The Political Economy of Trade Policy

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Word Count (text and references): 8,512

Introduction

The prevailing wisdom among economists is that free trade enhances the welfare of countries. Yet free trade is rare. Ever since the first wave of modern political economy research aimed at "endogenizing" trade policy, most explanations for deviations from open commerce have centered on domestic politics (Nelson 1988; Rodrik 1995). Frequently, these accounts stress the role played by interest groups, particularly the ability of import-competing industries to organize politically and secure protectionism. Elected officials are expected to act on these demands in order to maximize their chances of winning at the ballot box. There are, of course, many different varieties of this argument; nonetheless, this "demand side" logic is at the heart of many studies on the political economy of trade policy.

In recent years, however, scholars have expressed concern that the literature had become overly focused on societal actors, placing too little emphasis on state institutions. Consequently, a growing number of studies began analyzing at how domestic institutions affect trade policy. Some of this work assesses whether particular types of political regimes are more protectionist than others. In general, these studies have found that democracies are more open to international trade than other countries. The bulk of this literature, though, examines the effects of institutional variations across democracies, rather than comparing democracies to other regime types. The result has been an improved understanding of the "supply side" of the political economy of trade policy.

More recently still, a third wave of research has focused on the role played by international institutions in promoting open commerce. Underlying much of this work is the argument that free trade is fostered by global pacts like the World Trade Organization

(WTO), which limit the ability of government officials to acquiesce to protectionist pressures. International institutions narrow elected officials' policy space by imposing rules and formal obligations that restrict their ability to respond to such pressures and raise trade barriers without risking international sanctions.

In surveying these three waves of research, we argue that it is becoming more difficult for elected officials to credibly "tie their hands" in this way and supply free trade. There are two main reasons why. First, the literature on the design and politics of international institutions increasingly emphasizes how they build in slack that can undermine government claims of being constrained. Second, as states accede to an ever-growing list of overlapping international institutions, there is often a choice among, or uncertainty over, which institution's obligations apply. Where this situation creates more policy space for government officials, it also will make it more difficult for them to credibly tie their hands and supply free trade in the face of interest group pressures for protection. Ironically, a denser network of international institutions may increase the importance of domestic factors in shaping trade policy.

In the remainder of this paper, we begin by surveying the research on the demand for trade policy by societal groups. Then we turn to supply-side considerations, focusing on domestic institutions. Finally, we consider the role played by international institutions and we elaborate our argument about how the design, politics, and overlap of international institutions bear on the credibility of hands-tying strategies.

Societal Interests and the Demand for Trade Policy

Much of the research on the political economy of trade emphasizes the demands for protection made by various segments of society. These studies generally consider domestic institutions and policy makers as passive actors that supply those trade policies demanded by the most influential interest groups (Ikenberry et al. 1988). To address the effects of these groups, many researchers begin by specifying the factors that shape individuals' preferences about trade policy. In general, they rely on one of two models drawn from international trade theory.

First, the Heckscher-Ohlin (HO) model assumes that factors of production within a country are perfectly mobile across sectors. Drawing on this model, Stolper and Samuelson (1941) showed that free trade benefits the owners of factors of production that are abundant, relative to the rest of the world, and hurts owners of scarce factors. For example, in the United States, which is relatively capital-abundant, open commerce rewards those who employ this factor (including high-skill labor), and reduces the wages of (low-skill) labor. Since trade has the effect of increasing the demand for more educated U.S. workers, their wages rise, regardless of their sector of employment. In contrast, open commerce decreases the demand for low-skilled U.S. labor, depressing their wages irrespective of their sector of employment. The HO model thus anticipates factoral cleavages over trade policy, most notably between capital and labor (Rogowski 1989).

Second, the Ricardo-Viner (RV) model assumes that, at least in the short run, certain factors of production cannot be shifted across sectors. If capital or labor cannot easily be redeployed from one sector to another, then the owners of these factors will

base their trade policy preferences on how open commerce affects their industry of employment. Based on this approach, capital and labor may align together against free trade in import-competing sectors because both are hurt (at least in the short run) by foreign competition. Thus, the RV model predicts that cleavages over trade policy will form along sectoral lines, whereas the HO model envisions that they will form along factoral ones.

So which model is more useful? A number of important studies have endorsed the HO approach. For example, in a highly important study on the subject, Rogowski (1989) finds that trade coalitions form along factoral lines, giving rise to class conflict and rural-urban splits, rather than conflicts between industries. A series of cross-national analyses bears this out. Mayda and Rodrik (2005) and O'Rourke and Sinnott (2002) report that mass opinion about trade corresponds closely to the predictions of the HO model. Likewise, in a study of public attitudes in the U.S., Scheve and Slaughter (2001) lend support to this view, although they also find that home ownership can lead individuals in depressed economic regions to betray their factor's trade policy interests. Hiscox (2002) empirically assesses the degree of inter-industry factor mobility and finds that class-based cleavages over trade policy arise in countries where factors of production are relatively mobile, while sectoral conflicts take place in countries where factors are relatively immobile.

However, a variety of studies also endorse the RV approach. In an analysis of the 1906 British election, a contest in which trade policy was a central issue, Irwin (1996) finds that preferences mapped on to workers' industry of employment. Similarly, Irwin and Kroszner (1999) insist that the post-World War II Republican conversion to free

trade is best understood in terms of RV considerations. Magee (1980) reports that testimony before the U.S. House Ways and Means Committee on the Trade Reform Act of 1973 generally reflected sectoral (that is, RV) rather than factoral (that is, HO) interests. Busch and Reinhardt (2000) examine the trade policy preferences of U.S. workers in manufacturing sectors and find that their industry's comparative advantage sheds a great deal of light on their views of free trade and protectionism.

One way to reconcile the two approaches is to argue that the RV framework is more useful as a short run framework, since certain factors of production tend to be immobile in the near term. With a longer term perspective, however, the HO framework becomes more useful since such factors generally can be moved over a lengthier period of time. Nonetheless, some studies conclude that trade policy preferences are poorly explained by both models, and that these preferences may have little to do with trade per se. Based on two surveys of Americans, for example, Mansfield and Mutz (2009) argue that "sociotropic" perceptions are more important than pocketbook issues for the purposes of explaining mass attitudes about trade policy. In particular, people who believe that trade is good for the U.S., more generally, tend to support open trade, whereas those who feel that trade is bad for the U.S. as a whole oppose it. Further, Mansfield and Mutz find that trade policy attitudes are shaped in important ways by indicators of domestic ethnocentrism and foreign policy attitudes. There is little support for free trade among people who believe the U.S. should take an isolationist stance on international affairs, for example, or those who feel that members of other ethnic and racial groups are less praiseworthy than their own racial or ethnic group. Although such

views have no direct bearing on the economic benefits of trade, this study finds that they are far more predictive of trade preferences than indicators of economic self-interest.

Because the existing literature tends to focus on short-run political responses to economic difficulties, the RV approach, with its sectoral focus, is more common, especially in research that aims to explain the supply of protection (Alt & Gilligan 1994). But this focus raises the central question of which industries are best able to overcome collective action for the purposes of securing protectionism. Since the benefits of a trade barrier are diffuse (i.e., all firms in the industry enjoy the import relief that this barrier affords), but the costs of lobbying for protectionism (i.e., the resources needed to turn out the vote or the level of campaign contributions made) are concentrated on those firms that bear them, the puzzle is why some industries with an interest in protectionism are able to realize this end while others are stymied by free-riding and other collective action problems (Olson 1965).

To resolve this issue, the literature has largely emphasized two variables. The first, market concentration, is the share of the domestic market held by the top few firms in a given industry. It is widely argued that more concentrated industries are better able to overcome collective action problems and press for protection. In such markets, the largest firms are expected to mobilize politically, since they disproportionately benefit from heightened trade barriers. These firms constitute a *privileged* group and should not be deterred from lobbying even if smaller firms in the industry free ride on their efforts (Olson 1965; Baldwin 1985). For all the attention this variable has received, however, there is scant empirical evidence that market concentration sheds much light on the politics of protectionism (Busch & Reinhardt 1999).

The second variable, geographic concentration, taps the physical dispersion of an industry's employment base. Studies addressing this variable often argue that the more spatially proximate an industry's workers, the lower the costs it incurs in monitoring whether its employees turn out at the ballot box and sanctioning those who do not. This variable is often confused with political *de*-concentration, which concerns the dispersion of employees in electoral space (i.e., the number of districts they cross, and thus the number of legislators that can they coax to take up their fight). Controlling for political concentration, Busch and Reinhardt (1999, 2000) show that geographic concentration is crucial to the prospects of a U.S. manufacturing industry receiving nontariff barrier (NTB) protectionism. Similarly, in an important study, McGillivray (2003) finds that the effects of geographic concentration on trade policy extend well beyond the U.S.

It is widely recognized that a key to whether an industry obtains protection is the extent to which it is able to organize politically. In their seminal work on the subject, Grossman and Helpman (1994) pioneered a set of models in which some sectors are organized politically and others not. The organized sectors can influence policy through campaign contributions, investments that Busch and Reinhardt (2000) show are nearly 100% more likely from those import-competing industries that are geographically concentrated than from those that are geographically dispersed. For their part, politicians seek to balance a desire for campaign contributions—through which industries adversely affected by trade can "buy protection" that hurts society as a whole—with an interest in fostering aggregate social welfare. The greater (lower) the weight that the government places on promoting social welfare, the lower (higher) will be the tariff rate. A number of empirical studies have employed this framework to analyze U.S. trade policy

(Goldberg & Maggi 1999; Gawande & Bandyopadhyay 2000), Australia (McCalman 2004), and Turkey (Mitra et al. 2002). Consistent with the prediction of Grossman and Helpman's model, these studies find that import barriers are higher for those industries that have organized lobbies. All of these studies also find, however, that governments place greater weight on social welfare than on collecting campaign contributions. In fact, some observers have argued that, despite the widespread popularity of this model, the empirical estimates of the weight placed on social welfare, relative to contributions, are large "enough to cast doubt on the value of viewing trade policy determination through this political economy lens" (Gawande & Krishna 2003: 228).

That government officials assign considerable importance to promoting social welfare suggests that macroeconomic fluctuations, which reflect a country's overall economic health, also influence protectionism (i.e., Deardorff & Stern 1987; Dornbusch & Frankel 1987; Baldwin 1989; Gardner & Kimbrough 1989; Magee et al. 1989; Bhagwati 1991; Bohara & Kaempfer 1991; Destler 1992; Corden 1993; Mansfield & Busch 1995; Frye & Mansfield 2004; Henisz & Mansfield 2006). It is widely argued that public officials must respond to the demands made by broad segments of the populace in order to ensure their political survival, and that general public support for import protectionism rises as domestic economic conditions worsen. In addition to those workers who have lost their jobs, for example, recessions can lead others to fear the risk of unemployment, increasing the number of voices in favor of relief from imports (Bradford 2003). Exchange rate fluctuations also stand out in this regard (Dornbusch & Frankel 1987). An appreciated currency, by increasing the price of domestically produced goods, threatens to undermine both exports and import competing sectors.

These developments are likely to stimulate pressure for protectionist measures (Bergsten & Williamson 1983: 101-2).

However, when macroeconomic conditions turn bad enough, the effect may be different. Rodrik (1994) argues that the central impediment to trade liberalization is the extent of income redistribution that occurs as a result. The distributional losers from reform are relatively easy to identify and are often politically influential. The distributional winners are often hard to identify in advance, which dampens their enthusiasm for trade liberalization. But during economic crises, the need to place the economy back on a solid footing overwhelms these distributional considerations. In Rodrik's view, this is a key reason why many developing countries liberalized their trade regimes during the 1980s, a period marked by protracted economic crises.

Researchers have generated a voluminous body of work on societal approaches to trade policy. This literature has been extremely influential, but it has also sparked criticism for placing too little emphasis on domestic institutions (Nelson 1988; Mansfield & Busch 1995). In response to this criticism, recent years have witnessed a rising number of studies focusing on how such institutions affect trade policy.

Domestic Institutions and the Supply of Trade Policy

Political institutions aggregate societal interests, determining which of these are most influential in shaping policy outcomes. This is no less true in the case of trade policy. Which institutions are most salient in this regard and the nature of their effects, however, remain the subject of intense debate.

Earlier work on this subject focused on "state strength," or the extent to which governments are able to ward off interest groups, change the behavior of private actors, and transform the domestic economic structure (Krasner 1978a: 56-57). Katzenstein (1978), Krasner (1978a, 1978b) and others argued that governments lacking the institutional capacity to insulate themselves from influential industrial constituents had a harder time advancing state interests. These scholars characterized power in the United States, for example, as being "fragmented and decentralized" (Krasner 1978b: 53), leaving trade policy especially vulnerable to protectionist pressures.

In the aftermath of World War II, however, the strength of America's ideological commitment to free trade, its hegemonic power, and the lessons drawn from the interwar period that protectionism undermines peace and prosperity, were sufficient to overcome the limitations of being a "weak" state. Furthermore, import-competing interests faced only weak foreign competition. By the 1970s, though, Krasner argued that import-competing interests in the U.S. were under increasing pressure from abroad. The porous nature of U.S. institutions allowed these interests to weaken the American commitment to open commerce. In countries such as France, by contrast, power is more highly concentrated and institutions are less porous, better enabling officials to shape trade policy without the interference of societal interests.

Interest in the effects of state strength, however, began to wane during the 1980s. Some scholars argued that it was difficult to assess the difference in the strength of many states' interests. Milner (1988), for example, concluded that the distinction between U.S. and French institutions was overdrawn. France is a weaker state than was commonly

thought, and the U.S. is stronger. More broadly, political economists began focusing on more specific features of domestic political institutions when analyzing trade policy.

One strand of this research has addressed the effects of regime type, specifically, whether democratic countries tend to adopt more liberal trade policies than other states. Various arguments have been advanced about why democracies tend to be more commercially open than autocracies. One argument is that democracy promotes trade liberalization because democratic institutions vest citizens with the capacity to punish government officials who mismanage the economy (Frye & Mansfield 2004; Henisz & Mansfield 2006). In a democracy, foreign economic policy is relatively transparent; and even if public officials are able to disguise protectionist policies, the resulting distortions are likely to harm economic performance. Since voters tend to hold politicians responsible for economic downturns (Lewis-Beck 1988), public officials in democracies have greater difficulty manipulating the economy for their personal gain while retaining office. The relative ease with which society can monitor and punish leaders should yield lower trade barriers in democracies than elsewhere.

There is, in fact, a good deal of support for the view that democracies tend to be more open with respect to foreign trade than other countries (Frye & Mansfield 2004; Henisz & Mansfield 2006). There is also evidence that they trade more with one another than they do with non-democratic regimes (Mansfield et al. 2000; Russett & Oneal 2001: chap. 6).

In a related strand of research, Milner and Kubota (2005) have found that democratization promotes trade liberalization among developing countries. Milner and Kubota start by observing that developing countries are capital poor and labor abundant.

An HO approach would therefore suggest that they should export labor-intensive products and import capital-intensive goods. Trade liberalization tends to benefit labor, producing income gains and reducing the price of imported goods. Democratization in the developing world serves to grant the franchise to many individuals who will benefit from free trade, thereby prompting leaders who need the support of these individuals to liberalize overseas commerce. Milner and Kubota find considerable support for this argument.

While there is persuasive evidence that democracy encourages free trade, a number of studies have qualified this conclusion. Verdier (1998), for one, notes that democracy empowers various economic groups. If similar regime types empower similar producer groups, then democracy may lead to cross-national competition among these industrial constituents. Under these circumstances, those groups that are least competitive may press for protectionism, in which case the spread of democracy may not discourage liberalization. In a different vein, Kono (2006) argues that democracy has different effects on the use of different trade policy instruments. Tariffs are relatively transparent instruments and their costs are easily explained to voters. Because democratic leaders face the prospect that excessive tariffs will be highlighted by individuals challenging them for office to erode their public support, such leaders have an incentive to keep tariffs low. NTBs, by contrast, are not transparent and their effects are difficult to explain to voters. Consequently, democratic leaders have reason to rely on these trade policy instruments. Based on an analysis of 75 countries in the 1990s, he finds support for the argument that democracies tend to have relatively low tariff levels, but relatively high NTBs.

Over the past few decades, research on the effects of political institutions on trade policy has increasingly centered on variations among democracies. The influence of four institutional factors has generated particular interest: (1) partisanship, (2) the number of "veto points" in a government, (2) whether the democracy has a presidential or a parliamentary system of government, and (4) the average size of the constituencies that are represented. We consider these in turn.

First, a number of studies have found that partisanship has an important influence on trade policy. Dutt and Mitra (2005) take an HO approach and test the hypothesis that left-wing governments will adopt more protectionist trade policies than their right-wing counterparts in capital-rich countries, but more pro-trade policies in labor-rich countries. Their evidence strongly supports this conjecture. Epstein and O'Halloran (1996) report that Republicans enacted higher tariffs than Democrats during the late 19th and early 20th centuries, in line with their (then) prevailing ideologies. Similarly, Irwin (1994, 1996) concludes that Conservative governments in Great Britain were more protectionist than their Labor counterparts during the first portion of the 20th century. In a study of 19 countries (including both democracies and autocracies) during the interwar period, Simmons (1994: 197-201) also shows that left-wing governments were more likely to cut tariffs than right-wing governments.

More recent research on this topic, however, has arrived at a different conclusion. Both Milner and Judkins (2005) and Ehrlich (2007) analyzed a set of advanced industrial democracies during the post-World War II. These countries are capital rich and labor poor. Here, an HO approach generates the prediction that capital would support free trade while labor would oppose it. Since leftist governments tend to draw support from

labor and rightist governments tend to draw support from capital, both Milner and Judkins and Ehrlich argue that, for this set of countries, left-wing government should be more likely to enact protectionist measures than right-wing governments. Milner and Judkins (2005: 102) examine the governing party's "electoral manifesto position on trade policy;" whereas Ehrlich tests this argument using data on annual change in tariff rates. Both studies conclude that left-wing governments are more protectionist than their right-wing counterparts.

Second, various studies analyze whether the number of veto points affects trade policy. A veto point is an independent partisan and institutional actor whose agreement is necessary to make policy. These actors include competing branches of government and coalitions within a given branch. As the number of independent actors with such veto power increases, groups in society have greater difficulty pressing for a change in policy (Henisz 2000; Tsebelis 2002). In the trade policy arena, any actor with the authority to set policy understands that the final outcome must lie within a range of policies that satisfies all veto points. To the extent that the preferences of actors with veto power differ, institutional structures with more veto points limit the range of feasible trade policy choices and the potential for policy change.

As a result, Henisz and Mansfield (2006) have argued, democratic governments will be less responsive to societal pressures as the number of veto points rises in policymaking structures. Building on the societal research that we reviewed earlier, they posit that deteriorating macroeconomic conditions are likely to stimulate demands for protectionism. As the number of veto points rises, however, government actors tend to be less sensitive to such societal pressures, since there is more likely to be an actor in

control of a veto point who is hostile to raising trade barriers and who can use this control to frustrate societal demands for protection. As the number of veto points declines, it becomes easier to change the existing trade regime since the actors controlling veto points are more likely to have relatively homogeneous interests (Henisz 2000). Consistent with this argument, Henisz and Mansfield find that adverse macroeconomic conditions in democracies stimulate greater protectionism as the number of veto points shrinks.

Whereas Henisz and Mansfield argue that veto points mediate the effects of societal demands on trade policy, a number of other studies maintain that they have a direct effect. Lohmann and O'Halloran (1994) and Gilligan (1997), for example, find that divided government has impeded trade liberalization by the United States. Unified government, by contrast, has reduced the effective number of veto points and promoted liberalization. In a related study, Ehrlich (2007) addresses the effects of "access points," which are the government officials who can be lobbied on trade policy. Ehrlich argues that protectionist interests are better able to organize and lobby than free trade interests. Further, as the number of access points rises, the costs of lobbying each "point" decreases, making it increasingly likely that protectionist interests will be able to buy off key policymakers. Consequently, he concluded, the number of access points should be directly related to increases in protectionism, an argument that is borne out in his study of OECD countries in the period since World War II.

Third, political economists have expressed interest in whether presidential systems are more or less likely to have a liberal trade regime than proportional representation (PR) systems. A variety of studies have found that PR systems are more

protectionist than presidential ones (Mansfield & Busch 1995; Rogowski & Kayser 2002; Milner & Judkins 2005; Ehrlich 2007). Finally, various scholars have analyzed whether the average district size in a democracy affects trade policy. The intuition is that smaller districts should be easier for industrial constituents to "capture," since their votes are likely to weigh more heavily in determining the electoral prospects of those representing them. On this score, there is little empirical consensus. Some studies find that smaller districts promote protectionism (Mansfield & Busch 1995; Ehrlich 2007), while others arrive at the opposite conclusion (Nielson 2003; Karol 2007).

International Institutions

A great deal of research on the political economy of trade policy has been cast at the domestic level of analysis. The role of international institutions in promoting open trade, however, has also been emphasized. Keohane's *After Hegemony* (1984) has been particularly influential in this regard, showing how such institutions can entrench multilateral openness, even after the factors that gave rise to it wane.

More recently, the point of departure for much of this literature has been Bagwell and Staiger's (1999) "terms-of-trade" rationale for international trade institutions, especially the WTO. Economically large countries have the ability to improve their terms of trade by imposing an optimal tariff. Doing so, however, creates a negative externality for other countries. Furthermore, if all large countries impose an optimal tariff, none of them will realize welfare gains as a result; instead the result will be a costly trade war. Bagwell and Staiger argue that entering into international trade agreements helps large states to coordinate their trade policies, avoiding the negative externalities

stemming from spikes in protectionism and beggar thy neighbor policies. In the same vein, Bagwell, Mavroidis, and Staiger (2002) sketch an "optimal" mandate for the WTO, emphasizing the need for it to focus on opening access to foreign markets, rather than pursuing other objectives. One implication of their analysis is that the WTO should not be stretched too far beyond this terms of trade mitigating function, as doing so could have adverse consequences for its members and the global economy.

The WTO and its predecessor, the General Agreement on Tariffs and Trade (GATT), have been fertile ground for research on international institutions. Various studies have argued that the multilateral regime stimulates free trade by binding member governments with obligations that lessen their ability to supply protectionism to domestic interest groups. Yet, in a recent article analyzing data on 175 countries over 50 years, Rose (2003) calls this argument into question. He finds little evidence that members of the GATT/WTO conduct more trade than other states. How could the conventional wisdom be so wrong? Goldstein, Rivers, and Tomz (2007) offer one answer. They insist that Rose erred by not probing how the multilateral regime influence trade among its full set of beneficiaries, including non-members who enjoyed strong ties to the GATT/WTO and other institutions embedded in the multilateral framework. In stark contrast to Rose, they find that the WTO has encouraged trade (see also Subramanian & Wei 2007).

Debates like this one draw attention to the link between domestic and international institutions. Along these lines, Mansfield, Milner, and Rosendorff (2002) argue that chief executives in democratic countries are especially likely to enter trade agreements because voters have difficulty distinguishing between adverse economic outcomes that are beyond the leader's control, and poor economic performance stemming

from the leader's actions. As a result, voters may remove a democratic head of state from office because they erroneously believe he is responsible for an economic downturn that is actually beyond his control. Entering into a trade agreement can help chief executives guard against this possibility. Such institutions often furnish reliable information about the behavior of member-states. Countries that violate their commitments will trip an alarm sounded by other participants in the agreement or the institution itself. Entering a trade agreement therefore reduces the prospect that a democratic leader will be turned out of office because voters mistakenly believe he has performed poorly. In non-democracies, by contrast, electoral dynamics are far less important, giving leaders much less incentive to join trade agreements. The results of a series of statistical tests support the argument that democracies are more commercially cooperative than other countries.

Likewise, Davis (2004) investigates how international institutions can help governments link issues and exchange concessions with other countries, increasing the odds that they can overcome domestic opposition to free trade. Davis finds that in negotiations with the U.S., Japan and Europe have been able to link agricultural and industrial issues in various institutional contexts, and that stronger institutionalized linkages—such as those under GATT/WTO trade rounds—have resulted in greater liberalization of agriculture trade, in particular. This bears out the efficacy of issue-linkage, and thus the possibility that international institutions can promote free trade where influential sectors are aligned against it.

On the other hand, the link between domestic and international institutions can also give protectionist voices the upper hand. Ozden and Reinhardt (2005) argue, for example, that the U.S.'s Generalized System of Preferences (GSP), which grants non-

reciprocal market access to developing countries, actually undermines free trade in their home markets. In fact, they find that developing countries that have been removed from GSP adopt more liberal trade regimes than those making use of GSP. They maintain that this findings stems from the non-reciprocal nature of this institution, which demobilizes export-oriented segments of society in these countries and thereby undermines free trade interests at home. After all, if exporters can bank on market access abroad regardless of the domestic tariff, then they have little incentive to lobby against import-competing groups clamoring for protectionism. Without GSP, these same exporters would be expected to lobby, since their market access abroad would hinge on reciprocating it at home.

Of course, if international institutions are to help elected officials credibly tie their hands, it has to be costly to violate these obligations. Does the evidence on compliance bear this out? Does compliance owe to the workings of international institutions per se?

In an analysis of the GATT/WTO dispute settlement system, Busch and Reinhardt (2003) find relatively high levels of compliance with GATT/WTO rulings, even in cases brought against developed countries by developing ones, which generally have small economies and therefore lack the ability to retaliate. However, Bown (2004) and Blonigen and Bown (2003) disagree, arguing that market size is key in this regard. First, Bown explores the success of the GATT/WTO system in prompting governments to follow through on their trade liberalization commitments. He tests two competing hypotheses on why the GATT/WTO might induce greater compliance: fear of retaliation and fear of the stigma associated with violating international trade rules. Bown finds that the complainant's capacity to retaliate is more influential in getting defendants to credibly

commit to trade liberalization. Likewise, in an analysis of U.S. anti-dumping petitions, Bown and Blonigen (2003) find that U.S. companies exposed to retaliation abroad are less likely to name firms from these countries in their petitions. Furthermore, the U.S. is less likely to rule against firms from these countries, the greater their government's capacity to retaliate, owing to their market size. But Busch, Racibroski, and Reinhardt (2009) separate WTO membership from market size, and attribute Blonigen and Bown's (2003) main result to the former, controlling for the latter.

Blonigen and Bown (2003) and Busch, Racibroski, and Reinhardt (2009) offer a unique methodology for evaluating the role international institutions play in opening trade. Many studies of such institutions have great difficulty ensuring that compliance by member-states is due to the independent effects of the regime, rather than a harmony of interests among member-states that have nothing to do with the regime (Downs, Rocke, and Barsoom 1996: 380). The challenge, as Finlayson and Zacher (1981: 599; emphasis added) point out, is that it "is impossible to know how many protectionist actions have *not* been undertaken because of the existence of GATT [or WTO] obligations." Because such actions are so difficult to identify, studies of international trade agreements have focused on the association between membership and observed levels of trade or protection. But these studies may be biased by the fact that countries join the legal regime *because* they are ready to cooperate, rather than the other way around. Simmons (1998: 89) cautions that, while it can be shown "that much international behavior is consistent with international law," it has been extremely difficult to establish that the law has a causal effect.

Recently, though, both Blonigen and Bown (2003) and Busch, Racibroski, and Reinhardt (2009) compiled data on cases that were *not* filed, as well as those that were. The key is that, in the case of antidumping duties, it is possible to identify the full set of countries that could have been named in a petition or subjected to a duty, but were not. This has facilitated a more direct set of test of the effects of international institutions on trade than has been possible in previous research. In contrast to Blonigen and Bown's (2003) argument that having the market power needed to retaliate is the key to ensuring one's rights under the WTO, Busch, Racibroski, and Reinhardt find that simply being a member of the WTO deters the U.S. from raising trade barriers against foreign countries, regardless of their economic size.

Overlapping Institutions and Tying Hands

International economic institutions are widely considered an important check on protectionist pressures. Absent membership in these institutions, the concern is domestic interests demanding relief from imports will run roughshod over export-oriented interests, successfully pressing government official to raise trade barriers and thereby threatening the stability of the open international trading system. But are these institutions up to the task? The answer to this question is far from clear. More generally, additional research is needed on the credibility of different strategies that elected officials have used as means to "tie their hands" and ward off protectionist pressures.

The literature on the design of international institutions has shown that if it is too costly to comply with these institutions, governments will be reluctant to join them in the first place. Not surprisingly, global trade pacts like the WTO include escape clauses,

such as safeguards, that temporarily allow governments to (legally) protect domestic constituents without running afoul of free trade obligations. Rosendorff (2005) explains that the WTO, like other international institutions, must carefully balance the tradeoff between a more legalized, rigid system, and a more flexible one that offers opportunities for efficient breach. He argues that the WTO's flexibility is an important design feature, and shows, more generally, that trade agreements with flexible dispute settlement mechanisms are both more stable and more acceptable to a wider variety of countries than those other types of mechanisms (see also Goldstein & Martin 2000).

The downside of this flexibility, however, is that industrial constituents may doubt the extent to which elected officials are actually bound by WTO obligations. If so, then such officials may have difficulty convincing protectionist groups that WTO membership limits their ability to meet demands for heightened trade barriers. Escape clauses have often been used more liberally than intended, and no safeguards that have been legally reviewed met WTO standards. The difference between applied and bound tariff lines—or "tariff overhang"—is another source of wiggle room for governments, allowing them to cushion import-competing industries under political duress. This is not to suggest that it is unimportant whether rules on safeguards or bound tariff lines are established. Rather, our point is that greater flexibility can undermine the credibility of elected officials' hands-tying strategies.

In addition, the politics of international institutions can undermine the credibility of elected officials' hands-tying strategies. Just as international institutions are a constraint on members, so too are members a constraint on international institutions. In the case of the European Court of Justice, for example, Garrett, Kelemen, and Schulz

(1998) argue that the institution's body of jurisprudence has been shaped by two competing pressures: the need to hand down legally consistent rulings and the concern that too rigid a verdict might run afoul of members' sensibilities and undermine compliance. Smith (2003) holds to the same view with respect to Appellate Body rulings at the WTO. Likewise, Busch and Pelc (in press) find that WTO panels avoid ruling on certain legal issues where the wider membership has doubts about the precedent that would result. By exercising "judicial economy" in this manner, panels are bowing to political pressure from the membership, rather than the other way around. The point is that as international institutions anticipate the likely reactions of their members, elected officials may be hard-pressed to from their obligations as written in stone.

Finally, the proliferation of international institutions in trade, and the opportunity to choose among their rules, can also undermine the credibility of elected official's hands-tying strategies. Busch (2007) examines this in the context of "forum shopping" for dispute settlement. Since the U.S., Canada, and Mexico can bring litigation against each other either at the WTO or the North American Free Trade Agreement (NAFTA), he asks how complainants select one or the other court, or choose not to file at all. Busch argues that complainants are strategic about where they set a precedent: while new case law can be used in litigation against other trade partners, it can also be used by these other trade partners to bring suits against the complainant. A complainant may thus prefer that some precedents pertain only to members of a regional institution, others to members of the multilateral institution, and at times prefer not to set a precedent at all. Because less liberal complainants may be able to bring litigation without risking exposure to lawsuits themselves (i.e., by filing at NAFTA instead of the WTO), the constraints of

the multilateral trade regime are selected or not, rather than being ever-present. Of course, it is arguably better that complainants subject their claims to dispute settlement, rather than taking matters into their own hands. But the point remains that complainants are shopping which constraints to invoke (if any), a decision domestic constituents are likely to weigh in on. In this sense, the overlap of international institutions may complicate elected official's efforts at hands-tying.

Conclusion

Recent research has done a great deal to improve our understanding of the political economy of trade policy. This work has helped to illuminate the roles played by domestic interest groups, state institutions, and global trade pacts like the WTO. Currently, however, the literature is at something of a turning point. Questions about the design and politics of international institutions, and the growing thickness of the market for them, are very much in vogue. These questions have profound implications for the supply of free trade. To be sure, the credibility of elected officials' hands-tying strategies is likely undermined where institutions anticipate the political reactions of their members, or where members can shop for different rules on trade to accommodate domestic preferences. The irony is that the proliferation of international institutions may lead scholars of trade policy to renew their focus on domestic interest groups.

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Keywords

Domestic institutions
Interest groups
International institutions
GATT/WTO
Political economy
Tariff
Trade policy

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