welfare will provide less trade protection. Political scientists have thus linked the PFS model to variation in domestic institutions that determine the extent to which governments must be responsive to general welfare concerns. Second, organized industries will receive protection, while industries that are not organized will receive no protection or be subject to taxes on exports.[11] Third, government will provide more protection to those industries for which trade distortions will have the smallest impact on aggregate welfare. In this model, that means that protection will be higher for goods for which demand is relatively inelastic. If demand is inelastic—not highly responsive to price—then providing protection will generate lower distortions to the overall economy and have less impact on overall welfare. Empirical tests of the PFS model have generally found support, in that industries where demand is inelastic do tend to receive higher levels of protection (Goldberg and Maggi 1999). However, empirical tests have also led to some surprising results, such as the finding that the US government puts a much greater weight on aggregate welfare than on contributions, to an extent that seems implausible. When connecting economic models of trade interests to the actual provision of protection, many political scientists begin with some version of the PFS model.

Models of economic interests in trade are an essential starting point in studying the politics of trade. They provide insight into the demand for protection. The PFS model provides one way of connecting that demand for protection to its supply by governments, but its model of the government is very simple: just an actor that maximizes some weighted combination of aggregate welfare and contributions from sectors. Where these weights come from is not examined, nor is any other aspect of government. Political scientists probe much more deeply into the institutions, both domestic and international, that channel demand for protection or for freer trade into actual policy outcomes.

As mentioned in discussion of the PFS model, preferences regarding trade policy interact with the organization of economic interests. Interests that are diffuse and so difficult to organize, or that face other obstacles to mobilization such as unfortunate geographical distribution,[12] will find it more difficult to have their preferences reflected in policy outcomes. Protection tends to help more particular, well-organized interests, while harming diffuse interests such as general consumer welfare. Trade policy battles thus often come down to concentrated, particularistic interests demanding protection from international competition against more diffuse, disorganized interests in free trade that reduces distortions to the national economy. Domestic institutions become essential in explaining policy at this point, as they help to determine the degree to which governments are responsive to particularistic versus general interests.

One crucial set of institutions that play into this process are social institutions that organize broad coalitions and effectively present their demands to government. If unskilled labor, for example, is organized through encompassing and effective unions—as in the United States in the mid-twentieth century—labor's interests are more likely to influence trade policy than in the absence of such unions. When interests are narrowly organized, along sectoral or regional lines, they are likely to put less weight on aggregate welfare and be more protectionist. The more narrow the organization of interests, the more protectionist demands are likely to be. Thus it is not surprising that where labor is organized on a country-wide basis, as in much of Western Europe, labor's demands are less protectionist (McGillivray 2004).

Political institutions become linked to the social institutions that organize interests. Some political institutions encourage tight links between narrowly organized interests and government; others create governments that are necessarily more responsive to broad interests. In a very broad-brush sense, democracy is an important factor in this equation. To varying degrees, democratic institutions force politicians to respond to broad constituencies rather than the narrow base of support that we might find in a personalistic dictatorship, for example. This logic suggests that in general, moving toward more democratic institutions should empower broad interests and in many cases support movement toward freer trade. We do observe, again in a very general sense, that recent waves of democratization have gone hand in hand with trade liberalization, although attributing causal mechanisms in this process is difficult. In a more systematic examination, Milner and Kubota (2005) find that developing countries that are more democratic are also more likely to engage in trade liberalization, corroborating the general insight.[13]

Scholars also tie more specific elements of political institutions to patterns of protection. When politicians are elected on a narrow regional basis, they are likely to be highly responsive to the economic conditions of their regional constituency and less responsive to national welfare concerns. We would therefore expect that politicians elected on a broad national basis—such as the president in the United States—would tend to support free trade, while members of the legislature who are elected by a small district would be more protectionist. Lohman and O'Halloran (1994), for example, provide support for this hypothesis about the relationship between the size of the constituency and the politician's stance on trade policy. Similarly, political parties that are organized along broad lines of class are more likely to support free trade than are those that are tied to specific industries or regions. Rogowski (1987) has argued that proportional representation systems, in which voters choose a party rather than an individual candidate, will result in less protectionist outcomes than those in which elections are for a specific individual candidate, as in the United States.[14] Beyond electoral systems, other aspects of domestic institutions will determine trade policy. For example, in the United States a shift in authority to provide protection away from Congress to the president coincided with the move away from very high levels of protection in the interwar period (Bailey, Goldstein, and Weingast 1997; Lohmann and O'Halloran 1994). In many developed countries today, much of the action on trade policy takes place within agencies rather than legislatures, as the agencies are empowered to provide temporary relief from protection through safeguard provisions in international agreements. These agencies can operate without much public visibility and can be captured by narrow interests, perhaps leading to an increased tendency to protect threatened industries.

Studies of domestic institutions tend to examine individual countries in isolation. However, as the previous section of this chapter discussed, over time more and more trade policy is made not by individual governments, but in the process of international negotiation and through the work of international institutions. A complex web of bilateral and multilateral trade agreements, regional and other preferential trade organizations, and the global WTO regime now constrain individual states' trade policies. Governments enter these agreements voluntarily, but once in it is very costly to exit such commitments, and as trade competitors enter agreements, choosing to remain outside of them can become prohibitively expensive. Thus, international bargaining and international institutions are another crucial channel through which interests are aggregated into trade policy outcomes.

Governments that enter into international negotiations on trade or that request admission to a trade organization are typically driven by the desire to gain access to additional markets (driven, in turn, by the interests of exporters and potential exporters back home). While economists focused on comparative advantage decry such language, negotiations therefore take the form of offering reciprocal "concessions" in terms of access to the home market. Reciprocity is central to international trade politics. During initial bargaining, governments offer to lower barriers to specific types of trade in exchange for lower barriers to their exports in other countries. Reciprocity continues to dominate the functioning of agreements and trade institutions after governments reach deals. Countries are often tempted to cheat on trade agreements, providing protection to home industries during hard times (Downs and Rocke 1997). If they do and are caught, enforcement takes the form of retaliating by imposing punitive tariffs on that country's exports in the affected market. Complementing reciprocity, the concept of most-favored-nation (MFN) status extends deals that countries reach bilaterally, or among a small group, to all other members of an organization. Reciprocity and MFN status characterize the agreements and institutions that structure modern international trade, although we increasingly see regional deals offering market access that goes beyond what countries receive through MFN status.

As discussed in the previous section, the modern global trade regime dates to the creation of the GATT in 1947, replaced by the more formalized WTO in 1995. Throughout the history of the GATT/WTO, rounds of multilateral negotiations have led to commitments to reduce barriers to trade. Small groups of states reach deals on the basis of reciprocity and then use MFN to extend these deals to all members of the regime. The WTO also has rules for providing temporary relief to threatened industries and a dispute resolution mechanism for members. While technically all members of the WTO have the same voting power, in practice the process of negotiation among the major trading powers—the United States, European Union, and Japan—has meant that deals have favored the interests of these rich, developed countries, and the concerns of developing countries have not been as high on the agenda (Gowa and Kim 2005).

The WTO launched the latest round of negotiations, known as the Doha Round, in 2001, and over a decade later the round has not yet reached a final deal. Doha Round negotiations have been characterized by confrontation between developing countries who want to see liberalization of agricultural trade in the rich world and developed countries concerned about trade in services and protection of intellectual property. A draft deal in December 2013 renewed hopes that the Doha Round would eventually be completed. But even in the absence of major new trade deals, the WTO dispute resolution mechanism and existing framework of rules provide an institutional structure that sets the foundation for members' trade policies. The WTO also engages in monitoring of members' trade policies and in a variety of ways provides extensive information about trading activities. The provision of information and mechanism for resolving disputes are crucial to the maintenance of multilateral cooperation on trade issues.

As negotiations in the WTO have stalled or failed to address individual states' trade concerns, governments have increasingly turned to RTAs and PTAs. As of 2013, the WTO estimates that there were 379 RTAs in force. Some of the most important RTAs are the European Union (EU); the North American Free Trade Agreement (NAFTA); and Mercosur, an agreement among South American countries in which Brazil plays a leading role. Some RTAs are bilateral, and others are very large—the EU has twenty-seven members and continues to expand. Like the WTO, RTAs operate on the basis of reciprocity. They vary greatly in the extent to which they are formalized and provide institutional mechanisms for dispute resolution, monitoring of trade policies, and so forth. One ongoing debate among economists and political scientists revolves around the relationship between the WTO and RTAs. Does increasing reliance on RTAs as the mechanism of liberalization undermine the multilateral trade regime and introduce distortions into global trade? Or do RTAs allow for more rapid, deeper integration among small groups of countries that will eventually translate into deep multilateral liberalization?[15] Regardless of the answer to this question, in the absence of successful negotiations in the WTO, states will pursue their interests through other international trade institutions.

The chapters in this volume build on these historical and conceptual foundations. Economic models of trade interests provide a starting point. Political scientists focus on aggregation of interests through organization, bargaining, and institutions, on both the domestic and international levels. In the next section I explain how this general framework is reflected in the organization of this volume.

Organization of This Volume

The chapters in this volume are organized into six sections, which loosely follow the conceptual and theoretical framework just discussed. The contributions survey both classic work in the field and new developments. They outline new research agendas and standing puzzles and present new, cutting-edge research on the politics of international trade.

The first section provides an overview of historical, theoretical, and methodological developments in the study of trade. Joanne Gowa explains the GATT/WTO system, both its origins in international negotiations and its effects. She argues that the benefits of the system have largely been concentrated among its large founding members and ties this result to major powers' security concerns. Gordon Bannerman provides a conceptual overview of the idea of free trade. What began as a unilateral, voluntary commitment to removing all restrictions on international exchange has evolved into a much more nuanced understanding of the benefits and costs of trade liberalization. Chad P. Bown focuses on the specific instruments that governments have used in the modern era to limit and channel trade flows. The GATT/WTO has drastically reduced what was previously the major impediment to trade, tariffs (taxes on imports at the border). But that process has revealed, or perhaps even encouraged, the use of administrative means of protection known collectively as nontariff barriers (NTBs). Finally, Raymond Hicks delves into the methodological challenges of testing theories of trade politics by concentrating on the debate over the effects of the GATT/WTO. The availability of new data and the rapid development of new statistical methods have challenged scholars attempting to stay at the frontiers of research. Hicks offers some central lessons of methodological developments for ongoing empirical research.

Parts 2 through 5 consider a particular set of actors in international trade. Part 2 begins by looking at domestic society. Jason Kuo and Megumi Naoi examine what is probably the most micro-level of analysis, the individual. Advances in survey research techniques have opened up the ability to test theories of trade by asking whether the predicted effects obtain at the individual level. Kuo and Naoi survey this new research on individual attitudes and present some new results. Within domestic society—especially in developed countries—the role of labor in debates over trade policy has often been central. Erica Owen looks at the work on whether labor is an important source of protectionist sentiment and how the role and attitudes of labor have changed over time. Finally, B. Peter Rosendorff links the domestic to the international level through the lens of trade disputes. Because domestic actors are subject to economic shocks and put pressure on governments to shield them from these shocks, international trade agreements allow for some flexibility in the enforcement of trade deals. However, governments can be tempted to use this flexibility in unintended ways, creating the need for dispute settlement procedures in international agreements. Rosendorff argues that these procedures are best seen as information-providing devices.

Part 3 turns to firms as the unit of analysis. The five chapters in this section consider the role of the firm in trade policy from different angles. Lucy M. Goodhart begins by looking at efforts to explain variations in the level of protection that different industries receive. She presents a detailed discussion of the PFS model, empirical studies of PFS, and where it falls short of explaining observed variation in levels of protection. She discusses new work that goes beyond PFS to present new models of the demand and supply of protection by industries. Timothy M. Peterson and Cameron G. Thies focus on the role of international trade within industries. A number of analysts have studied the implications of intraindustry trade for domestic outcomes such as lobbying activity. Peterson and Thies expand this discussion to international-level implications, such as political affinity and militarized conflict. Michael Plouffe analyzes the new new trade theory summarized above and its implications for variation in protection. As discussed, the key insight of this body of work is that, even within a given industry, firms are heterogeneous in their levels of productivity. This heterogeneity gives rise to variation in demands for protection or liberalized trade. Tim Büthe examines the interaction of antitrust policies and trade policies. Economists have typically understood these policy areas as substitutes; there is little need for antitrust regulation to keep the domestic market competitive if the market is open to international competition. However, empirical evidence does not support this interpretation. A resolution to this conflict may lie in the recognition that firms lobby regulators not just in their own country, but across national borders. Finally, Hatch, Heiduk, and Bair consider the implications of the growth of multinational corporations (MNCs) for trade policy. Increasingly, MNCs use a model of production that relies on networks—different elements of the productive process are scattered around the globe, building on comparative advantage and variation in legal environments. Focusing on production networks in different regions, Hatch, Heiduk, and Bair show how global production networks fundamentally change the context of international trade.

Part 4 concentrates on domestic political institutions. As mentioned above, studies of newly democratizing states have generally found that democratization and trade liberalization go hand in hand. However, Bumba Mukherjee argues that this generalization misses a great deal of nuance in the pattern of protection in developing countries that undergo democratization. While these governments typically do liberalize trade in low-skill goods, they often maintain or increase protection of skill-intensive industries. In addition, Mukherjee examines the question of whether trade liberalization itself is a contributing factor to democratization. Stephanie J. Rickard turns to political institutions in established democracies, where a major source of variation is in the details of electoral systems. While there is a great deal of work on the effects of electoral systems, there is surprisingly little consensus on those effects. Rickard argues that the lack of robust empirical findings in this literature so far is not a reason to declare the research program a failure and identifies new directions for research. Daniel Yuichi Kono takes on the relatively new and challenging topic of trade policy in authoritarian regimes. As nondemocracies, especially China, play a larger role in the global trade regime, it is crucial that we understand trade politics within these states. Yet we have few generalizations about how trade policy is made in authoritarian states. Kono identifies four elements of authoritarian regimes (economic structure, coalition size, time horizons, and leader's mode of entry into power) as promising bases for developing theories of authoritarian regimes. Finally, Kerry A. Chase looks at the interaction between domestic geography and institutions. Different industries have different geographical organization within countries, which in turn affects their ability to influence government policy. Chase identifies the central questions in this research area, such as whether geographic concentration is helpful or harmful for the pursuit of trade interests.

Part 5 jumps to the international level of analysis. As discussed above, international trade politics is highly institutionalized, and the four chapters in this section look at these international institutions from different perspectives. Leslie Johns and Lauren Peritz focus on the design of trade agreements. They provide insight into why PTAs are designed in particular ways, but also suggest that this literature needs to move beyond examining individual PTAs to take a more systemic view that includes the interaction of PTAs with one another. Soo Yeon Kim studies RTAs, in particular their role in promoting "deep integration" that goes well beyond removing impediments at the border to trade flows. As global trade negotiations stall, this regional promotion of deep integration may represent the future of international trade politics. Christina L. Davis and Meredith Wilf consider the expansion of the WTO over time. What determines the pattern of WTO expansion, and what are its implications? Davis and Wilf argue that noneconomic interests are important in explaining decisions to join the WTO. Finally, Marc L. Busch and Krzysztof J. Pelc focus on the dispute settlement elements of the WTO, which provide ongoing support to liberalization efforts even in the face of stalled negotiations. Busch and Pelc argue that existing political science literature on dispute settlement does not pay sufficient attention to its legal dimensions.

Trade policy does not exist in a vacuum. It interacts with other policy areas, such as national security, human rights, and capital flows. Part 6 examines these issue linkages. Erik Gartzke and Jiakun Jack Zhang take on the perennial topic of the relationship between trade and war, arguing that this literature needs to incorporate better models of domestic politics to make sense of conflicting empirical results. Mark S. Copelovitch and Jon C. W. Pevehouse note the surprising deficit of work linking exchange rate and trade policies, in spite of widespread understanding that these policies are codetermined. They present initial work that bridges these "silos" in the literature. Does international trade harm the natural environment, and how should environmental concerns enter into trade agreements? J. Samuel Barkin argues that these questions are more complex and multilayered than has been appreciated in the literature. Trade policy has always been a central part of governments' development policies, as the discussion above of ISI indicated. Mark S. Manger and Kenneth C. Shadlen provide an in-depth examination of the relationship between trade and development, arguing that the interests of exporters in developing countries weigh heavily in the policy process and force a shift in theories of trade policy. Susan Ariel Aaronson takes on the fraught question of the relationship between trade and human rights. While much of the literature has focused on the introduction of human rights provisions in trade agreements, Aaronson finds that this literature misses the big picture in its focus on personal integrity rights to the exclusion of other, perhaps more relevant, aspects of human rights for trade. Finally, Margaret E. Peters studies the interaction of migration policies and trade policies. She argues that flows of people and goods are to a large extent substitutes for one another, with predictable implications for the policy preferences of firms and individuals regarding immigration and trade protection.

Understanding the politics of international trade requires a grasp of the economics of trade, how economics translates into variation in preferences over trade policy, and how these preferences are aggregated through negotiations and institutions into policy outcomes. The chapters in this volume present foundational and path-breaking research on each stage of this process. Both theories and empirical studies of trade are a thriving area of research in international political economy, and they draw on a wide variety of analytical perspectives. These perspectives are represented in this volume, which we hope will serve as both an introduction to the subject and the impetus for further research.

Notes

1. See Bannerman chapter in this volume.
2. See Copelovitch and Pevehouse in this volume for analysis of the relationship between trade and exchange rate policies; and Peters for the relationship between trade and migration.
3. However, a lively debate rages about the extent to which the GATT itself actually contributed to increased trade flows. See chapters by Hicks and by Gowa in this volume.
4. On PTAs, see the Kim chapter in this volume.
5. See chapters by Rosendorff and by Busch and Pelc in this volume.
6. See the Bown chapter in this volume.
7. As the industry has become dominated by multinational corporations with global production networks, the pattern of lobbying has become more complex. See the chapter by Hatch, Heiduk, and Bair in this volume.
8. Krugman and others acknowledge that the difficulty of guessing which particular industries might succeed often outweighs the potential benefits of government support.
9. See the Kuo and Naoi chapter in this volume.
10. See the Goodhart chapter in this volume for further discussion of the PFS model.
11. Taxes on exports are highly unusual in the modern economy, so this implication of the PFS model has not received empirical validation.
12. See the Chase chapter in this volume.
13. See also the chapters by Mukherjee in this volume on new democracies and by Kono on dictatorships.
14. But see Rogowski and Kayser (2002). The Rickard volume in this chapter studies the impact of electoral systems on trade policy.
15. See Lawrence (1991).

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