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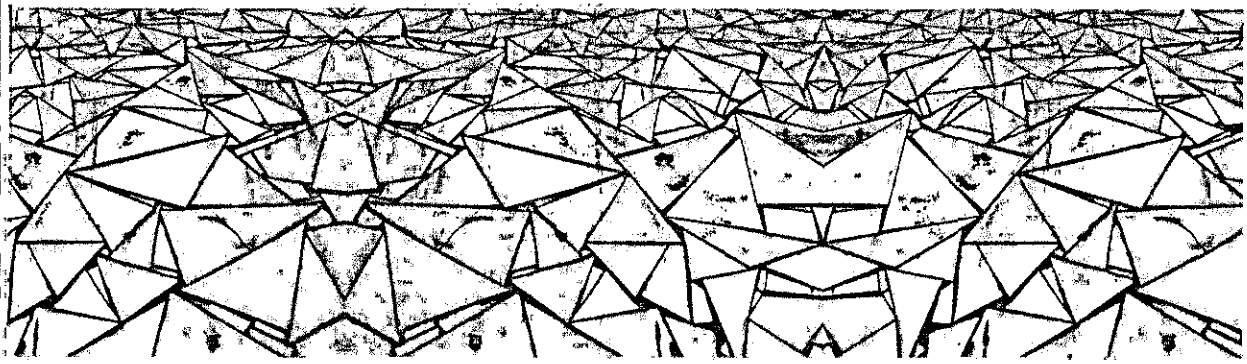

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Contents

29

International Trade

Helen V. Milner

International trade is one of the most potent issues in domestic and international politics these days.[1] As an element of globalization, international trade has become a contentious issue, as the protests and lack of agreement in the series of WTO conferences in Seattle, Cancun, and Geneva in the past decade have shown. The WTO's Doha Development Trade negotiations remain at an impasse as nations around the world fail to agree to a new compact. In international politics, trade is today a premier instrument of statecraft, as witnessed by the plethora of trade agreements being signed all over the world. How can we explain the trade policy choices that states make? What theories do we possess that illuminate the nature of countries' trade relations?

Trade has become a critical issue largely because countries' economies are now more open to flows of imports and exports than ever. This has occurred both because of technological changes as well as government policies. Since the 1970s, countries across the globe have adopted freer trade policies.[1] Many developing countries, like Mexico, India, Poland, Turkey, Ghana, and Morocco, unilaterally liberalized their trade policies. In addition, the successful conclusion in 1994 of the multilateral trade negotiations under the GATT (the Uruguay Round) further liberalized trade among many developed countries and between them and developing ones. This global "rush to free trade", as Rodrik (1994) has called it, is important because it has helped further integrate countries into the world economy.[2] In 2004, UNCTAD data showed that almost 1/3 of total world GDP was accounted for by exports (UNCTAD, 2006). But it has also increased all countries' exposure to the pressures of quickly changing global markets, thus upsetting domestic politics at times. Furthermore, some evidence suggests that rising trade has brought growing income inequality (Goldberg and Pavcnik, 2007; Verhoogen, 2008; Harrison, 2007). International trade and domestic politics have never been more interrelated.

The scholarly literature on international trade is vast. Both economists and political scientists have contributed much to it, as recent surveys by economists such as Reizman and Wilson (1995), Rodrik (1995), Helpman (2006), and Bernard et al. (2007), and political scientists such as Cohen (1990) and Lake (1993) show. This chapter will focus more on the contributions of political scientists, but will include the research of economists where it is particularly important.

New theory and empirics have been developed in the past decade; these should inform the next generation of studies of trade.

Much of the research by economists in international trade has dealt with topics that political scientists have not examined. Economists remain very interested in the three issues: the composition and direction of trade flows, the welfare effects of trade, and trade barriers. Why certain countries import and export particular goods or services to certain other countries has been a central question. Much theory in international trade addresses this question; for instance, one of the central theorems in trade theory, the Heckscher–Ohlin theorem, explains trade flows. The developments in trade theory in the 1980s moved beyond the explanation of international inter-industry trade flows to explain intra-industry flows (Helpman and Krugman, 1985). This research produced a massive literature on the dynamics of trade in imperfectly competitive markets, emphasizing the importance of economies of scale and agglomeration effects. In the 2000s, a "new, new trade theory" developed. This theory, often known as firm heterogeneity models, has focused on individual firms and how differences among them can lead to intra-firm trade flows and help explain many of the industry dynamics in trade (Melitz, 2003; Helpman et al., 2004; Helpman, 2006). These three generations of trade theory concentrate mostly on explaining trade flows and their welfare consequences.

Economists have also devoted attention to the issue of trade barriers, initially focusing on the welfare consequences but later on the politics. The central theoretical conclusion of the field has been that free trade is the best policy for most countries most of the time. Thus, economists have puzzled over why, given this finding, countries invariable employ at least some protectionist policies. They have tended to ask why countries protect some of their industries, when free trade would be better economically. By and large, the answers have focused on the preferences of domestic actors for protection. Using the Stolper–Samuelson theorem and other economic theories, they have explored why certain domestic groups would prefer protection and why they would expend resources to lobby for it. Central to this debate is whether specific-factors models of trade perform better than Stolper–Samuelson type models, depending on factor endowments. A large empirical literature examining levels of protection across industries and the development of models of protection has followed. A great deal of this literature explains why protectionist policies should never change, which is anomalous given the dramatic changes in trade we have seen (e.g., Drazen, 1996; Fernandez and Rodrik, 1991). Ultimately, then, economists have been pushed into studying the politics of trade.

Recent research has focused on how protection can arise from international pressures. So called terms-of-trade (TOT) externalities can induce large trading states to adopt protectionist policies, and if all do so everyone is left worse off. Economists have thus explained the emergence of the GATT/WTO as one efficient way of solving this prisoners' dilemma (Bagwell and Staiger, 1999, 2002, 2010). Governments can gain from negotiating a trade agreement, if otherwise each would try to shift costs onto the other and as a consequence adopt inefficient unilateral policies. A substantial amount of new research has thus analyzed the reasons for and operation of international trade agreements (Maggi, 1999; Ossa, 2009; Maggi and Rodriguez-Clare, 1998; 2007). Much of this literature seeks to show how the impact of international agreements on trade flows can affect the welfare consequences of trade.

In contrast, political scientists have rarely focused on explaining the composition or pattern of trade flows, and have been less concerned with the welfare consequences of trade. Only some recent work has explored the political roots of import and export flows among countries. But like economists they have been interested in the issue of protectionism. However, they have tended to see protection as more of the norm and have puzzled more over why a country would ever liberalize its trade policy or adopt free trade. Politically, protectionism seems eminently reasonable. Explaining both protectionist and free trade policies and changes in them have occupied political scientists.

There are at least four sets of factors that political scientists refer to when trying to understand trade politics. In this chapter, I will survey how these four factors have been discussed in the literature. First, some focus on the *preferences* of domestic groups for protection or free trade. These scholars see trade policy as ultimately being shaped by the preferences of the strongest groups in domestic politics. Why do some groups favor protection, and some free trade? Do these preferences change over time, and if so, why? Which groups have a greater ability to have their preferences heard and translated into policy? A standard approach to the issue of trade policy preferences has developed in so-called Open Economy Politics (OEP) models (Lake, 2009). These often use economic models of trade to deduce such preferences.

Second, domestic political *institutions* may affect the formation of trade policy. Much as in the macroeconomic issue-area, where independent central banks are an important factor, political institutions may matter for trade. They may shape the ways in which the preferences of actors are translated into policy. They may affect which domestic groups have the most access and voice in policy making. Changes in institutions may provide a natural way to examine their impact. As with the recent wave of literature on institutionalism in economics and political science (Engerman and Sokoloff, 2008; Hall and Taylor, 1996), the literature on trade has increasingly examined the role of domestic political institutions. It also has joined the debate about the impact of regime type on foreign policy; whether democracy makes a difference for trade policy is now a topic of interest.

Third, some claim that factors at the international level shape trade policy choices. The nature of relations among countries and the structure of the *international system* may affect domestic choices about trade. Hegemonic stability theory was an early structural theory of trade. In addition, recent research has paid much more attention to the role of international trade agreements, especially the multilateral trade system embodied in the GATT/WTO. International institutions in the trade area have garnered more attention.

Finally, some scholars have asked whether and how *international trade* itself affects states and the international political system. They use trade as an independent variable. The debate on globalization is especially relevant. Some claim that rising trade flows produce important changes in domestic preferences, institutions and policies. The rest of this chapter asks how political scientists have addressed these four central questions about trade politics.

TRADE FLOWS AND TRADE POLICY

Since the Second World War, the main instrument of trade policy, tariffs (which are taxes on imports), among advanced industrial countries have been reduced to insignificant levels. After the latest round of international trade negotiations sponsored by the GATT – the Uruguay Round, completed in 1994 – the average tariff for the developed countries was reduced from 6.3% to 3.8% (World Trade Organization, 1996: 31). Nontariff barriers (NTBs), which include quantitative restrictions, price controls, subsidies, voluntary export restraints (VERs), etc., on the other hand, have proliferated, in part countering the decline in tariffs. But again, the Uruguay Round slowed or reversed this, helping to reduce quotas, subsidies, and VERs across a wide range of industries and to convert these barriers into more transparent tariffs (World Trade Organization, 1996: 32). Nevertheless, while tariffs have declined for advanced industrial countries, NTBs still make up an important arsenal of barriers to trade. For these countries, close to 20% of all categories of imports are subject to some form of NTBs (Laird and Yeats, 1990). Overall, recent estimates suggest that NTBs elevate trade barriers by some 30% (Kee et al., 2008).

For most of the postwar period, LDCs have used trade barriers extensively, many for the explicit purpose of import-substituting industrialization (ISI). But since the late 1970s, many developing countries began liberalizing trade and adopting an outward-looking export orientation (International Monetary Fund, 1988). The conclusion of the Uruguay Round promoted this by reducing trade barriers in many areas of key interest to the LDCs, such as textiles and agriculture; it also brought many new developing countries into the international trade organization, the WTO (World Trade Organization), inducing them to follow its rules. In addition, the transition from command or communist economies to market-based economies in many countries in the 1990s further accelerated the trend toward trade liberalization globally. All of these changes have resulted in one striking fact about the period since 1980: there has been a far-reaching liberalization of trade barriers across the globe (Rodrik, 1994; World Trade Organization, 1996; Milner and Kubota, 2005; Milner and Mukherjee, 2009). The developing country economies have joined the world economy and are increasingly important to its operation.

Concomitantly, and in part a product of this, the growth of world trade has surged. For most of the postwar period, the growth of trade has outpaced growth in world output. Also important are changes in the nature of global trade: there has been tremendous growth in intra-industry trade (IIT) and in intra-firm trade (IFT). IIT, which involves the exchange of goods from within the same industry, say Toyotas for BMWs, accounted for between 55 and 75% of trade in advanced industrial countries by 2000 (Greenaway and Milner, 1986: table 5–3; OECD, 2002: 71, table VI.1, p. 161); for the United States, this figure ranged between 70% and 83% in the 1990s (Bergsten and Noland, 1993: 66). IFT, which involves transfers of goods within one company across national boundaries, has also grown; it accounted for over 40% of total US imports and 30% of US exports in the 1990s (Encarnation, 1992: 28; OECD, 2002: 71, table VI.2, p. 164). While there exist very few measures of intra-firm trade, we do know that multinational production and trade in general have been booming. By 2004, for instance, the total sales of foreign affiliates of multinational firms represented 51% of the world's GDP, almost doubling the share of world exports. Furthermore, since 1990, while exports increased by a factor of five, multinational firm trade has increased by a factor of seven (Ramondo, 2011: 2). These two types of trade are important because they tend to have different effects than standard, inter-industry trade. Generally, they are associated with fewer displacement effects and less conflict. As Lipson (1982: 453) argues, "intra-industry trade provides a powerful new source of multilateral interest in the liberal trade regime: diminished adjustment costs in some sectors, and higher net gains from trade as a result." On the other hand, some argue that intra-industry trade may enhance protectionist pressures because it transmits economic shocks faster and makes political action easier by reducing the number of firms lobbying for protection in any sector (Kono, 2009; OECD, 2002: 71, 169).

Finally, a significant regionalization of trade has occurred. Intraregional trade flows within the European Union, East Asia, North America, and Latin America have become more important as a share of total trade. This is partially a result of the regional integration agreements signed by these countries in the past two decades – for example, the single market in Europe, NAFTA, ASEAN, APEC, and MERCOSUR (WTO, 1996: 17–22). The number of regional agreements notified to the General Agreement on Tariffs and Trade (GATT) from 1948 to 1994 has waxed and waned. Few Preferential Trade Agreements (PTAs) were established during the 1940s and 1950s; then a surge in preferential agreements occurred in the 1960s and 1970s, and the incidence of PTA creation again tailed off in the 1980s (de Melo and Panagariya, 1993: 3). But there has been a significant rise in such agreements since the 1990s; the WTO counts about 250 active PTAs as of 2009 and more than 50% of all world commerce is currently conducted within regional trade arrangements (Serra et al., 1997: 8, WTO, 2010). Indeed, PTAs have become so pervasive that all but a few parties to the WTO now belong to at least one (World Trade Organization, 1996: 38). This regionalization of the trading system has been treated as evidence both of increasing protectionism and of increasing liberalization. The key issue is whether and how much these agreements, which lower barriers between participants, stimulate trade among members at the expense of nonmembers. If so, then they might foster greater trade liberalization globally; if not, then they may be a force for undermining the integrated world economy, creating exclusive trading blocs. Although the results are mixed, recent analysis tends to indicate that PTAs increase trade among members and do not affect trade outside the group very much (Baier and Bergstrand, 2007; Freund and Ornelas, 2010). Increasingly, international agreements play an important role in trade.

TRADE POLICY PREFERENCES AND DOMESTIC POLITICS

Some of the earliest models explaining trade policy have focused on "pressure group politics". That is, they explain the trade policy choices by governments as a function of the demands made by domestic interest groups. Domestic groups seek protection of liberalization because such policies increase their incomes. The expected distributional consequences of trade policy thus become the explanation for its causes. Adam Smith ([1776] 1976) may have been one of the first to recognize this, when he noted that the subversion of the national interest in free trade is the frequent outcome of collusion among businessmen. Schattschneider (1935) was another early proponent of the view that special economic interests were mainly responsible for the choice of protectionism; he showed how these pressure groups hijacked the American Congress in 1929–1930 and via a logroll produced one of the highest tariffs ever in American history, the Smoot–Hawley tariff.

Since then, development of the pressure group model has attempted to delineate more specifically the groups that should favor and oppose protection and the conditions under which they may be most influential. One motive for this has been the observation that the extent of protection and the demands for it vary both across industries and across countries. If all domestic groups always favored protection, then such variance should not exist. Explaining this variance has been a key feature of the literature. It has depended on theories about two factors: the sources of trade policy preferences and the nature of political influence of these interest groups. Much of the literature on preferences for trade policy has attempted to deduce groups' interests from economic theories of trade. Instead of relying on ad hoc or even post hoc methods for assessing the trade policy preferences of domestic groups, much research in this field uses economic models of trade to identify the main agents and their policy preferences. It is assumed that these agents are trying to maximize their incomes, and the question is what trade policy helps them do this the best. Models of international trade that illuminate its distributional consequences are of particular interest in this effort to systematically deduce preferences (Lake, 2009).

Using economic models of trade, the main divide over the sources of trade policy preferences has been between so-called factoral versus sectoral (or firm-based) theories of preferences. In both cases, preferences are deduced from economic models that show how changes in income accrue to different actors when policy changes from free trade to protection or vice versa. These types of theories focus on the distributional effects of trade; they associate preferences for protection with those who lose (income or assets) from greater trade flows and preferences for liberalization with those who gain. Factoral theories rely on the Stopler–Samuelson theorem, which shows that when factors of production, like labor and capital, can move freely among sectors, a change from free trade to protection will raise the income of factors in which a country is relatively scarce and lower it for factors that are relatively abundant. Thus, scarce factors will support protection, while abundant ones will oppose it. Rogowski (1989) has developed one of the most interesting political extensions of this, claiming that increasing (decreasing) exposure to trade sets off either increasing class conflict or urban–rural conflict according to the factor endowments of different countries.

In contrast, sectoral and firm-based theories of trade preferences follow from the Ricardo–Viner model of trade, also called the specific-factors model. This model claims that because at least one factor is immobile, all factors attached to import-competing sectors lose from trade liberalization while those in export-oriented sectors gain. Conflict over trade policy thus pits labor, capital, and landowners in sectors besieged by imports against those who export their production. How tied factors are to their sectors – that is, the degree of factor specificity – is the key difference between these two models (Alt et al., 1996).

A number of studies have tested these two models, sometimes singly and sometimes simultaneously. Frieden (1990), Irwin (1994, 1996), and Magee et al. (1989) have found evidence in support of the specific-factors model; in contrast, Balistreri (1997), Beaulieu (1996), Midford (1993), Rogowski (1989), and Scheve and Slaughter (2001) find support for the Stolper–Samuelson type factoral models. Hiscox (2002) advances significantly the debate on these two models. He measures capital and labor mobility and shows they vary over time. Furthermore, he demonstrates that the cleavages in trade policy follow these changes in mobility. When internal mobility of capital or labor is high, Stolper–Samuelson type of effects are seen; when mobility is low, then sectors emerge as the main political groupings around trade. Debates over factor mobility and trade policy continue to be important (Ladewig, 2006). In addition, research has moved forward to look at legislative voting on trade and how the economic characteristics of legislators' districts might translate into their preferences about trade; support for the different economic models of trade policy preferences have been found here as well (Hiscox, 2002; Ladewig, 2006; Milner and Tingley, 2011). Despite these differences, substantial evidence suggests that economic models of trade can provide useful deductive tools for identifying the major cleavages surrounding trade policy, at least in the advanced industrial countries. Research including the developing world has suggested that these patterns of preferences, especially ones deduced from Stolper–Samuelson models, may provide explanatory power there as well (Mayda and Rodrik, 2005; Dutt and Mitra, 2006; Milner and Kubota, 2005).

In addition to these models of trade preferences, others have looked at how particular characteristics of industries affect patterns of protection. Anderson (1980), Baldwin (1986), Caves (1976), Marvel and Ray (1983), Pincus (1975), Ray (1981), and Trefler (1993) have shown how specific characteristics make an industry more likely not only to desire protection but also to be able to induce policy makers to provide it. These regression analyses tend to straddle the debate between sectoral and factoral models of trade politics. Their comparison across industries suggests a sectoral type of model, but many of their findings do not disagree with those resulting from a more factoral view of the world. For example, they tend to demonstrate that in advanced industrial countries low-skill, labor-intensive industries with high and rising import penetration are frequently associated with high protection. In addition, many have shown that export-oriented industries and multinationals tend to favor freer trade and be associated with less protection (Milner, 1988; Gilligan, 1997). This attention to anti-protectionist groups is particularly interesting given the global move toward trade liberalization; one question is whether this movement originated due to the growth in importance of these types of groups domestically.

Developments in economic theories of international trade have also affected the research on trade policy preferences. They have suggested different units of analysis and different variables for differentiating preferences. In the 1980s, the new trade theory focused much on how imperfect competition could influence trade flows and the geography of industry and trade (Helpman and Krugman, 1985). This theory led to increasing attention to the role of scale economies in trade and to how increasing returns to scale might affect industries' preferences for trade. Generally, research indicated that such scale economies tended to make firms more interested in opening markets and in developing larger regional markets through trade agreements (Milner, 1997; Chase, 2005). The "new, new trade theory" which focuses on differences in firms, especially their productivity (Melitz, 2003; Helpman et al., 2004), should lead to more attention being paid to the role of firms in trade policy. While some have focused on the preferences of firms in trade policy making (Milner, 1988), the most recent literature has used factors or sectors of the economy as the main unit of analysis. The new, new trade theory suggests this may be misplaced. Firms within an industry, according to this view, differ greatly; only the largest and most productive ones export and only the very largest and most productive engage in multinational production and intra-firms trade. Preferences within an industry should thus vary along with firm size and productivity. Bombardini (2008) tests such a model of trade preferences and lobbying and shows that it performs better than standard models based on sectors. Future research on the political economy of trade policy should take into account the rich trove of new theory on firms in international trade.

Can these deductive models of societal preferences explain trade policy? As noted above, many of these theories are fairly good at explaining variance across industries in any one country. But in terms of explaining overall directions in national trade policy and cross-national differences, these theories have a number of weaknesses. First, some recent research has challenged whether such deductive models focusing on the distributional consequences of trade account for preferences. Mansfield and Mutz (2009), for instance, find that individuals do not seem to develop trade policy preferences as a result of how trade affects their income; Guisinger (2009) claims that the general public has no knowledge of most trade policy or agreements; and Hainmueller and Hiscox (2006) argue that traditional measures of skill used in Stolper–Samuelson theories of preferences are not good proxies for such theories; rather, these measures show that ideas and information have more to do with trade policy preferences than income maximization. Some research then challenges the internal validity of the deductive models of trade preferences.

Challenges to the validity of deductive models of trade policy preferences have arisen in other ways as well. First, some argue that no theory of how preferences are aggregated at any level, let alone the national one, exists in these models. If firms in an industry are divided over trade policy, how does the sector choose a policy to advocate? If some industries are opposed to liberalization and some support it, how can we predict whether political leaders will agree to international negotiations to reduce trade barriers? The issue of which groups – the winners or losers from trade – are able to influence policy and which are not depends a lot on political factors, such as the clout of the industry or how institutions shape its access to policy makers (McGillivray, 2004). Second, might not these differences in preferences give policy makers much leeway to implement their own preferred policies, thus weakening the influence of interest groups? Political leaders may simply pick and choose the groups that they wanted to "represent" and then build coalitions around their own preferences, rather than being driven by industry pressures. The literature on interest groups in trade policy making continues to wrestle with these issues.

The preferences of other domestic actors have also been the focus of some attention. Many assume that individual voters take their preferences from their role as consumers. Since consumers gain from free trade, they should favor it (e.g., Grossman and Helpman, 1994; Baker, 2008). Other models of individual preferences contradict this: Mayer (1984), for example, introduces an electoral component into the determination of trade policy: Trade policy is determined by the median voter's preferences, which depend on that voter's factor endowments. The more well endowed s/he is in the factor used intensively for production of import-competing goods, the more protectionist s/he will be. Scheve and Slaughter (2001) add a new component by asking how asset ownership is affected by trade policy. They show that the preferences of individual voters will depend on how trade affects their assets. Some surveys have also shown that voters respond positively toward protection out of sympathy for workers who lose their jobs because of import competition. Thus, whether individual voters favor protection or free trade is an area demanding further research, especially in democracies, where elections are often linked to trade policy decisions. Moreover, understanding changes in these preferences may help us account for the recent push to liberalize trade.

A number of scholars have argued that the preferences of interest groups and voters are less important in determining trade policy than are those of the policy makers themselves. Bauer et al. (1972) were among the first to make this point. From their surveys, they showed that constituents rarely had strong preferences about trade policy and even more rarely communicated these to their political representatives. Trade policy depended greatly on the personal preferences and ideas of politicians. Baldwin (1986) and Goldstein (1988) have also argued that it is the ideas that policy makers have about trade policy that matter most. Rather than material factors determining preferences, ideational factors are paramount. Interestingly, Krueger (1997), an economist, claims that it is ideas that have mattered most in trade policy making in the lesser developed countries lately. She argues that it is "ideas with regard to trade policy and economic development [that] are among those [factors] that have changed most radically" from 1950 to the 1990s, helping to explain the recent rush to free trade. Many suggest that the failures of ISI policy and the glaring success of the export-oriented newly industrializing Asian countries in the 1980s forced policy makers to adopt new ideas about trade policy. A key example is Fernando Henrique Cardoso, who co-authored one of the most important books on dependency theory in the 1970s, arguing for the continuation of ISI policies to shelter LDCs from the capitalist world economy (Cardoso and Faletto, 1979). In the 1990s, of course, Cardoso was elected president of Brazil and initiated a major economic reform program, including extensive trade liberalization. Changes in the ideas that policy makers have about trade policy may then, as this example suggests, play a large role in affecting trade policy choices (Goldstein, 1993).

Economic conditions may also affect the preferences of actors and lead to changes in trade policies. The financial and economic crisis of 2007–2009 raised strong fears that protectionism would be resurgent (Eichengreen and O'Rourke, 2009). While Krueger and others, such as Bates and Krueger (1993), Haggard and Kaufman (1995), and Rodrik (1995), attribute leaders' decisions to initiate trade policy reform to crises and economic downturns, another strand of literature reaches the opposite conclusion. For many scholars, bad economic times are a prelude to rising demands for protection and increasing levels of protection. Cassing et al. (1986), Gallarotti (1985), Magee and Young (1987), Takacs (1981), and Wallerstein (1987) all find that declines in economic growth or capacity utilization and/or increases in unemployment and imports tend to increase the demand and supply of protection. This earlier literature sees policy makers responding to the rising demands for protection from domestic groups in bad economic times.

Some of the literature, however, implies that bad economic times allow policy makers more freedom to maneuver, so that they can overturn existing protectionist policies by blaming them for the bad times. For example, Rodrik (1992: 89) claims that "a time of crisis occasionally enables radical reforms that would have been unthinkable in calmer times." He argues that prolonged economic crises of the 1980s were so bad that "the overall gain from restoring the economy's health [in part via trade liberalization] became so large that it swamped distributional considerations [raised by such reforms]" (1994: 79). On the other hand, others, especially Haggard (1995), have argued that crises reduce the maneuvering room of political leaders. They suggest that in the 1980s these leaders were almost forced to liberalize trade (and make other reforms) because of the lack of options and international pressures. Noting the difference between the crises of the 1930s and 1980s, Haggard (1995: 16–19) points out that "In the 1930s, balance of payments and debt crises spurred substitution of imports ... and gave rise to a more autarchic and interventionist policy stance. In the 1980s, by contrast, an inward-looking policy seemed foreclosed ... The opportunities for continued import substitution were limited, and ties to the world economy had become more varied, complex and difficult to sever." The effect of economic crises on a country's decisions to liberalize trade thus seems contingent on a number of other factors, such as the prevailing ideas about trade, the extent of openness existing at the time, and the influence of international factors. The grave concerns about rising protectionism in the wake of the 2007–2009 global financial crisis suggest that many believe that downturns are preludes to economic closure; however, the experience so far since the crisis implies that the impact can be managed and need not lead inevitably to protectionism.

A similar debate exists concerning the impact of the exchange rate on trade policy. Appreciation of the exchange rate may increase protectionist pressures because it increases imports and decreases exports, thus affecting the balance of trade preferences domestically (Mansfield and Busch, 1995). Others suggest that the effects of an exchange rate change may have little impact. For instance, Rodrik (1994: 73) shows that a devaluation, which is the opposite of an appreciation, increases the domestic prices of all tradables – both imports and exports – thereby allowing both import-competing and export-oriented sectors to benefit. But under certain conditions, for example, when foreign exchange is rationed, devaluations can work just like trade liberalization, prompting demands for new protection from import-competing sectors. Some studies reveal such an association between periods of currency devaluations and rising tariffs; Simmons (1994) points out that many of the same conditions – but not all – that drove states to devalue also pushed them to increase tariffs in the interwar period. Both policies were intended to increase demand for domestic output, thus counteracting the effects of the depression. Today, the linkage between exchange rates and trade is most evident in the complaints by many trading partners over China's intervention in the renminbi's exchange rate. Much debate continues over the macroeconomic conditions that produce increasing domestic pressures for protection and/or that induce policy makers to relent to or resist such pressures.

Can these preference-based theories explain trade policy? These theories seem best at explaining the domestic sources of opposition to and support for trade liberalization. Without a concomitant theory of which groups are able to organize and exert influence, theories about interest groups and voters are best able to explain the demand for trade policy domestically. The preferences of policy makers may play a different role. They may be more likely to explain the supply-side of trade policy; that is, they may indicate the willingness of political leaders to supply protection or liberalization, as separate from demand for it. But our models of policy makers' preferences seem the most underspecified and *post hoc*. Why are some policy makers more favorable to protectionism than others? Why and when do their preferences change? Theories about the conditions under which policy makers will abandon ideas that produce "bad" results and what ideas they will adopt instead are largely unavailable. In sum, theories of trade preferences seem to provide an initial level of explanation for the supply and demand for trade policy. But they cannot as of yet provide a complete explanation of this process.

Domestic political institutions

Can theories that focus on political institutions do better at explaining trade policy making? A number of scholars have argued that political institutions, rather than preferences, play a major role in explaining trade policy. While preferences play a role in these arguments, the main claim is that institutions aggregate such preferences. Different institutions do so differently, thus leading to distinct policies. Understanding institutions is necessary to explain the actual supply of protection, rather than simply its demand (Nelson, 1988; McGillivray, 2004). On the domestic aide, different institutions empower different actors. Some institutions, for example, tend to give special interest groups greater access to policy makers, rendering their demands harder to resist. For example, many believe that the fact that the US Congress controlled trade policy exclusively before 1934 made it very susceptible to protectionist pressures (Baldwin, 1986; Destler, 1986; Goldstein, 1993; Haggard, 1988).

Other institutions insulate policy makers from these demands, allowing them more leeway in setting policy. Thus, some argue that giving the executive brand greater control over trade after the Reciprocal Trade Act of 1934 made trade policy less susceptible to these influences and more free trade oriented. In general, concentrating trade policy-making capabilities in the executive's hands seems to be associated with the adoption of trade liberalization in a wide variety of countries (e.g., Haggard and Kaufman, 1995: 199). As Haggard and Webb (1994: 13) have noted about trade liberalization in numerous LDCs, "In every successful reform effort, politicians delegated decision-making authority to units within the government that were insulated from routine bureaucratic processes; from legislative and interest group pressures, and even from executive pressure."

Other aspects of political regimes may make them more or less insulated from societal pressures. Rogowski (1987), for example, has argued that policy makers should be most insulated from domestic pressures for protection in countries having large electoral districts and proportional representation (PR) systems. Mansfield and Busch (1995), however, find that such institutional insulation does indeed matter, but often in exactly the opposite direction: greater insulation (that is, larger districts and a PR system) leads to more protection. Similarly, Rodrik (1998) shows that "political regimes with lower executive autonomy and more participatory institutions handle exogenous shocks better," and this may include their response to shocks via trade policy. Rogowski and Kayser (2002) also demonstrate that electoral systems can have an important impact on protectionism across countries, but their claim is that majoritarian systems, or ones with high seats-to-votes elasticities, are less protectionist because they empower voters as consumers more than as producer interest groups (see also Linzer and Rogowski, 2008). Thus, it is not clear that greater insulation of policy makers always produces policies that promote trade liberalization; the preferences of those policy makers also matter.

The administrative capacity of the state is also seen as an important factor. It is well established that developed countries tend to have fewer trade barriers than do lesser developed countries (Conybeare, 1982, 1983; International Monetary Fund, 1988; Magee et al., 1989: 230–41; Rodrik, 1995: 1483). Part of the reason is that taxes on trade are fairly easy to collect, and thus in LDCs, where the apparatus of the state is less well developed, such taxes may account for a substantial portion of total state revenues (between a quarter and a half, according to Rodrik, 1994: 77). As countries develop, their institutional capacity may also grow, thus reducing their dependence on import taxes for revenue.[4] Thus, the introduction of the personal income tax in 1913 in the United States made trade taxes much less important, thereby permitting their later reduction. Hence, political institutions and changes in them may help explain trade policy.

Large institutional differences in countries' political regime types also may be associated with different trade policy profiles. Some have argued that democratic countries are less likely to be able to pursue protectionist policies. Wintrobe (1998) claims that autocratic countries will be more rent seeking, and protection is one form of rent seeking. Mansfield et al. (1998, 2000, 2002) also show that democratic pairs of countries tend to be less protectionist and more likely to sign trade-liberalizing agreements than are autocratic ones. Many of the countries that have embraced trade liberalization have also democratized. Mexico is a prime case here. The growth of political competition and the decline of the hegemonic status of the governing party, the PRI, seem to have gone hand in hand with the liberalization of trade policy beginning in the 1980s. Milner and Kubota (2005) find evidence that democracy in general and democratization have contributed to the lowering of trade barriers in a number of LDCs since the 1970s. This argument has been further corroborated by more recent studies (Eichengreen and Leblang, 2008; Milner and Mukherjee, 2009). Thus, it may be that the character of political regimes has a direct effect on trade policy choices.

On the other hand, some research points to more complex relationship between regime type and trade policy. Kono (2006) claims, for example, that democratic leaders may lower the most transparent forms of protection but optimally obfuscate by employing more opaque forms such as NTBs. Verdier (1998) argues that because of the political conflict engendered by trade, democracies may be less likely to pursue free trade and more likely to adopt protection against each other, except when intra-industry trade dominates their trade flows. Haggard and Kaufman (1995) are more circumspect, arguing that the presence of crises and the form of autocracy may have more to do with the ability to adopt economic reforms such as trade liberalization than does regime type alone. Debates over the impact of regime type on trade policy continue.

The structure of the government and the nature of the party system have also been seen as an important institutional factor shaping trade policy. Political parties often take specific stands on trade policy, and their movement in and out of government may explain trade policy changes, as many have contended about the United States (Epstein and O'Halloran, 1996). In general, partisanship as a source of trade policy had been less explored than other topics. But theory suggests that partisanship and the nature of the political party system may matter greatly. Using Stolper–Samuelson theories, Milner and Judkins (2004) show that in the advanced industrial countries, left-wing parties tend to be more sympathetic to protection than right-wing ones. Dutt and Mitra (2005) produce evidence showing that left-wing governments will adopt more protectionist trade policies in capital-rich countries, but adopt more pro-trade policies in labor-rich economies than right-wing ones. In addition, the party-system's dynamics may matter. Countries with highly polarized party systems, in which the main parties are separated by large ideological differences, may experience dramatic swings in policy and generally produce unsustainable trade reforms. On the other hand, countries with large numbers of parties may be governed by coalition governments frequently, which may be unable to change the status quo. Haggard and Kaufman (1995: 170) predict that countries with fragmented and/or polarized party systems will be unable to initiate economic policy reforms, including trade liberalization, let alone sustain them. In general, these perspectives suggest that fragmented political systems are similar to ones with many veto players; and like them are resistant to change (Tsebelis, 1995).

Party systems also interact with the structure of the government. For example, Lohmann and O'Halloran (1994) and O'Halloran (1994) have argued that when government in presidential systems, like the United States, is divided – that is, one party controls the legislature and the other controls the executive branch – protectionism is likely to be higher. Others argue that for developing countries "political systems with weak executives and fragmented party systems, divided government, and decentralized political structures" were unable to mobilize the support necessary for the initiation of economic reforms such as trade liberalization (Haggard and Kaufman, 1995: 378). Milner and Rosendorff (1996) also argue that divided government in any country is likely to make the lowering of trade barriers either domestically or internationally harder in most cases. Mansfield, Milner, and Pevehouse (2007; 2008) show that the number of veto players in a political system can also matter; the presence of more veto players makes international cooperation to lower barriers harder. Karol (2000) questions these claims and shows that it is the combination of preferences and party systems that seems to matter. In all of these cases, the trade policy preferences of the parties matter for the outcome. Political institutions tend to affect whose preferences will become dominant in policy making.[5]

In a very interesting change of research strategy, Gawande et al. (2009) use the Grossman and Helpman model to then estimate the preferences of political leaders. If one assumes that leaders vary in their preferences according to how much weight they put on overall social welfare versus special interest groups, one can use their trade policies to understand the weighting scheme. Gawande et al. (2009: 528–9) go on to show that leaders do vary a lot, but that their political institutions constrain this variation: "Specific political, economic, and institutional variables [are] fundamental determinants of the variation in the behaviors of governments. Using a new database on political institutions we empirically test whether these variables influence the welfare-mindedness of governments as the theories predict … Political institutions that have a larger number of checks and balances embedded in the decision-making process cause more welfare-minded governments. The more informed are voters, as measured by literacy and the degree of urbanization, the greater is the weight that governments put on the welfare of their polity when making trade policy decisions. Finally, the more ideologically attached are voters to parties and the greater the productivity of the media in influencing uninformed voters, the less weight governments put on social welfare when making trade policy." This inductive method of determining leaders' preferences is a novel advance in the literature.

Many of these institutional arguments thus depend on prior claims about actors' preferences. For instance, many of the arguments about insulation assume that the policy makers (usually executives) who are insulated from societal demands are free traders. But as Mansfield and Busch (1995) show, they may actually be protectionist, in which case insulation allows greater protection than otherwise. The arguments about divided government, party systems, and democracies also rest to some extent on assumptions about each actor's preferences that are questionable (Karol, 2000). Divided government matters most when preferences of the parties differ, and differences in the preferences of autocratic leaders and democratic ones may be important for the implications of different regime types. Thus, having theories that bring together both preferences and institutions seems most valuable. Very few studies, however, bring together theories of both preference formation and institutional influence; Gilligan (1997) and Milner (1997) are some examples. Moreover, the matter of which comes first, preferences or institutions, is far from settled. Those who focus on preferences tend to argue that institutions are often shaped by the preferences of those in power; in contrast, those who emphasize institutions argue that they may actually shape actors' preferences. The consensus is that both matter and are jointly determined, but parsimoniously modeling and testing this is a difficult task.

INTERNATIONAL POLITICS AND INSTITUTIONS

Trade policy is not just affected by domestic forces. A number of features of the international system have been connected to a country's trade policy choices. A favored argument among realists has been that the distribution of capabilities in the international system has a fundamental effect on trade. The so-called theory of hegemonic stability (HST) posited that when the international system or economy was dominated by one country, a hegemon, then free trade would be most likely (Gilpin, 1987; Gowa, 1994; Krasner, 1976; Lake, 1988). Perhaps the most interesting point about this theory is that it has tried to explain change over time in the overall level of openness in the trading system; that is, it looks at the sum of countries' trade policy choices. The main claim of this theory is that changes in the distribution of capabilities over time should provide clues to changes in the openness of the international trading system. In the 1980s, many argued that the decline of American hegemony from its zenith after the Second World War would lead to a rise in protectionism and perhaps the fragmentation of the international economy into rival blocs (e.g., Gilpin, 1987). This prediction, however, would not seem to explain well the rush to free trade witnessed since the mid-1980s.

A large number of critics have challenged this claim both theoretically and empirically (Lake, 1993; Keohane, 1997). Conybeare (1984) has shown that large countries should favor optimal tariffs, not free trade, even if others retaliate; Snidal (1985) and others have claimed that small numbers of powerful countries could maintain an open system, just as well as a single hegemon could. The theory has also faced empirical challenges that imply that a hegemon is neither necessary nor sufficient for an open trading system (e.g., Krasner, 1976; Mansfield, 1994). In light of these results, the theory has been less and less cited (Keohane, 1997).

Other scholars have felt that aspects of the international security environment best explain the pattern of trade. Gowa (1994) has argued that countries which are military allies trade more with each other, and that is especially the case for those within the same alliance in the bipolar system. That is, when countries are allies in a system featuring one other major opposing alliance group, as was the case during the Cold War, they will tend to trade the most freely among themselves. The security externalities of trade will drive their behavior, inducing them to help their allies while also punishing their enemies. Gowa and Mansfield (1993) and Mansfield and Bronson (1997) provide strong evidence for this effect. In terms of this argument, there should be a direct link between trade policy and the end of the Cold War and the dissolution of the Eastern bloc. Predictions from this model seem to be incomplete. The argument appears to suggest that protectionism should rise, not decline, with the demise of bipolarity and the emergence of multipolarity. A description of the current structure of the international system might be one of either multipolarity, or unipolarity, in which case the theory seems to have no single prediction.

Another aspect of the international system that scholars have noted for its effect on trade policy is the presence and influence of international institutions. Although a long debate has occurred over whether international institutions matter, many scholars now conclude that the fact that countries have been willing to set up and participate in such institutions would seem to imply that states feel that they matter (e.g., Keohane, 1984; Ruggie, 1983). In the trade area, a number of institutions provide support for an open, multilateral trading system; these include the GATT and its successor the WTO, as well as the International Monetary Fund (IMF) and World Bank. While regional trade institutions may have a more ambiguous effect on the multilateral system (Mansfield and Milner, 1999), some of them, including the EU, NAFTA, and ASEAN, seem to have positively influenced the lowering of trade barriers and reinforcement of unilateral moves toward freer trade.

The research on international trade institutions has progressed greatly over the past decade. Earlier research suggested very generic roles for these institutions. Some suggest that their main role is to provide information about other countries' behavior and compliance with the rules of the game (e.g., Keohane, 1984). Others see these institutions as providing a forum for dispute resolution so that partners in trade can feel more secure and thus will be more likely to trade (e.g., Yarbrough and Yarbrough, 1992). Others view such international institutions as encapsulating the norms by which countries agree to play the trading game, which again provides a common framework for sustaining trade flows (e.g., Ruggie, 1983). Recent research has adopted a more specific view of the role of these institutions in the trade policy environment. Bagwell and Staiger (1999, 2002, 2010) have developed an extensive economic theory explaining the GATT and WTO. They claim that terms-of-trade (TOT) externalities drive this institution. Countries that are large enough players in world trade can gain from protectionism, but if all countries adopt it then none gain and indeed all lose. Avoiding this prisoners' dilemma is the role of the GATT/WTO. Use of reciprocity, retaliation, and most favored nation (MFN) clauses allows countries to resist protection for TOT reasons and to adopt the most globally efficient trade policies.

Others have focused attention on how domestic political economy pressures may lead to trade agreements. Maggi and Rodriguez-Clare (1998, 2007) argue that domestic political economy reasons produce institutions like the WTO since they allow governments to resist protectionist pressures that otherwise they would give in to. Research on other trade agreements, so-called preferential ones (PTAs) that are not global, has turned more to domestic political rationales for such agreements since it is not clear that they avoid TOT externalities. PTAs may have electoral consequences, especially in democracies, which help leaders stay in office through the signals they send to voters (Mansfield et al., 2002; Mansfield and Milner, 2012). All of these arguments hypothesize that the presence of these institutions should be associated with a freer trade environment; moreover, they imply that the depth and breadth of these institutions should be positively related to trade liberalization and the expansion of trade.

The impact of these institutions, however, has been a topic of debate. Rose (2004a, b) shows evidence that the GATT/WTO has not increased trade among its members, a primary goal of the organization. Others find no evidence that the developing countries benefited from the GATT/WTO (Gowa and Kim, 2005; Subramanian and Wei, 2007; Özden and Reinhardt, 2005), but do find evidence that it increased trade for the developed countries. Goldstein, Rivers, and Tomz (2007a,b) demonstrate that if one codes membership differently, Rose's results are overturned and the GATT/WTO does increase trade for its members. This debate over impact on trade flows also occurs in the PTA literature. Whether PTAs increase trade or merely lead to trade diversion is a subject of much empirical research (Rose, 2004a; Bhagwati, 2008; Baier and Bergstrand, 2004, 2007). So the overall impact of international trade institutions is not settled.

The design of international trade institutions has become a topic of recent inquiry. Bagwell and Staiger (2002) point out that the particular norms and rules adopted in the GATT help to explain why the institution was created; they allow it to deter TOT externalities and to arrive at the globally efficient trade policy optimum. Other research on the rational design of international institutions has shown how the various elements of the GATT/WTO operate to make the agreement more stable and powerful (Koremenos et al., 2004). Escape clause mechanisms can provide greater stability to the institution and allow for more trade liberalization (Rosendorff and Milner, 2001; Kucik and Reinhardt, 2008). Renegotiation rather than escape has been argued by others to promote greater stability (Koremenos, 2005). The WTO's dispute settlement mechanism (DSM) has been the topic of much study (Rosendorff, 2005; Busch, 2000; Reinhardt, 2001, 2002; Busch and Reinhardt, 2000, 2003, 2006; Busch and Pelc, 2010; Davis and Shirato, 2007; Davis and Bermeo, 2009). The questions surrounding it are many: does it make the WTO more stable and trade liberalization more likely? Who brings cases to it and why? Does it help developing countries or the developed more? Who wins the cases and why? The DSM has proved a rich subject since there are few dispute mechanisms operating in international politics. Other aspects of trade agreements, such as their depth and rules, have also elicited interest as these institutions appear to be powerful in their shaping of world trade (Mansfield et al., 2008).

The creation of the WTO out of the GATT Uruguay Round represents a step toward the deeper institutionalization of an open trading system. The explosion of PTAs since 1990 is also a notable facet of the international system, but one with debatable implications for the trade system. The influence of these international institutions may depend either on the economic condition of debtors or on changing domestic preferences and ideas about trade. While there is little doubt that these institutions helped support trade liberalization globally, it seems likely that their influence varies over time and across countries (Haggard and Kaufman, 1995: 199). But these institutions are an important element of the trade policy-making environment.

EFFECT OF TRADE ON COUNTRIES AND THE INTERNATIONAL SYSTEM

A final area of interest is the reciprocal effect of international trade on domestic and international politics. Once countries have liberalized or protected their economies, what might be the subsequent effects of such choices? Scholars have examined this question with attention to at least three aspects of the domestic political economy. First, some have argued that trade liberalization can in its wake change domestic trade preferences. As countries liberalize, the tradables sector of the economy should grow in size along with exposure to international economic pressures. Rogowski (1989) has argued that this should lead to heightened or new political cleavages and conflicts between scarce and abundant factors domestically (see also Chapter 16 by Zürn in this volume). These new cleavages in turn will alter domestic politics; for example, new parties arise to represent these groups or new coalitions form. Milner (1988) also argues that increasing openness to trade changes preferences domestically. Openness raises the potential number of supporters of free trade as exporters and multinational firms multiply; it may also reduce import-competing firms as they succumb to foreign competition.

Hathaway (1998) presents a dynamic model that shows that trade liberalization changes industry structure in ways such that future demands for protection are reduced: "Trade liberalization has a positive feedback effect on policy preferences, and political strategies of domestic producer groups. As industries adjust to more competitive market conditions, their characteristics change in ways that reduce the likelihood that they will demand protection in the future" (1998: 606). James and Lake (1989) suggest an ingenious argument for how repeal of the protectionist Corn Laws in the United Kingdom facilitated the necessary conditions for the creation of a successful coalition for free trade in the United States. Each of these arguments suggests that increasing exposure to trade leads to increasing pressure against protection, thus creating a virtuous cycle of rising demand for freer trade. As an explanation for trade policy in the advanced industrial countries over the past few decades, this type of argument seems plausible. For the developing countries, their abrupt rejection of ISI and protectionism seems less explicable in these terms. But now that many have turned to freer trade, these dynamics may make a return to protection less likely.

A second aspect of domestic politics that may be affected by increased trade flows involves the character of national political institutions. Among the advanced industrial countries, Cameron (1978) long ago noted the relationship between those that were very open to international trade and those with large governments. He and Katzenstein (1985) attributed this to the need for governments with open economies to provide extensive domestic compensation to the losers from trade and to employ flexible adjustment strategies for their industries. Rodrik (1997) has found strong evidence of this relationship around the globe. He claims that greater exposure to external risk, which trade promotes, increases the volatility of the domestic economy and thus "societies that expose themselves to greater amounts of external risk demand (and receive) a larger government role as shelter from the vicissitudes of global markets" (1997: 53). Support for the claim that those most exposed to globalization are often opposed to it is present (Mayda and Rodrik, 2005; Scheve and Slaughter, 2001, 2006). Increasing exposure to international trade may thus create demands for more government intervention and a larger welfare state, which in turn are necessary to sustain public support for an open economy.[6] This compensation argument about the relationship between open markets and the welfare state is debated, however. Some argue for a negative relationship between globalization and social welfare. The "efficiency" argument claims that trade openness creates pressure for reducing government spending to reduce costs for producers, and this erodes the welfare state (Kaufman and Segura-Ubiergo, 2001; Rudra, 2002). Whether openness has negative, positive, or no effects on the size of the welfare state is still debated (Adsera and Boix, 2002; Wibbels, 2006).

Others have explored the relationship between globalization and the character of the political regime. Rogowski (1987: 212) has argued that as countries become more open to trade, they will find it increasingly advantageous to devise institutions that maximize "the state's insulation, autonomy and stability." For him, this implies parliamentary systems with strong parties, proportional representation (PR), and large districts. He finds a strong relationship especially between openness and PR systems. Hadenius (1992) also finds that trade may have effects on domestic institutions. He argues that exposure to international trade brings higher rates of economic growth, which through the development process may translate into better conditions for the emergence of democracy. Eichengreen and Leblang (2008) find a mutually supportive relationship between democracy and trade, with some evidence that increasing trade fosters the growth of democracy. Others, however, have found no compelling relationship between trade and democracy (Milner and Mukherjee, 2009). We would like to know if there is a virtuous cycle: does trade liberalization foster democratization and democracy in turn promote more trade liberalization, and so on?

Besides its effects on preferences and institutions, trade may constrain the policy choices available to decision makers. The recent literature on globalization suggests this constraining influence. Rodrik (1997) provides some of the most direct evidence of how greater openness may force governments to relinquish the use of various policy instruments. In particular, he notes that openness often makes governments cut spending on social programs and reduce taxes on capital. In order to maintain competitiveness, governments are prevented from using many of the fiscal policy measures they once could.[7] This is similar to the efficiency argument noted above, and often leads to claims about a "race to the bottom" in terms of social and regulatory policy. Whether such constraints are good or bad depends on the value one places on government intervention in the economy. For some, like Rodrik (1997), this constraint is worrisome since it reduces *the government's ability to shelter its citizens* from external volatility and thus may erode the public's support for openness. Here, the impact of trade liberalization may not be benign. It may produce a backlash, undermining societal support for openness and creating pressures for protection and closure (Burgoon, 2009).

In terms of international politics, trade liberalization may also have important effects. As countries become more open to the international economy, it may affect their political relations with other countries. In particular, scholars have asked whether increased trade promotes peace between countries or increases their chances of conflict. A number of scholars, such as Polachek (1980), Gasiorowski (1986), Russett et al. (1998), Gartzke (1998), Russett and Oneal (2001), and McDonald (2009) have found that increases in trade flows among countries (or between pairs of them) decrease the chances that those countries will be involved in political or military conflicts with each other. Mansfield and Pevehouse (2000) also find that international trade agreements lower the probability that states who are members will come into conflict with one another. Others, such as Waltz (1979) and Barbieri (1996), argue that increased trade and the interdependence it creates either increase conflict or have little effect on it. One way that trade policy might affect the international political system then is by increasing or decreasing the level of political-military conflicts (Mansfield and Pollins, 2003). There are a variety of different feedback mechanisms. For instance, if trade promotes pacific relations among trading nations, then such a pacific environment is likely to stimulate further trade liberalization and flows; on the other hand, if increasing trade produces more conflict, then we might expect more protectionism as a result (see also Chapter 23 by Levy in this volume).

These more dynamic models of international trade and domestic politics are an important area of research. They may tell us a good deal about what affects trade policy choices. *For example, will the global liberalization process bring increasing pressures* for more openness and for democracy? Or will it undermine itself and breed demands for closure and a backlash against the governments and international institutions which support openness, as O'Rourke and Williamson (1999) have shown happened in the early twentieth century? Will openness produce a peaceful international system or one prone to increasing conflict? The answers to these questions will in turn tell us much about the future direction of trade policy globally.

CONCLUSION

I have examined preeminent theories of trade policy to see how they explain trade policy and changes in it. The point of this conclusion is mostly to suggest where future research might be useful.

1. What factors drive trade policy and changes in it? Existing theories suggest several answers. The first involves trade policy preferences among domestic actors. Economic theory suggests that domestic groups may have clear trade policy preferences. If groups are rational and prefer profit maximization, then policies that increase profits should be favored. Whether factor endowments or sectors or firms are the best unit of analysis, these models suggest that the demand for trade policy should follow clear patterns domestically. It is probable that these groups recognize their interests as well, since they are more likely to be organized and to receive large, concentrated benefits from policy. For voters, the question is more difficult. Voters are consumers, but they may also be workers and asset owners as well; hence, their preferences for trade may be pulled in different directions. Moreover, voters' capacity to organize is not well developed, as collective action theory suggests. Recent research has delved much more into the empirical identification of such interests. Surveys of public opinion and analysis of legislative voting have given us new evidence both for and against this set of propositions. More research should be done to understand the nature of societal preferences for trade policy.

Political leaders, on the other hand, may be able to take action, but it is harder to deductively derive their preferences for trade policy. Should we conceive of them as benign leaders intent on maximizing national social welfare, or as politically motivated leaders dependent on special interests for support and often maximizing their own personal interests, or as some combination of the two? The former might lead us to attribute to them preferences for free trade, while the latter view would incline us to see them as protectionists. Under what circumstances should we expect which type of behavior by governments (Gawande et al., 2009)? Analyses of legislative voting where one can examine both special interest contributions and constituency preferences have raised these questions in recent research (Ladewig, 2006; Milner and Tingley, 2011).

This question leads to a discussion of political institutions and their role in shaping trade policy. Both the influence of domestic groups and the preferences of leaders may depend on the political institutions in place. Substantial evidence suggests that regime type makes a difference; democracy is associated with trade liberalization as leaders must listen to a broader audience. Political leaders may be forced to concern themselves more with the national interest than with just special interests. Recent research suggests that democracy fosters free trade, but that increased trade does not necessarily promote democracy. Other features of political institutions may also matter since governments vary substantially in the weight they place on social welfare versus private interests (Gawande et al., 2009). Whether institutions – democratic or not – insulate policy makers from special interest pressures may matter. After all, some nondemocratic countries in Asia, such as Singapore, have long had fairly liberal trade policies. Electoral rules, the nature of the party system, and other institutional features may also affect which interest groups can exert the most influence. Institutions that can internalize the costs of protection so that all members bear them can make protection much more difficult for political leaders to choose. The role of information also matters, and may be related to the institutional atmosphere. Systems in which there is more information available to the public and greater press freedom tend to be less protectionist (Gawande et al., 2009). The role of political institutions is underexplored.

As for international factors, they have received more attention, but the interaction of trade and security concerns warrants even more attention. The gains from trade do pose security externalities (Hirschman, 1980 [1945]; Gowa, 1994). How after the end of the Cold War and the wave of terrorist attacks of the early 2000s does the international system affect economic relations among states? Are the end of bipolarity and the decline of American hegemony leading to the fragmentation of the world economy into rival trading blocs, centered on the United States, the EU, and China? Some claim that this is what the growing role of regional trade agreements is fostering. Others see such PTAs as promoting the extension of a multilateral trading system. How will the rise of China and India in the world economy affect trading relations? The impact of security concerns and the balance of capabilities and threats on trade policy is another area demanding empirical research.

The role of international institutions is of great importance. The development of the GATT/WTO, the EU, and a slew of regional organizations such as MERCOSUR make it plain that such institutions play an important role. But what exactly is this role? Can these institutions alter states' behavior or preferences? Do they just provide information and hence help prevent cheating? Or are they the instruments of the most powerful states in them? And how do such institutions react to changes in the balance of capabilities in the world economy? Will the rise of Asia necessitate a substantial reform of the WTO? If such institutions are rationally designed, what should we expect this reform to look like? Will the WTO's Doha Round fail and thus call into question the legitimacy of the institution itself? Is the proliferation of regional trade agreements a precursor to the demise of the WTO? If the rationale for the WTO is to alleviate terms-of-trade externalities, how will its revision or disappearance affect states? Research on the role of international institutions in trade is a burgeoning topic for both economists and political scientists, and much remains to be examined.

Our existing theories have developed and deepened over the past decade. There has been substantial progress on all four elements. We have much more evidence about domestic preferences on trade, especially as new evidence from surveys and legislative voting comes to light. Nevertheless, the "new, new trade theory" suggests that we may need to look even more closely at individual firms and their preferences and political behavior. We know much more about the impact of domestic political institutions on trade and especially the role of regime type. But an even better understanding of how political leaders form their trade preferences and how these preferences are connected to societal ones is essential, especially for the developing countries. Our theories about the role of international institutions in trade have developed importantly as well. Nonetheless, more knowledge of the conditions under which international institutions are able to exert greater (or lesser) influence over trade policy is necessary. The field has a much better understanding of the design and impact of the WTO than it did a decade ago. Ongoing research into the spread of PTAs has been fruitful. The relationship between trade and the welfare state is a topic of much research and debate in relationship to globalization. And the interaction between conflict and trade is a focus of attention, especially in light of the rise of China.

Finally, thinking about the possible future direction of trade policy is important. We live in one of the most open and interdependent world economies in history. Will countries' policies toward freer trade around the globe be sustained or reversed in the future? The factors discussed above should give us some information on this issue. If leaders' or social groups' preferences for free trade are maintained or grow, then we might expect liberalization to remain in place. Factors such as economic crises or changes in the nature of trade flows, which cause actors to reevaluate these preferences, may limit their sustainability. The return of authoritarian governments might also be associated with the return to protectionism; the interaction of the welfare state and trade in our globalized world will also be important for sustaining openness. In addition, international institutions seem to be an important bulwark against protectionism, especially in the light of the recent global financial crisis and the deepening of capital markets across the globe: The evolution of the world economy and the political relations among states may also bring important pressures to bear on our open global trading system. These and other factors will be important for understanding the sustainability of trade openness.

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NOTES

1 Many of these trade liberalizations occurred within the context of larger economic reform packages. Here, I discuss only the trade liberalization component.

2 As he describes it (Rodrik, 1994: 62), "Since the early 1980s, developing countries have flocked to free trade as if it were the Holy Grail of economic development with the historic transformation and opening of the Eastern European economies, these developments represent a genuine revolution in policy-making. The puzzle is why is it occurring now and why in so many countries all at once?"

3 Trade policies refer to all policies that have a direct impact on the domestic prices of tradables, that is, goods and services which are traded across national boundaries as either imports and/or exports. Such policies include not just import tariffs, which are taxes on imports, but also export taxes, which under certain conditions have identical effects as import taxes. Likewise, import and export subsidies also count. Exchange rate policy also affects trade flows, but it is a subject I leave for others to discuss.

4 Political leaders may also favor trade liberalization because it increases government revenues. Liberalization may generate more revenues because of the increased economic activity and higher volumes of trade it produces, even at lower tariff rates.

5 For a wide-ranging review of the effects of different political institutions on the probability of large-scale economic reform, including trade liberalization, see Haggard (1988).

6 Research by Iversen and Cusack (2000), however, *shows that changes in economic structure* rather than trade account for the growth of the welfare state.

7 Many have noted that in the presence of high capital mobility – another condition of globalization – governments also lose control of their monetary policy, especially if they desire to fix their exchange rates (e.g., Garrett, 1998).

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