The WTO as Decision-Making System – Business Interests and the Dynamics of Trade Policy

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ABSTRACT
The difficulties and impasse in the current multilateral trade negotiations under the WTO framework have been ascribed to many factors, notably the lack of business interests. Considering existing political economy theories, this seems puzzling and warrants therefore closer analytical attention. Studying the formation, organization and representation of business interests in the context of multilateral trade liberalization requires a broadening of the analytical focus beyond the institutional context of the WTO, both in terms of the vertical levels and dynamic perspective considered in the analysis. This working paper is thus a broad review of relevant literature on the international political economy, laying the foundations for a research project on business interests and the dynamics of trade policy making. In so doing, the literature review is structured according to several important conceptual categories, specifically preferences, institutions and aspects of the international system. In addition, particular attention is dedicated to scholarly work explicitly treating the dynamics and feedback effects in trade policy. The working paper concludes by outlining potential areas for further research.

KEY WORDS
Trade Policy Making, Decision Making, Preferences, Institutions, International System, Business Interests, Dynamics, Feedback Effects

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1 Introduction

1.1 Business Interest and the Dynamics of Trade Policy Making

The difficulties and impasse in the current multilateral trade negotiations under the WTO framework have been ascribed to many factors. There is no doubt that the present multilateral negotiation round is unprecedented, aiming at deeper, larger and fairer trade liberalization and hence, producing the concomitant political obstacles to achieve such economic integration.\(^1\) Other alleged factors for the slow progress and bleak prospects of the Doha round negotiations include the lack of media interest, the lack of leadership as well as the opposition of NGOs.\(^2\) Yet, perhaps the most important and potentially damaging factor appears to be the seeming lack of business interest to support and propel deeper and wider trade liberalization. Given past successes in trade liberalization, the importance of current trade flows and the potential business opportunities of further market openings, this seems to warrant closer analytical attention.

Achieving trade liberalization, whether multilateral, regional or bilateral, is no trivial matter.\(^3\) While trade liberalization undoubtedly makes economic sense, the political obstacles to achieve it may be considerable and in some cases insurmountable due to diverging and differentially organized domestic interests. The WTO provides a crucial function in this context by counterbalancing concentrated producer interests in the domestic political arena: The coalition of import-competing producers is confronted with the coalition of export-oriented producers by means of reciprocal market access commitments between countries. Addressing this structural problem of trade liberalization in domestic politics may well be the primary function the WTO.\(^4\) However, if the coalition of export-oriented producers does not or not strongly voice and pursue interests for

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\(^1\) See speech of Pascal Lamy, Director-General of the WTO on “Partnership and Global Prosperity” at the occasion of the International Economic Forum of the Americas, Montreal, 5 June 2006. For a transcript of the speech see the WTO web page: http://www.wto.org/english/news_e/sppl_e/sppl29_e.htm (last viewed 25 March 2007)

\(^2\) Ibid

\(^3\) Hoekman & Kostecki 2001, p. 27
further trade liberalization, as alleged by observers of the Doha round negotiations, then the delicate balance in domestic politics may tilt towards more protectionist trade policies. Therefore, the formation and organization of both liberal and protectionist business interests are clearly of primary importance for trade liberalization.

Studying the formation, organization and representation of business interests in the context of multilateral trade liberalization requires a broadening of the analytical focus beyond the institutional context of the WTO, both in terms of the vertical levels and dynamic perspective considered in the analysis. Firstly, studying business interests as crucial explanatory variable for trade liberalization suggests the conceptualization of several vertical levels of analysis. The “black box” of member states must be opened and disaggregated to analyze how domestic interests and institutions interact to produce member state’s trade policy. Secondly, this conceptualization of trade policy formation focuses attention on the top-down and button-up effects in trade policy making. Trade regulation at the international level impacts on the formation and organization of interests in the domestic political economy reflecting then on trade policies of member states. Conceptualizing several vertical levels of trade policy making draws thus attention to feedback effects and more generally the evolution of trade policy over time.

As a more rigorous and scientific analysis of social phenomena demands, focusing analytical attention on the dynamics of trade policy making considers the recent difficulties in the multilateral trade liberalization arena not as single occurrence, but rather as an instance of a larger pattern over time. Indeed, the dynamics and evolution of trade policies and patterns over time have repeatedly presented puzzles to scholars in the field of international trade, both theoretically and

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4 Hoekman & Kostecki 2001, p. 28
5 Research on trade policy making has benefited from contributions of both economics and political science. Even though the precise perspectives, foci and methods in both of these social sciences have differed (Milner 1999, p. 92), the insights from both fields have contributed to an understanding of international trade going beyond its constituent parts. According to recent surveys, economists have primarily focused on the explanation of trade patterns and flows. Of course, the essential theoretical conclusion of economists concerning international trade has been that free trade is the best policy for most countries most of the time. Confronted with empirical reality, however, economists have puzzled over the frequency and magnitude of protec-
empirically. In terms of theory, answers to several fundamental questions on the political economy of trade policy have remained elusive despite the vast literature and the continued research efforts by numerous scholars. At the most general level are unresolved questions such as for instance why trade policies seem to be universally biased against rather than in favor of trade. The determinants of trade policy variance across industries, countries, institutional contexts and over time are an additional question addressed only imperfectly in the existing literature. In the domain of the last set of questions, and possibly linked to the puzzle concerning the bias for rather than against protectionist policies, the dynamics and evolution of trade policies and patterns over time appears to be a particularly important puzzle in the field of international trade. To the extent that theorists have dealt specifically with the dynamics of trade policy, most scholars have proposed arguments with positive feedback effects, leading to progressively easier liberalization processes. For instance, political economy theories of trade liberalization suggest that the effect of international trade institutions on domestic politics is not only static but distinctly dynamic. According to these scholars, the political logic of the multilateral trade liberalization implies that each negotiation round increases the influence of export-oriented interests while the political weight of the import-competing interests decreases. Generally then, the interests of pro-liberal forces such as exporters and multinational corporations should become more concentrated than

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6 Rodrik 1994, abstract. See also Alt et al. 1996, pp. 709-714
relatively scattered and smaller import-competing interests. Liberalizers are thus positioned to play a winning game in which each multilateral negotiation round strengthens their own coalition and weakens the coalition of protectionist interests for the next round. In consequence, the dynamics of multilateral trade liberalization should weaken and even reverse the political realities producing protectionism in the past. Yet, if it is true that pro-liberal forces are strengthened and protectionist forces are weakened in the course of continuing global trade liberalization, it seems rather puzzling to observe that the liberalizing coalitions are currently under increasing pressure and protectionist coalitions appear again more influential in key economic areas and actors. Nor is this the only case when protectionist interests have gained the upper hand in the past. The existing theoretical explanations are thus clearly unsatisfactory.

Considering a larger time scale, it is of course true that trade policy has generally been moving into the direction of more trade liberalization, particularly since trade liberalization has been carried out in the multilateral GATT/WTO framework. Empirically, this dynamic effect of multilateral trade negotiations is reflected in the rising trade-to-GDP or openness ratios. However, while generally moving into the direction of increasing trade liberalization, the process of trade liberalization has not been steady and linear at all. Hence, this research project is not only interested in the long-term trajectory of trade policy but even more so in explaining the divergences from its long-term path. Borrowing conceptually from macroeconomics, one could perhaps describe the object of study as something akin to the “business cycles” of trade liberalization. Following this metaphor, understanding and explaining the “booms” and “recessions” in trade policy making is important for at least two reasons. Firstly, “booms” and “recessions” may not only

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10 Most prominently, protectionist coalitions seem to gain importance in the US and the EU, but also in a number of smaller trading powers. The difficulties in getting approval for regional integration agreements and the fast-track, i.e. Trade Promotion Authority (TPA) for trade negotiations in the US and the role of textiles and agriculture in the EU trade policy may serve as a case in point.
11 For an overview on indicators on trade and global integration, see Hoekman & Kostecki 2001, p. 9-18
have short-term implications but potentially also influence the long-term trajectory. The sequence of trade liberalization may in this sense determine the speed and magnitude of the feasible trade liberalization. Secondly and more generally, “short-term fluctuations” in trade policy making may potentially undermine the stability of the entire trade liberalization process. Empirically, several of such short- and medium-term fluctuations are observable. As specific, more recent instances could be listed the stability of the trading system in the face of severe economic distress in the 1970s, the “rush to free trade” beginning in the early 1980s and, as indicated, the seeming resurgence of protectionist pressures and difficulties to achieve consensus on further trade liberalization at the multilateral level since the late 1990s. Existing political economy theories can only account imperfectly for these instances; scholars have therefore noted the importance of further research on the dynamics and feedback mechanisms of trade policy.

The consideration of the role and importance of business interests in the current multilateral trade negotiations points thus more generally to the usefulness of research on feedback mechanisms and the dynamics of trade policy making. Such a research project appears to be relevant and justified on several grounds. Firstly, the previously indicated puzzles and the inability of existing theories to account fully for them is the initial reason to probe deeper. Further research must help to uncover why the existing theories do not account fully for the apparent inconsistencies, under which conditions these occur and perhaps suggest ways in which the existing theories need to be modified in order to account for the inconsistencies. Secondly, research of the dynamics of trade policy making addresses the interaction of preferences and institutions and could thus potentially relate to a fundamental debate in political science more generally. Thirdly and going beyond

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12 As in the literature on business cycles in macroeconomics, the term cycle is perhaps a misnomer since both phenomena need not necessarily be cyclical. The underlying similarity between the two phenomena is that in the short-term, developments can considerably deviate from the long-term path, giving rise to important implications.
13 As discussed in Milner 1988
14 As discussed in Milner 1999. See also Rodrik 1994, pp. 61-88
15 See among others Milner 1999, p. 110
purely theoretical considerations, several scholars have noted the broader importance of further research on the factors and mechanisms shaping the evolution of trade policy over time, particularly since trade is not only linked to prosperity but also to security.\(^{16}\) Fourthly and finally, increasing trade levels have led to an emergence of global economic governance structures, specifically the World Trade Organization with respect to trade. The functionality, legitimacy and perhaps the very stability of international trade institutions depends critically on the evolution and dynamics of trade policy.

This paper is thus a broad review of relevant literature on the international political economy, laying the foundations for a research project on the dynamics of trade policy with a focus on business interests. In so doing, the literature review is structured into several important conceptual categories in the analysis of the international political economy. The next section outlines in broad strokes the analytical framework as well as the main conceptual categories addressed in the literature review.

### 1.2 Analytical Framework and Conceptual Categories

Dynamics and feedback effects may be difficult to capture analytically. Effects in one period may become causes in the next, raising the question which is the dependent and which is the independent variable. In the context of trade, one should ultimately be interested in explaining trade policies enacted by individual states since the power of states to set policies within their jurisdiction is unique, important and accrues to even the smallest state.\(^{17}\) Furthermore, trade policies of large countries tend to exert a particularly important influence on the international political economy at large. While trade policy is thus defined as the dependent variable in the present research project, it is not inherently clear which set of independent and perhaps intervening variables are

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\(^{16}\) See for instance the literature reviews of Milner 1999, p. 110 as well as Frieden & Martin 2003, p. 120
most pertinent in the explanation of the evolution of trade policy. In fact, one of the purposes of this literature review is to uncover which independent and intervening variables could provide the greatest explanatory leverage with respect to the dynamics of trade policy. As indicated previously, a nuanced explanation of the evolution of trade policy requires attention to various analytical levels. Hence, a large scope of the international political economy literature focusing on trade needs to be reviewed for this purpose.

In the course of the scientific enquiry on international trade, scholars have developed or borrowed from other scientific fields a variety of conceptual categories in order to structure theoretical thinking on the phenomenon. At the most aggregate and abstract level, scholars have argued that the structure of the international system determines or at least influences the extent and conditions under which states trade. Such arguments have been advanced in particular by proponents of classical international relations theories such as realism and neo-realism. By looking beyond structural arguments and opening the “black box” of states, two additional conceptual categories have emerged: preferences and institutions. In the analysis of the domestic determinants of foreign economic policy, scholars have developed a commonly accepted approach.\(^\text{18}\) Firstly, scholars specify the preferences at play in the respective policy area. Secondly, scholars study how preferences are organized and aggregated. Finally, political institutions shaping and mediating the impact of interests are examined. This literature review will follow this consensual method since it has so far produced convincing and revealing results.\(^\text{19}\) Hence, the literature review is organized in chapters, dedicating room to scholarly work on each of the principal conceptual categories, i.e. (1) preferences, (2) institutions and (3) the international system.\(^\text{20}\) In addition, the study of the evolution of trade policy requires naturally closer attention to (4) the dynamics and

\(^{17}\) Frieden & Rogowski 1996, p. 27  
\(^{18}\) See Frieden & Martin 2003, p. 135  
\(^{19}\) Frieden & Martin 2003, p. 136
feedback mechanisms of trade policy to which an additional chapter will be dedicated. Each of the indicated conceptual categories can and has been disaggregated further, introducing additional concepts into the analysis. Preferences, for instance, may be held by different actors and may be shaped by materialistic, ideational and cultural factors. Institutions may have different forms and exist at multiple levels, at the national, international level and in between. The relation between these conceptual categories is of relevance as well. Scholars have at times emphasized certain concepts over others, but most scholars would agree that most of these concepts and their interrelation are of importance in explaining international trade policy. Subsequently, the literature concerning each of these conceptual categories will be reviewed, including the discussion of more disaggregated concepts as well as the relation between the different concepts. At times, the discussion of these concepts may not neatly remain within the boundaries of the respective categories, in particular when their interrelation is concerned.

In terms of the epistemological debate between rational and sociological approaches, this literature review tries to incorporate insights from both approaches. As will become clear from the literature review, rationalist explanations of trade policy tend to dominate the literature, perhaps due to the inherent closeness of trade to economic theory. Nonetheless, important contributions by sociologically grounded research do exist and deepen the understanding of the making of trade policy. The specification of the epistemological and methodological grounding of this research endeavor is left to the later stage of elaborating a detailed research design.

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20 Several scholars have employed this or a similar structure in reviewing the literature on the political economy of international trade. Among many others, see for instance Milner 1999; Milner 1997; Rodrik 1995; Alt et al. 1996

21 There is for instance a long-lasting debate on the relationship between actors’ preferences and political institutions. See Milner 1997, p.14-16
2 Preferences

Preference-based explanations of policies depart from the assumption of the state as unitary actor. The “black box” of the state is opened and attention is focused on domestic politics and policy-making. Preference-based theories generally assume that domestic policies affect domestic groups differently. Domestic groups are thus expected to have different policy preferences depending on how these particular groups are affected. In addition, the structure of domestic preferences is expected to differ across issues areas and change over time; a unified “national interest” is unlikely to emerge or only to be approached in extreme circumstances. Domestic politics is therefore important and domestic consequences of policies are the very subject of domestic politics.

The determination of policy preferences and thus of domestic preference groups or coalitions is naturally at the center stage of preference-based approaches. Three methods have commonly been used to determine preferences: assumption, theoretical derivation and empirical observation. The first two methods may be considered as essentially equivalent, leading to the question whether preferences are induced or deduced. In the field of trade policy, the deduction of domestic preference structures drawing from theoretical models of international economics has become an important and mature field of research. This research has in the last decade been supplemented with a growing body of inductive research relying on observation, interviews, surveys, and other empirical techniques to determine relevant preferences in the domestic political economy. Subsequently, both of these research strands will be surveyed in more detail, outlining the specific theoretical approaches, empirical results and remaining puzzles.

22 Milner 1997, p. 16
23 See Milner 1997, p. 16
24 Crystal 2003, p. 411
Before dedicating room for scholarly work on various types of preferences-based theories, some definitional comments are pertinent concerning the concept of preferences. In particular, preferences and interests have to be defined and differentiated more clearly. For the purpose of this literature review, interests represent fundamental goals such as income maximization for economic actors and reelection for political actors.\textsuperscript{25} Policy preferences are derived from the interests of actors, but depend on the specific issue or situation of the individual domestic actor. Hence, interests are the stable foundation from which the variable and situational preferences are derived. Other authors have labeled these concepts differently, sometimes overlapping or contradicting this definition.\textsuperscript{26} It appears that no commonly agreed definition or differentiation of the concepts has emerged as of yet.

\textbf{2.1 Deducing Trade Policy Preferences from Economic Models}

International cooperation in trade leads to differential distributional consequences on domestic groups, as theorists of international economics have long noted. Preference-based theories of trade policy have used these distributional consequences as the principal explanatory variable for demands concerning trade policy.\textsuperscript{27} The relevant unit of analysis varies with the specific theory in question; it may comprise a broad range of socio-economic actors such as individuals, firms, industries, economic sectors as well as entire classes and political parties. In addition, individuals may be economic agents, voters or political decision-makers depending on their position and function in the preference-based models. Generally, two basic types of deductive preference

\textsuperscript{25} Milner 1997, p. 15
\textsuperscript{26} Crystal notes for instance, that “preferences over outcomes are considered to be exogenous to the situation that one is analyzing and that they do not change” and he continues that “preferences in this sense are mental constructs and thus not directly observable”. On the other hand, he observes that “what we can observe, […] are the varying strategies by which an actor tries to achieve these goals. These preferences over actions (or ‘policy preferences’) vary depending on the environment or the actor’s information”. Hence, Crystal and others see preferences as stable and strategies or policy preferences as derived and variable. See Crystal 2003, p. 411
\textsuperscript{27} Milner 1999, p. 95
models can be distinguished: models focusing on factor endowment and models emphasizing increasing returns to scale.

2.1.1 **Factor-Endowment Theories**

Demand for protectionism has varied substantially across countries, economic sectors and industries as well as over time. Explaining this variance by determining more precisely the domestic groups opposing and favoring free trade and describing the conditions under which such demands are most influential has been one key goal of preference-based explanations of trade policy.\(^{28}\) In order to derive preferences and delineate opposing domestic groups, preference-based explanations have frequently employed theories and models from international economics. The predicted preference structures and cleavages between domestic groups vary considerably depending on the assumptions underlying these economic models. Hence, close attention has to be drawn to the precise assumptions and specifications of the economic models as well as to the conditions under which these assumptions appear to be valid. The literature of preference-based explanations can broadly be divided into two rival approaches in delineating opposing domestic groups. On the one hand, factoral or class-based theories flow from the application of the Heckscher-Ohlin and Stolper-Samuelson theorems. On the other hand, sectoral- or firm-based theories employ the Ricardo-Viner model. While these two approaches have dominated the scholarly discussion on preferences and demand for trade policy, additional models of international economics exist which enrich the debate and attempt to take into account the increasing complexity of advanced economies. Subsequently, the different strands of literature will be discussed in turn with respect to mechanisms of preference generation, the underlying assumptions as well as the empirical evidence.

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\(^{28}\) Milner 1999, p. 95
2.1.1.1 Heckscher-Ohlin or Class-Based Theories

Factoral preference theories derive their name from the focus on owners of production factors. The precise application of factor-endowment models varies; however, the traditional three-factor model – labor, capital and land – has frequently been applied by scholars. Hence, these theories have also been described as class based or more fundamentally pertaining to Marxist political economy explanations. The argument of these factoral or class-based models builds on the Heckscher-Ohlin and Stolper-Samuelson theorems of international economics. Two key assumptions of these theorems merit closer attention with respect to their implications for domestic preference structures. Firstly, the assumption of perfect competition in product and factor markets underlies both theorems. Secondly, factors of production are assumed to flow cost- and frictionless between different economy sectors. In other words, production factors are assumed to be perfectly mobile. Based on these assumptions, the Heckscher-Ohlin theorem determines the type of products a given country exports and imports under free trade. The effect of trade extends then to the factors of production employed in the manufacturing process of the products. The Stolper-Samuelson theorem captures these effects with respect to factor owners and identifies thus the losers and winners from protectionism and trade liberalization. Protection benefits (and liberalization of trade harms) owners of factors in which the specific country is comparatively poorly endowed with respect to the rest of the world and producers who use this scarce factor intensively. Conversely, protection harms (and liberalization benefits) those factors in which the respective country is comparatively abundant as well as the producers which employ this factor intensively. As a consequence of these distributional consequences, comparatively scare factors will demand protectionism whereas comparatively abundant factors will demand free trade.

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29 Hiscox 2002, p. 593
30 See Rogowski 1989, p. 3. According to the Heckscher-Ohlin theorem, under free trade, countries will export those products whose manufacture uses intensively their abundant factors of production, and import those products employing intensively factors in which the country is poorly endowed.
31 Rogowski 1989, p. 3
Factors of production are then pitted against each other in the domestic policy making process over trade policy. Empirically, Rogowski, Balestreri as well as Scheve & Slaughter have found support for factoral or class-based preference theories. Critics of these approaches, however, have precisely pointed to the inability to account for several serious empirical anomalies, in particular if the models are applied to advanced economies. Milford, for instance, argues that most but not all of these empirical anomalies are produced by the extreme parsimony of the traditional factor-endowment model employed by many scholars. The use of overly simplistic factor-endowment models had previously already produced anomalies in the empirical research of trade patterns by economists; the so called “Leontief paradox” is widely known. Milford employs a richer factor-endowment model developed by Leamer, which he claims to be more adequate for advanced economies, and is able to account for most of the empirical anomalies. Of particular interest to scholars studying the international political economy has been a political extension of these approaches by Rogowski. With a parsimonious set of assumptions on the policy-making process, Rogowski develops an argument to account for political effects of increasing and decreasing exposure to trade over time. Specifically, Rogowski claims that, depending on the factor endowment structure of a specific country, increasing trade exposure will either lead to increasing class conflict or increasing urban-rural conflict. Conversely, decreasing trade exposure, for instance occasioned through external shocks, will have the reverse effect according to his argument.

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32 Rogowski 1989
33 Balestreri 1997, pp. 1-17
34 Scheve & Slaughter 2001, pp. 267–292
35 Milford 1993, p. 537-542. Milford argues for instance that the model cannot explain why labor predominantly supported free trade until the mid-1970s in the US, why capital in the US become increasingly protectionist since the 1970s and why significant sectors of labor favored protectionist policies in Europe.
36 See Rogowski 1989, p. 16-17. Rogowski acknowledges and anticipates this empirical criticism. He points to the weaknesses of the analyses by Leontief as well as Baldwin, suggests alternative analyses, primarily by Leamer, and reaffirms the validity of the Heckscher-Ohlin and Stolper-Samuelson theorems.
37 Rogowski 1989
### 2.1.1.2 Ricardo-Viner or Industry-Based Theories

In contrast to factoral theories, sectoral theories of trade preferences follow from the Ricardo-Viner model\(^{39}\) of neoclassical trade theory. Again, two key assumptions of this model require attention concerning implications for domestic preference structures. Firstly, the Ricardo-Viner model also assumes perfect competition in product and factor markets. Secondly, and in contrast to the Heckscher-Ohlin model, the Ricardo-Viner model assumes that at least some production factors cannot move freely between different industries of the economy. This production factors may be “stuck” in their present occupation, making those factors immobile or specific to a firm, industry or economic sector. Approaches based on the Ricardo-Viner model have therefore also been called Specific-Factor models. Economists employing Specific-Factor models quickly realized that the assumption of all factors being specific is not useful since in this case no specialization and thus no gains from trade could be achieved.\(^{40}\) Depending on which factor is specified or assumed to be immobile, the models can be further subdivided and classified into partially factor-specific models.\(^{41}\) The distributional consequences of the Ricardo-Viner model differ markedly from those of the Heckscher-Ohlin model. While the income effects for the mobile factors are ambiguous, the income effects are clear for immobile factors and depend on the industries in which the specific factors are employed.\(^{42}\) The Ricardo-Viner model predicts thus political cleavages along industry lines; specific factors employed in import-competing industries will lose from trade liberalization while factors utilized in export-oriented industries will gain.\(^{43}\) Due to

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38 Rogowski 1987, p. 1123  
39 For a reference to the sources of the Ricardo-Viner model see Hiscox 2002, p. 594. The original model was introduced independently by Jones 1971 and Samuelson 1971. While Jones labeled it “specific-factor” model, Samuelson named it Ricardo-Viner model.  
40 See in particular Brawley 1997, p. 636.  
41 Brawley 1997, p.637. For instance, sector-specific capital models (SSK) and sector-specific labor models may be distinguished.  
42 Yarbrough 2003, , p. 917  
43 See Alt et al. 1996, p. 692. As a more illustrative description of specific factors and industry cleavages Alt et al. provide the following example: “If the United States is abundant in software-producing capital but scarce in up-to-date auto-producing capital, and if shifts between these uses are costly and slow, then software manufacturers will embrace free trade and auto-makers will be protectionist”. 
the analytical focus on specific industries and concomitant lobbying activities, these approaches have also been associated with pressure group politics or special interest politics. Empirical analyses following this industry-specific or pluralist-style approach of domestic politics in trade policy have a very long tradition and predate the formal economic description of the Ricardo-Viner model. In fact, already Adam Smith, aware of the distributional consequences of trade, noted that “the subversion of the national interest in free trade is the frequent outcome of collusion among businessmen”.44 Schattschneider was another early scholar pointing to the importance of industry-specific preferences in trade policy formulation.45 The more recent scholarly work employing the formal economic Ricardo-Viner model is considerable. The endogenous policy or tariff literature in economics relates import-barriers across industries to the political clout of the respective industries.46 In addition, the set of assumptions underlying the Ricardo-Viner model are often implicit in the large empirical literature on tariff setting in economics.47 Beyond the more economic literature, scholars from the field of political economy such as Gourevitch48 and Frieden49 have also used the Ricardo-Viner model and have found empirical support.

2.1.1.3 Heckscher-Ohlin vs. Ricardo-Viner

As to the question which of the models is superior in explanatory power and empirical validity, the jury is still out.50 While both models can successfully explain different sets of empirical preference structures and cleavages on trade policy, each of the models has significant weak spots.

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44 Cited in Milner 1999, p. 95
45 Milner 1999, p. 95
47 See Alt et al. 1996, p. 693. The authors refer in particular to the article by Anderson & Balwin 1981 which reviews much of the literature in this field.
48 Gourevitch 1986
49 Frieden 1991a; Frieden 1991b, pp. 425-452
50 Alt et al. 1996, p. 693
and fails to explain other sets of preference structures. Attention turns thus to the specific circumstances under which the respective models have higher or lower explanatory value. Following this line of thought, many scholars have noted that Heckscher-Ohlin models and Ricardo-Viner models represent in fact polar cases. Revisiting the assumptions of both models, the Heckscher-Ohlin model derives trade policy preferences based on complete factor mobility whereas the Ricardo-Viner model expects preferences based on complete \textit{immobility} of at least some factors. Scholars have thus argued that factor mobility is better considered as a continuous variable which in turn may be influenced by a range of economic, political as well as technological conditions. For economists, the variance in factor mobility or specificity connects the two models over time. According to a common conceptualization in economic theory, very few assets are transferable without costs or friction in the short run whereas virtually no assets are specific to any use in the long run. The time horizon may in this view determine the appropriateness of the two models, the Ricardo-Viner model being more applicable in the short-run (e.g. who will be in favor or against NAFTA or WTO trade rounds) while the Heckscher-Ohlin model is more applicable to the long run. Political scientists agree that variability of factor mobility occurs but tend to disagree with the automaticity towards the long-term equilibrium of complete factor mobility inherit in the economists’ argument. Specifically, political scientists emphasize that production factors will have to pay adjustment costs independent of whether adjustment occurs in the short run or in the in the long run. In the latter case, adjustment costs would just spread out over more time. Factor owners faced with adjustment costs may not just choose between accepting returns in a declining industry and moving to an expanding industry but may also lobby to influence pol-

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\begin{itemize}
\item[51] See in particular Alt et al. 1996, p. 698-699. The authors note in particular that mobile factor models, i.e. factoral- or class-bases models, cannot readily explain variations among capitalists and among workers as well as the rise of sectoral and industry coalitions. On the other hand, this observed breakdown of factoral solidarity should imply greater specificity of assets. This theoretical deduction however, is contradicted by empirical observations that factor mobility has increased considerably throughout the 20th century.
\item[52] Hiscox 2002, p. 594
\item[53] See Alt et al. 1996, p. 698
\end{itemize}
Factoring in politics into the debate on variability of factor mobility may thus yield a situation in which certain owners of specific factors in would-be-declining industries decide to stay or even invest in the long run instead of adjusting. In other words, rather than seeing variable factor mobility as endogenous to an adjustment process over time as economic theory suggests, political scientists tend to conceptualize factor mobility as crucial independent variable to explain preference structure on trade policy. Scholars propagating this conceptualization are aware that factor mobility is influenced by other factors, in particular regulatory and technological change. While research up to the present has considered these factors as exogenous and secondary in terms of explanatory value, the importance of this question of endogeneity has been recognized and recommended for further research. Empirically, it is noteworthy to mention that despite the obvious importance of factor mobility few attempts have been made to actually measure the concept thoroughly for different factors of production. Hiscox has utilized factor mobility as key explanatory variable to explain preference structures in a longitudinal study of the US, and in a comparative analysis of several advanced economies. His measurement of factor mobility over time suggests that inter-industry factor mobility has broadly been increasing throughout the 19th century and decreasing in the 20th century from a turning point around 1920. In line with the previous argument, he reports that high factor mobility periods led in tendency to class conflicts while low factor mobility periods, i.e. periods with high factor specificity, have generally prompted sectoral conflicts on trade policy. While Hiscox’s work holds great potential for the explanation of trade policy as well as for the role governments can take to mitigate domestic conflicts.

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54 Alt et al. 1996, p. 698
55 Hiscox 2002, p. 594
56 Hiscox 2001, pp. 1-46
57 Hiscox for instance points out that factor mobility can clearly be influenced by government policy and hence, it should be questioned whether factor mobility is not endogenous to the system. See Hiscox 2001, p. 36
58 For comments on efforts and problems concerning the measurement of inter-industry factor mobility see in particular Hiscox 2002, p. 594
59 Hiscox 2002, pp. 593-608
60 Hiscox, 2001, pp. 1-46
flicts, additional research is required to control for a range of variables as Hiscox himself notes. For instance, international factor mobility of both labor and capital rose until World War I, dropped and then increased again after World War II. Yarbrough wonders therefore about the connection between the drop in international factor mobility around World War I and Hiscox’s turning point in inter-industry factor mobility. Other scholars have also relaxed the strong assumption on factor mobility in the Heckscher-Ohlin and Ricardo-Viner models. Brawley for instance, modifies the specific-factor model to a partially-mobile-factor model to explain the preference structure of trade policy in Imperial Germany. Midford on the other hand starts from the factor-model as employed by Rogowski and refines the model by introducing additional production factors in order to account for several empirical anomalies of Rogowski’s work. As to the relation of the Heckscher-Ohlin and Ricardo-Viner model, Midford notes that a factorial model with many narrowly defined factors begins to resemble the specific-factor model. Formally, Mussa demonstrates how a sectoral short-term model gradually becomes a factorial long-term model with the introduction of intersectoral mobility costs. More generally, Alt et al. note that once the rather extreme assumptions of the Heckscher-Ohlin and Ricardo-Viner models are relaxed and the two models are fused, the empirical accuracy of these models increases. At the same time however, the predictions of these models concerning the preference structure becomes also less clear-cut, signaling thus a possible trade-off in the construction of the model.

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61 These factors include in particular variation in electoral and policymaking institutions. See Hiscox 2001, p. 35
62 Yarbrough 2003, p. 918
63 Brawley 1997, pp. 633-654
64 Cited in Scheve. & Slaughter 2001, p. 272; See also Mussa, 1978
65 Alt et al. 1996, p. 697
2.1.1.4 Extensions to Factor-Endowment Theories

Several noteworthy extensions to this body of literature should be mentioned. As indicated, this preference-based literature relies on the effects of trade on factor returns. In order to generate clear domestic preference structures concerning trade policy, all of the previously mentioned models assume that production and the resulting factor income but not consumption is relevant, that the income of individuals stems predominantly from one production factor, and that individuals rely only on factor income but not on asset ownership. All of these assumptions can and have been relaxed by scholars to trace their impact on trade policy preferences. Baker, for instance, finds that consumption-based interests do matter significantly and that consumption and labor-market channels, i.e. factor income, may produce cross-cutting effects.\footnote{In particular, Baker finds that “... a poor country’s exports (the products that increase in price under trade liberalization) tend to be goods that its poor citizens consume at a higher rate than its wealthy citizens. Conversely, a rich country’s exports tend to be products that its rich citizens consume at a higher rate that its poor citizens. Because skills and income are correlated in all societies, consumption tastes may offset somewhat the labor-market impact of trade”. See Baker 2005, p. 934-936} Schonhardt-Bailey extends the specific-factor model with the consideration of capital markets and the possibility of portfolio diversification in order to explain the repeal of the Corn Laws.\footnote{Schonhardt-Bailey 1991b, pp. 545-569} Scheve & Slaughter on the other hand find that not only factor income but also asset ownership such as home ownership matters with respect to trade policy preferences.\footnote{See Scheve & Slaughter 2001, pp. 267–292. Scheve & Slaughter focus on home ownership for methodological reasons but emphasize that home ownership constitutes a very large share of individuals’ total wealth holdings (p.274). As to the link between trade policy and house ownership, Scheve & Slaughter point out that trade policy affects regional economic activity, leading to adverse housing shocks in regions with a high concentration of economic activity in sectors with a comparative disadvantage. Following this line of reasoning, house owners in these regions would oppose free trade since housing demand and prices would be depressed due to the declining economic activity in the region (p.274-275). While the argument seems plausible, the model appears to make relatively strong assumptions concerning the information that home owners need in order to relate trade policy to asset prices.} In other words, Scheve & Slaughter allow for the possibility that individuals have intertemporal consumer choices, i.e. that current factor income may be saved and invested for future periods. All of these extensions suggest once again that careful attention has to be paid to the precise assumptions of models explaining preferences. Since all of the aforementioned models explain trade preferences based on the distributional impact of trade on income, variance in income structure may have to be considered as well.
Changes in the structure of income such as diversification and income from other asset classes may dilute the explanatory power of models focusing on income from one production factor.

### 2.1.2 Intra-Industry Trade and Increasing Returns to Scale (IRC) Models

In addition to models based on factor endowments, international economics provides other theories explaining trade preferences. Considering the development and change of trade patterns over time, the most conspicuous feature of trade development in the post war period has been the tremendous growth in intra-industry and intra-firm trade. In particular among advanced economies, the importance of intra-industry and infra-firm trade can hardly be overemphasized.\(^{69}\) Depending on the specific measurement employed, intra-industry trade comprises between 55% and 75% of trade between advanced economies.\(^{70}\) Since “endowments-based” models account only for changes in factor income due to inter-industry trade, the development of trade patterns raises questions concerning their explanatory value. A focus on economic models explaining intra-industry trade seems to be warranted. Economic models explaining intra-industry trade focus in particular on the existence of product differentiation and economies of scale.\(^{71}\) In terms of assumptions, these models depart from the assumption of perfect competition in product and factor markets shared by both the Heckscher-Ohlin and Ricardo-Viner models. With respect to the implications on trade policy, it is particularly important whether economies of scale are modeled internal or external to firms.\(^{72}\) In case of product differentiation and economies of scale internal to firms, the result is not only intra-industry trade but also neutral consequences to income distribution. In these models, trade may even benefit everyone by increasing the product range and choice. While these models do not claim that intra-trade is always free of distributional conse-

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\(^{69}\) Alt et al. 1996, p. 693  
\(^{70}\) Cited in Milner 1999, p. 94  
\(^{71}\) Alt et al. 1996, p. 693  
\(^{72}\) See Alt et al. 1996, p. 693-694
quences, intra-industry models allow for this possibility and suggest that if distributional consequences occur, they are less clear-cut.\footnote{Alt et al. 1996, p. 694} In terms of political economy, no or at least murkier distributional consequences of trade according to economies of scale models suggests less conflict on trade issues. In case economies of scale are external to firms, the picture changes as this class of models show that a “tipping” of regional advantage may move entire industries or economic sectors to another location, threatening thus all factors employed in these sectors.\footnote{See for instance Alt et al. 1996, p. 695; See Milner & Yoffie 1989, pp. 239-272} Increasing importance of economics of scale external to firms may thus lead to a situation in which accident, infrastructure, infant-industry arguments and more generally path dependency obtain crucial importance. In terms of trade policy, it would be rational to expect that industries or whole economic sectors lobby in support of free trade in order to fully exploit the advantages of economies of scale. However, economies of scale may also increase the importance of strategic considerations in trade policy, giving rise to strategic trade policy and possibly conflict between states.\footnote{Frieden & Martin 2003, p. 127}

2.2 Inducing Trade Policy Preferences Through Empirical Techniques

While the deductive approach of deriving policy preferences from economic models has long dominated preference-based explanations of trade policy, this research has increasingly been complemented with empirical research beginning in the 1990s. A considerable body of research has recently emerged, in particular making sophisticated use of public opinion surveys to investigate both interest-group and mass-public preferences concerning trade policy in North America, Western Europe and to a lesser extent in some developing countries.\footnote{This strand of literature}
emerged partially from the public opinion literature on the factors shaping Europeans’ support for European integration.\textsuperscript{77}

One of the first and thereafter much cited attempts to use public opinion surveys in order to rigorously measure individual trade preferences was undertaken by Scheve & Slaughther.\textsuperscript{78} Essentially, the authors of this study aimed to empirically test the conflicting predictions of the Heckscher-Ohlin model and the Ricardo-Viner model. The authors supplemented the analysis with asset ownership as additional explanatory variable for trade preferences. As outlined above, Scheve & Slaughther found that the factor type dominates industry of employment in explaining support for trade policy. Asset ownership was also found to be relevant for trade preferences. While Scheve & Slaughther focused primarily on general economic utilitarian factors influencing trade policy preferences, subsequent studies refined these economic factors and broadened analysis to include political attitudes and normative values. Kaltenthaler, Gelleny & Ceccoli, for instance, consider a variety of economic interest factors such as the level of human capital, income, perceived social class, union membership, gender and age.\textsuperscript{79} In addition, they also include political attitudes as measured by the position in a economic/materialist left-right continuum,\textsuperscript{80} an individual’s level of cognitive mobilization or cosmopolitanism, and finally a person’s self-identified attachment to a geographic entity (such as a city, province or country). Kaltenthaler, Gelleny & Ceccoli find strong empirical support for economic utilitarian explanatory factors, in particular for education but also income and gender. Conversely, the economic/materialist left-right dimension performed much weaker than anticipated and was not a useful predictor of trade policy preferences. Finally, the authors of the study found some empirical support for geographic

\textsuperscript{77} Wolfe & Mendelsohn 2005, p. 47
\textsuperscript{78} Scheve & Slaughther 2001, pp. 267–292
\textsuperscript{79} Kaltenthaler, Gelleny & Ceccoli 2004, pp. 829-851
\textsuperscript{80} By economic/materialist left-right continuum Kaltenthaler, Gelleny & Ceccoli refer primarily to how citizens think about the state’s role in the distribution of income in the economy. The authors of the study see a need to specify or refine the traditional left-right ideological continuum since it is “increasingly common to think about the left-right spectrum as a two-dimensional
orientation and cognitive mobilization as explanatory factors, but generally variables capturing political attitudes had far weaker explanatory value than economic interest variables. Along similar lines, Wolfe & Mendelsohn employ a set of economic interest variables but included also a relatively broad set of value-based variables.\textsuperscript{81} The authors relate these sets of explanatory variables to two dependent variables, namely trade liberalization and globalization more generally. The results indicate that citizens seem to distinguish between trade liberalization and globalization in the sense that trade liberalization tends to be shaped by more limited economic factors and less by values. Conversely, values and attitudes seem to play a much larger role in shaping citizens preferences regarding globalization, indicating that citizens understand globalization as inherently multidimensional concept extending beyond the economic realm. With respect to trade liberalization, the authors find that economic self-interest variables do have an impact on trade policy preferences but add the interesting result that the retrospective evaluation of previous agreement is even more important.\textsuperscript{82} Rankin, more than others, pursues and defines the distinction between self-interested economic variables and symbolic, cultural attitudes as independent variables explaining trade policy preferences.\textsuperscript{83} In particular, Rankin argues that in order to derive proper self-interested trade policy preferences, individuals need to understand the personal impacts, costs and benefits of trade policy. He continues his argument, indicating that citizens in general do not pay much attention to policy issues and thus rely on informational shortcuts, many affective in nature, in order to form policy preferences.\textsuperscript{84} In his empirical analysis, Rankin uses a multidimensional national identity concept and finds that both economic self-interest variables

\textsuperscript{81} Such value variables include for instance economic ideology, cultural conflict over authoritarian values and social tolerance, trustworthiness of government to be responsive to citizen’s demand, group identification and cues, citizen’s patterns of national and international attachments as well as the citizen’s degree of cosmopolitanism. See Wolfe & Mendelsohn 2005, pp. 45-68

\textsuperscript{82} See Wolfe & Mendelsohn 2005, p. 61

\textsuperscript{83} Rankin 2001, pp. 351-376

\textsuperscript{84} Rankin 2001, p. 356
and symbolic predispositions do play a role in US opinion on trade. In his concluding remark, he suggests that symbolic predispositions of national identity may provide long-term, stable attitudes to form trade policy preferences amidst rapid global change and uncertain economic impact. Beaulieu, Yatawara & Wang extend the literature in terms of country coverage. While most of the empirical analyses listed in this section are rather limited in the coverage of developing countries, Beaulieu, Yatawara & Wang focus exclusively on developing countries. Including more developing countries is of particular relevance for factor-endowment models since factor endowment patterns vary considerably more between developing countries and developed countries than within each subgroup. The authors are particularly interested in explaining the influence of skill-levels on workers preference towards trade policy and measure skills by educational levels. Beaulieu, Yatawara & Wang find that skilled workers are more supportive of trade than unskilled workers across countries, thus contradicting the predictions of the Heckscher-Ohlin model and Ricardo-Viner model to a certain extent. Exogenous shocks to the global factor-endowment structure by the increasing integration of China, India and other “unskilled-labor power-houses” into the world economy may help to account for these results. The authors of the study advance also additional factors explaining workers’ trade policy preferences.

In sum, inductive empirical research on trade policy preferences has analyzed a broad set of independent variables. While some non-economic variables have proven to be influential, various studies show that economic variables are by and large valid and strong predictors of trade policy preferences. Some empirical puzzles or anomalies remain, however, particularly the predictions of factor-endowment models across countries with differing factor endowments.

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85 Beaulieu, Yatawara & Wang 2005, pp. 941-958
2.3 Preferences, Ideas and Information

The previous section has outlined efforts to theoretically deduce or empirically induce preferences concerning trade policy. A number of relevant explanatory factors have been uncovered in the process. While all of these variables account for trade preferences, some more or better than others, two additional factors are worth mentioning. These two factors – ideas and information – are in a sense primordial to the process of preference formation and are thus discussed separately.

The relevancy of ideas and information may be contextual and vary, but their potential impact on preference formation certainly warrants attention.

Scholars who emphasize the importance of ideas as explanatory variable define the concept in most general terms as shared beliefs. More specifically and in the context of economic policy, ideas are defined as shared causal beliefs, i.e. beliefs about cause-effect relationships in the economy, causal beliefs which may be associated with corresponding and deeper normative beliefs. Causal ideas are equated with strategies, which allow actors to define and realize interests corresponding to the underlying causal ideas. Hence, ideas may be considered primordial to preferences since ideas define the very relationships of variables shaping preferences. In the field of trade policy, for instance, causal beliefs about the economic relationship of trade and other economic variables may account for the very distinct trade regimes the world has witnessed over time. Ideas concerning the effects of trade in the age of mercantilism are remarkably different from the causal beliefs of the vast majority of present day economists on the effects trade policy. More recent analysis of the effects of internationalization on the Soviet Union also emphasizes the importance of ideas for the formation of trade policy preferences. As is quite evident from this account, ideas may be very important and ideas may change over time. As a consequence,

86 Goldstein 1993, p. 11
87 As Goldstein points out, beliefs may not only be about causal relationships. Ideas or shared beliefs may concern more fundamental norms and values to the extent of the very foundation of social perception, i.e. worldviews. See Goldstein 1993, p. 11
88 Evangelista 1996, p. 185
the obvious follow-up questions are then what or who determines ideas and how do causal beliefs enter the political process. Scholars studying ideas argue that ideas become embedded in formal or informal institutions and that these institutions may change over time according to a predictable process. Goldstein, for instance, argues that periods of policy delegitimation undermine existing causal beliefs, giving rise to demands for new causal beliefs.\(^8^9\) The opening policy window allows political entrepreneurs to search for, experiment with and if successful embed alternative causal beliefs in new institutions. This process is not preordained; path-dependencies, fortuna and accidents matter. With this theoretical framework Goldstein is able to account for the complexity and anomalies of contemporary US trade policy. More importantly, the framework offers an explanation for ideational and institutional change over time. In the context of uncertainty about causal relationships, expert knowledge and learning are important factors.\(^9^0\) Delegation to experts, “epistemic communities”\(^9^1\) and learning by observation of experience have been considered as explanatory factors in this setting. The principal actors in this explanatory framework are political entrepreneurs and decision-makers; the mass is in this sense conceptualized as “idea”-taker. Recent empirical analysis suggests, however, that ideas may in fact play an important role in trade policy on the individual level independently from political institutions. As indicated in the previous section, empirical analyses have found that education, primarily employed as a proxy measure for skills, is an important explanatory variable for individual trade policy preferences. Hainmueller & Hiscox focus their empirical analysis more precisely on education as explanatory variable and find evidence that the impact of education on policy preferences has more to do with exposure to economic ideas and information on economic relationships than it does with individual calculations concerning the labor market and relative wage rates.\(^9^2\) In par-

\(^8^9\) Goldstein 1993, p. 12
\(^9^0\) Uncertainty regarding the relationship between preferences, policies and outcomes has also been labeled as uncertainty concerning the “state of the world”, or model uncertainty. See Frieden & Martin 2003, p. 140-141
\(^9^1\) Haas 1992
\(^9^2\) Hainmueller & Hiscox 2006, pp. 469-498
ticular, they find that the impact of education on trade policy preferences is not linear, with college being the most influential stage of education.\textsuperscript{93} This work departs fundamentally in the interpretation of previous survey evidence and points to the importance of ideas as well as the individuals and institutions responsible for the production and distribution of ideas.

The impact of information on trade policy preferences may also be considered primordial since individuals require information in order to form preferences on trade policy. Prices of products and factors convey important information for the adequate formation of individual trade policy preferences, particularly in deductive preference models. The distortion and blocking of price signals may thus distort or mute trade policy preferences. Milner & Keohane argue that states may use the domestic institutional framework to distort or block the transmission of price signals into the domestic economy thus manipulating the preference structure concerning trade policy.\textsuperscript{94}

Evangelista affirms this argument by observing that in the Soviet Union domestic actors did not pursue their trade interests due to domestic institutions insulating the domestic economy from international markets and price signals.\textsuperscript{95} Since the demise of the Soviet Union and even before, states have shifted foreign economic policies away from blocking price signals and have increasingly embraced market-affirming policies. While the role of information with respect to preference formation is clearest in the case of complete blocking of price signals, domestic institutional frameworks continue to influence price signals and thus trade policy preferences. International regimes and institutions may have an important role to play concerning these more subtle distortions in the process of preference formation by providing information to domestic actors.\textsuperscript{96} In this context, Goldstein & Martin analyze the informational consequences of the WTO and suggest

\begin{flushleft}
\textsuperscript{93} Hainmueller & Hiscox find evidence for a college “plateau” effect and indications that further years in education or other educational tracks may not necessarily contribute to more open trade policy preferences. See Hainmueller & Hiscox 2006, p. 486
\textsuperscript{94} Milner & Keohane 1996, p. 21
\textsuperscript{95} Evangelista 1996, p. 184-5
\textsuperscript{96} See Frieden & Martin 2003, p. 141. Proponents of neo-liberal institutionalism in particular have stressed the informational function of international regimes and institutions. See for instance Keohane 1984, p. 92-93
\end{flushleft}
that the dispute settlement mechanism of the WTO has considerable impact on domestic preferences and political actions.\textsuperscript{97}

\section*{2.4 Conclusions}

The literature on trade policy preferences confirms the relevance and usefulness of preferences for the explanation of trade policy. Deductive approaches of trade policy preferences have developed into an important field of research generating theoretically grounded hypotheses about preference structures and coalitions. Inductive empirical research on trade policy preferences has analyzed a broad set of independent variables and by and large confirmed the central importance of economic self-interest variables used in deductive models. Puzzles remain and have propelled the subfield into in-depth examinations of the conditions and assumptions under which the models hold explanatory value. This is perhaps a good sign that the research endeavor is consolidating and reaching a mature stage.

However, the literature on trade policy preferences suggests also that the analysis of preferences is an important but only first step in models of trade policy formulation.\textsuperscript{98} Some of the observed puzzles may perhaps be less linked to the insufficiencies of the underlying preference models and more to the way in which preferences interact with institutions to produce policies. Information on preferences may thus only yield full explanatory power when considered in the context of institutions aggregating and representing preferences in the political decision-making process.

\textsuperscript{97} Goldstein & Martin 2000, pp. 603-632

\textsuperscript{98} This is of course not to say that scholars focusing of preference-based models are not aware of or have neglected institutional components of analysis. While not diminishing the role of preferences, institutions may nonetheless play a critical part as well in the formation of trade policy.
3 Institutions

Information on preferences is a necessary but not sufficient condition to explain political action in the form of trade policy. As Garrett & Lange show, the “null hypothesis of economic pluralism”, i.e. the relatively quick reflection of policy preferences in commensurate changes of policy and institutions, must be rejected for almost all institutional settings.\(^{99}\) Hence, the study of institutions is important since raw preferences are mediated through institutions, fundamentally affecting political outcomes.\(^{100}\) The institutional setting of policy-making in the domain of trade comprises essentially two different layers of institutions. Firstly, socio-economic institutions are relevant for the aggregation of individual preferences. Secondly, formal political institutions affect the political weight specific preference groups will have in the decision-making process.

Before literature on both types of institutional layers will be addressed, it should be noted that this two-tiered institutional setting is pertinent for the analysis of democratic but less so for autocratic political regimes. With respect to the impact of preferences on policy outcomes in autocratic polities, Garrett & Lange note that the threshold for policy change is very high and that one should expect relatively long periods of policy stability interrupted by bursts of rapid policy change.\(^{101}\) Comparing the impact of large institutional differences, scholars have generally been interested whether democratic and autocratic polities pursue systematically different trade policies. The scholarly debate on the impact of regime type on trade policy is not conclusive,\(^{102}\) with some scholars arguing that democratic countries are more likely to pursue liberal trade policies than autocracies,\(^{103}\) whereas other scholars claim that democracies are in fact more prone to

\(^{99}\) Garrett & Lange 1996, p. 74
\(^{100}\) Frieden & Martin 2003, p. 131
\(^{101}\) Garrett & Lange 1996, p. 62
\(^{102}\) Milner 1999, p. 102
\(^{103}\) Mansfield, Milner & Rosendorff 2002, pp. 477-513
adopt protectionist policies. The following sections will address primarily policy making institutions relevant for democratic polities.

3.1 Socio–Economic Institutions: Organization and Aggregation of Preferences

The realization of preferences as derived from factor-endowment models provides clear benefits to individuals in the form of income effects. In order to obtain political relevancy, individual preferences need to be organized and aggregated. This process of preference organization and aggregation is costly and exacerbated by familiar problems of collective action such as “free-rider” incentives. Hence, when deciding to organize politically individuals make a costs/benefit calculation. In this context, the intensities of preferences are of critical importance. Scholars distinguish typically between diffuse and concentrated preferences. As many scholars have confirmed in various settings, concentrated preferences are likely to dominate diffuse interests. For instance, the mass preference may in principle well be to raise aggregate national income by means of trade liberalization. However, at least some individuals have much more intense and concentrated preferences due to detrimental effect of trade on their factor income, trumpeting the broader but smaller effect of trade on the aggregate national income. The paradigmatic and most often cited example is of course that concentrated protectionist industries dominate diffuse free-trade preferences of disorganized consumers. Conflicts over policies are thus frequently fought between concentrated preference groups. In the context of multilateral trade diplomacy, the opposing groups of domestic-oriented industries versus the export-oriented

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104 Verdier 1998, pp. 1-24
105 Olson 1971
106 Alt et al. 1996, p. 695
107 Similarly to deductive approaches to determine individual policy preferences based on the distributional impact of economic policies, scholars have sought for theoretically grounded ways to determine mass policy preferences. The simple and often implicit assumption that the public seeks to raise national income has been employed as a baseline. Alternatively, scholars have focused not on the society as a whole but on the median voter to specify the mass preferences. Frieden & Martin 2003, p. 128
industries are an important case in point. Even though polices are often biased in favor of special interests, diffuse interests are not irrelevant and may have an important impact on policy.\textsuperscript{108} Considering not only static but also dynamic properties of interest organization, scholars have noted that interest groups may over time defend trade-related interests even though the stakes are relatively low. Alt & Gilligan argue, for instance, that once fixed costs are paid up to create interest coordinating agencies and establish incentives permitting collective action, the marginal costs for political action is lowered to render even the pursuit of low-intensity interests worthwhile.\textsuperscript{109} Dynamic properties of preference organization may freeze coalitions and policies into place and thus lead to time lags and path-dependencies.\textsuperscript{110} Following this line of argument, scholars have also investigated the endogeneity of institutions and the process of institutional change.\textsuperscript{111} Variation in the organization of economic preferences across different collectivities and over time has important implications for the making of trade policy. As Frieden & Martin note, one of the most striking variation in this respect appears to be the tendency of workers in Japan to be organized along firm lines, in the United States along industry lines, and in much of Europe along class lines.\textsuperscript{112} Scholars have also investigated other socio-economic institutions at different collectivity levels and found that labor-market institutions,\textsuperscript{113} as well as the differential organization of labor and management interests may have significant consequences.\textsuperscript{114} Of particular relevance for the study of trade policy is the preference aggregation flowing from economic models such as the Heckscher-Ohlin and the Ricardo-Viner models. Considering the benefits from the

\textsuperscript{108} Frieden & Martin 2003, p. 130  
\textsuperscript{109} Alt & Gilligan 1994, pp. 165-192  
\textsuperscript{110} Milner & Keohane 1996, p. 21  
\textsuperscript{111} Frieden & Rogowski note that “Given that socioeconomic and political agents have preferences about policies, and political institutions affect the adoption and implementation of policies, it follows that private agents must have preferences about institutions themselves”. Accordingly and following Riker 1980, institutions may thus simply be conceived of as “congealed tastes”. See Frieden & Rogowski 1996, p. 27-28. For a discussion of endogeneity of institutions in trade policy, see also Crystal 2003, pp. 427-429  
\textsuperscript{112} The same scholars also point to differences in the organization of labor and management interests. See Frieden & Martin 2003, p. 130-131
potential realization of individual preferences and collective action costs and problems suggests that socio-economic institutions may intervene and modify the political weight of preferences in the policy formation process. The Heckscher-Ohlin model, for instance, predicts that preferences on trade policy arise along the lines of production factors yielding class coalitions if simple factor-endowment classifications are used. The organization and aggregation of factoral or class-based interests would presumably occur through trade and labor unions and political parties at a more aggregate level. However, the preference aggregation process along the lines of factors may become increasingly difficult in trade and labor unions with more sophisticated factor-endowment models. Similarly, political parties are not only organized along the lines of trade policy but aggregate individuals’ preferences over a broad range of policies with potentially cross-cutting material consequences for the parties’ constituency. Ricardo-Viner models on the other hand suggest preference aggregation along industry or sectoral lines. Industry preferences are concentrated and intense and should thus in theory be organized relatively efficiently. Milner qualifies this assumption by looking at the industry level as well as the individual firms within the industry and finds that increasing economic integration may lead to intra-industry cleavages and preference aggregation problems at the industry level. As this strand of scholarly literature clearly confirms, the precise organizational form of preferences exercises a powerful effect on policy making due to collective action costs, path-dependencies as well as cross-cutting preferences in different collectivities. Collectively organized interests are not directly determining policy; rather they are mediated by an additional institutional layer, i.e. formal political institutions.

113 With respect to labor-market institutions, Garrett & Lange point in particular to the influential work of Calmfors and Driffill who posit a U-shaped relationship between labor-market institutions and economic performance. See Garrett & Lange 1996, p. 52-53

114 See Frieden & Martin 2003, p. 131

115 Milner uses the firms’ level of exports and the type and extent of multinationality as explanatory variables for trade policy outcomes. See Milner 1988
3.2 **Formal Political Institutions: Electoral, Legislative and Bureaucratic Institutions**

Frieden & Martin succinctly note that “electoral, legislative and bureaucratic institutions serve to mediate the pressures brought to bear by organized interests and the general public and to transform them in ways that directly affect policymaking”.\(^{116}\) These formal political institutions perform two essential functions.\(^{117}\) Firstly, formal political institutions further aggregate preferences and give differential weight to preferences in the political process. Secondly, political institutions may delegate decision-making authority to particular actors, similarly affecting the weight of preferences in the political process. Subsequently, the formal political institutions will be discussed in turn according to the classification proposed by Frieden & Martin.

3.2.1 **Electoral Institutions**

Electoral institutions are relevant for economic policy making since they affect the transmission of societal interests to political decision-makers.\(^{118}\) Two broad channels of influence may be distinguished in the literature: firstly policy-relevant concerns of the broader electorate and secondly special interest groups.

In order to be reelected, politicians need to worry about the concerns of the broader electorate. Variance in the electoral system may increase or decrease the weight that preferences of the broader electorate have on politicians. Some scholars have hypothesized that larger electoral constituencies, as for instance in systems with proportional representation, tend to reduce the impact of special interest groups and increase the electoral importance of the median voter. Rogowski has put forward an argument along these lines.\(^{119}\) Mansfield & Busch find that electoral institu-

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\(^{116}\) See Frieden & Martin 2003, p. 132  
\(^{117}\) Frieden & Martin 2003, p. 132  
\(^{118}\) See Frieden & Martin 2003, p. 132  
\(^{119}\) Rogowski 1987b, pp. 203-224
tions do indeed matter, but not in the anticipated direction. Results for this hypothesis remain thus mixed. It is not clear whether electoral institutions insulating politicians from interest groups and lending more weight to the median voter will always promote trade liberalization; preferences of the policy makers themselves also seem to matter. Concerning interest groups, electoral systems may also differentially regulate or enable ways of private and public campaign contributions to politicians. It has been hypothesized that the more public funding to election campaigns is, the less important will the contribution-based influence of special interest on politicians be. Changes in the electoral environment may thus affect policy, as the work of Rosenbluth illustrates in the case of Japanese economic policy making.

In addition to these two general transition mechanisms of preferences, Frieden & Martin also point to the importance of variance in the electoral bases of different governmental branches. The federal organization of political systems is generally less relevant to issues of foreign economic policy. However, different electoral systems for bicameral legislatives or for the legislative and executive in presidential systems may be of importance for policy-making. Again, it has been argued that larger constituencies render politicians less prone to protectionism. In bicameral legislatives, the larger chamber often has smaller districts than the smaller chamber, presumably making the larger chamber more prone to protectionism. Similarly, the president presumably has the largest constituency in a given country and should thus be least prone to embrace protectionist policies. However, other scholars have challenged these institutional arguments on the grounds that these approaches make prior assumptions about the preferences of politicians which may or may not be warranted.

In general, the concentration of trade policy making authority in

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120 Mansfield & Busch 1995, pp. 723-749
121 Milner 1999, p. 101
122 See Frieden & Martin 2003, p. 132
123 Rosenbluth 1996
124 See Frieden & Martin 2003, p. 132-133
125 Milner 1999, p. 103
the executive branch has been linked to more comprehensive trade liberalization across a range of countries.\textsuperscript{126}

### 3.2.2 Legislative Institutions

The organization of legislative institutions is a second factor shaping how preferences are mediated in the political system. In this context, scholars have studied the constitutional structure of government, the process and sequence of legislation, the interaction between policy making institutions, and the role of information.\textsuperscript{127}

At the most general level, scholars have analyzed the impact of government structure on trade policy, focusing on divided government, the party system and the number of veto players in the political system. Concerning divided government, i.e. partisan control of different government powers, scholars have hypothesized that divided governments will lead to more protectionist policies than unified governments.\textsuperscript{128} A precondition for this claim is of course, that parties indeed diverge on trade policy. In an empirical analysis across 25 countries, Milner & Judkins find that class-cleavage is still relevant for many political systems and that parties indeed diverge in their positions on trade policy.\textsuperscript{129} While divided government has been conceptualized as dichotomous variable applying only to presidential political systems, many scholars have argued that divided government is equally applicable to semi-presidential and parliamentary polities,\textsuperscript{130} and is essentially an expression of power-sharing and checks-and-balances typical for democracies in general. For the US, Lohmann & O’Halloran have found empirical support that divided government indeed influences trade policy. The question of divided government refers more broadly to the discussion of fragmented political systems and the number of veto players.

\textsuperscript{126} See Haggard & Kaufman 1995 as cited in Milner 1999, p. 101
\textsuperscript{127} See Frieden & Martin 2003, p. 133-134
\textsuperscript{128} See Lohmann & O’Halloran 1994, pp. 595-632. See also Frieden & Martin 2003, p. 133-134
\textsuperscript{129} Milner & Judkins 2004, pp. 95-119
O’Reilly finds that the number of veto players is negatively correlated with the extent of trade liberalization in an empirical study of 23 countries. The greater resistance to policy change in a political system with more veto players, however, implies also that these polities are in principle less prone to protectionist backlashes.

Focusing on the legislative process and sequence, Milner has studied how the distribution of legislative powers between the legislative and the executive branch of government affects cooperation between states. Defining five legislative powers - i.e. define and set the agenda, amend policies, ratify or veto a policy, propose public referenda and side-payments - Milner constructs a two-level model and finds that institutions influence both the terms and probability of cooperative outcomes such as trade agreements. The terms of the outcome are defined by the specific distribution of legislative powers in the institutional setting. If the executive controls legislative powers, policy and cooperation outcomes will be closer to executive’s ideal preference. Conversely, if the legislature controls legislative powers, the outcome will reflect more closely the preferred outcome of the legislature. Milner emphasizes the interaction between preferences and institutions by noting that domestic actors’ preferences define the boundaries of institutional effects. The probability of cooperative outcomes increases when legislative powers are concentrated in the hands of the more dovish actor. More specifically focusing on trade, a considerable body of literature has investigated the interaction of the legislature and the executive in the making of trade policy. Much of this literature is concerned with trade policy in the US, focusing in particular on institutional changes over time and the implications of delegating decision-making authority between government powers. In this context, many scholars have argued that the exclusive control of trade policy by the US congress until 1934 made trade policy susceptible to

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131 O’Reilly 2005, pp. 652-675
132 Milner 1997, p. 101-117
133 Milner 1997, p. 117
134
protectionist pressures by interest groups. Delegation of decision-making authority to political actors more insulated from policy demands, such as for instance to the executive with a broader constituency, should render trade policy less prone to protectionism and more free-trade oriented. The delegation of trade policy making authority from the US congress to the president with the Reciprocal Trade Agreement Act (RTAA) in 1934 as well as the subsequent fast track negotiating authority or Trade Promotion Authority (TPA) has been associated with trade policy shifts and considerably more free-trade oriented policies. Analyzing the delegation of decision-making authority through a principal-agent framework focuses attention on the reasons, contexts and stability of delegation. Though not explicitly employing a principal-agent framework, several scholars have investigated the central questions raised by it. Bailey, Goldstein & Weingast, for instance, are puzzled by the question why delegation through the RTAA would ever occur given the underlying preference structure and why it would be stable and even expand over time. Employing a policy-oriented model with strategic actors, the authors are able to show how the combination of domestic politics, institutional choices and international economy interlinked to explain the pattern of delegation. Hiscox also investigates the rationale and stability of delegation through the RTAA and finds that exogenous economic changes led to shifts in the structure of trade preferences and coalitions.

The importance of information has been emphasized not only in the context of preference formation but also in the process of trade policy making. Milner argues for instance, that the legislative is at an informational disadvantage in the policy making process. In this context, interest groups have two roles. Firstly, interest groups aggregate interests and attempt to shape policy

134 Milner 1999, p. 101
135 In her literature review, Milner points in particular to the work of Destler, Haggard, Baldwin and Goldstein. See Milner 1999, p. 101
136 Milner 1999, p. 101
137 For a succinct explanation and definition of delegation and the principal-agent framework, see Hawkins et al. 2006, p. 7-33
138 Bailey, Goldstein & Weingast 1997, pp. 309-338
outcomes in their favor. Secondly, interest groups have also a more indirect role, providing information to political actors and functioning as signalers or endorsers. In the context of asymmetric information, theoretical models suggest that multiple endorsers may indeed increase the likelihood of international cooperation.\textsuperscript{141} Milner finds empirical support for this claim in several case studies, covering different aspects of international economic cooperation.

\subsection*{3.2.3 Bureaucratic Institutions}
Bureaucratic institutions constitute a third set of factors influencing economic policy making.\textsuperscript{142} These institutions perform foremost delegation functions which have become more explicit and frequent over time. In addition to delegation to other elected government powers as described above, decision-makers have also delegated policy making authority to independent bureaucratic agencies at various governance levels. Scholars have studied delegation to domestic, supranational and international bureaucratic institutions.

At the domestic level, delegation has been used by politicians mainly for insulation from particularistic demands and policy lock-in while ensuring accountability to the public. Domestic bureaucratic institutions in the domain of trade include for instance the International Trade Commission and the US trade representative. Scholars view the impact of delegation to bureaucratic agencies as complex and controversial.\textsuperscript{143} While some scholars tend to emphasize the capture effect of bureaucratic agencies by interest groups, most scholars analyze these agencies from the perspective of a principle-agent framework focusing on phenomena of agent slack.

\begin{flushleft}
\textsuperscript{139} Hiscox 1999, pp. 669-698 \\
\textsuperscript{140} Milner 1997, p. 60-65 \\
\textsuperscript{141} Milner 1997, p. 94-95 \\
\textsuperscript{142} Frieden & Martin 2003, p. 134-135 \\
\textsuperscript{143} Frieden & Martin 2003, p. 135
\end{flushleft}
At the supranational level, the focus of analysis is naturally centered on trade policy in the European Union. Scholars cite a range of reasons why member states have transferred trade policy authority to the supranational level, including legal obligations, practicality of efficient negotiation, trade liberalization through insulation and strengthening of international power. The delegation structure of the European Union is unique in so far as it involves two tiers of delegation. The first level comprises the transfer of trade policy from the member states to the collective entity. The second level involves the delegation of trade policy competences from the Council of Ministers to the European Commission. To the extent that delegation allows the agent autonomy and discretion, it has been argued that policy outcomes will be tilted towards the pro-liberalizing preferences of bureaucratic agents at the supranational level.

At the international level, delegation to bureaucratic institutions concerns foremost the World Trade Organization (WTO) but also other institutional mechanisms such as independent agencies established under the auspices of the North Atlantic Free Trade Association (NAFTA). Delegation to international organizations, in particular the WTO, will be discussed in more detail below.

3.3 Conclusions
The literature review on the role of institutions in trade policy making provides answers as to why and how institutions play a crucial role in the formation of trade policy. Specifically, preferences appear to interact with two different sets of institutions to produce trade policies. Firstly, socio-economic institutions are of particular importance for the aggregation of preferences. The

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144 Meunier 2005, p. 5-13
145 Meunier 2005, p. 21
146 According to common definitions of the principal-agent framework, delegation is defined as involving a principal, an agent and a contract between them. A central determinant of the principal-agent relationship is that the principal may both grant and rescind authority. In case of the European Union, it is perhaps more adequate to use the term authority transfer from member states to the collective entity instead of delegation since the power of member states to rescind authority is severely restricted. It should be noted, however, that the precise scope of authority transfer has changed with the evolution of EC and EU treaties and has been intensely contested. For a definition of the principal-agent framework, see Hawkins et al. 2006, p. 7. For an account of the evolution of trade authority of the EC/EU, see Meunier 2005, p. 21-33
reviewed literature highlights that the organizational form of preferences exercises a powerful
effect on policy making, particularly due to collective action costs and path-dependencies. Sec-
ondly, formal political institutions determine the political weight aggregated preferences obtain
in the decision-making process on trade policy. With respect to the dynamics of trade policy, the
interaction of preferences and socio-economic institutions appears to be particularly interesting
since socio-economic institutions are generally much more plastic and adaptable to change than
formal political institutions, which are often grounded in constitutional provisions and explicitly
meant to be stable.

147 Meunier 2005, p. 15
4  The International System

Trade policy is not only shaped by domestic forces. Scholars have long related a number of international factors to the making of trade policy. The scholarly literature has primarily focused on three sets of factors: the strategic context of states, the position of states in the international system and the role of international institutions.

4.1  Strategic Context of States

The strategic context and interaction of states in the international system is a first set of factors shaping trade policy. Scholars focusing on the strategic interaction of states have primarily employed a game-theoretic framework and been interested in the conditions, terms and stability of cooperation between states. In analyzing central questions of cooperation and conflict, scholars have most commonly proceeded by identifying states’ interests, specifying the strategic context and considering varying assumptions concerning information and uncertainty.\(^{148}\) Initially, states interests have typically been assumed as unitary in the analyses of strategic interactions. Refining this assumption, Putnam has suggested the notion of two-level games to link domestic interests to the international level.\(^{149}\) The strategic setting of the interaction between states, i.e. the form of the game, concerns the number of players as well the type of cooperative endeavor. Conceptualizing international cooperation as provision of public goods, many scholars have focused on the analysis of particular game-theoretic incentive structures, specifically the prisoner’s dilemma game. Pointing to the variance in incentive structures, scholars have developed a typology of

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\(^{148}\) Frieden & Martin 2003, p. 136-141

\(^{149}\) Putnam employs a parsimonious set of assumptions. First, the central domestic institutional actor is the “chief of government”, operating at the intersection of the domestic and international level. Second, domestic interests are summarized in terms of “win sets”, representing the extent of outcomes which would be preferred to the status quo by domestic constituency. Third, adding preferences of the chief of government leads to “acceptability sets”. See Putnam 1988, pp. 427-460. While the two-level framework provides a valuable framework and tools to analyze domestic-international strategic interactions, some scholars have indicated that the framework has as of yet not fully lived up to its potential. See Frieden & Martin 2003, p. 123-124
game structures allowing a more fine-grained analysis of strategic interactions between states. Even though information and uncertainty is part of the strategic setting, scholars have emphasized assumptions on information due to their importance. Strategies of states may vary substantially depending on the level of information available. Weakening the assumption of complete information has given rise to game-theoretic analysis of reputation, signaling and updating of beliefs. Productive applications of game theoretic models in the domain of trade policy include for example the analysis of trade bargaining with two-level games, incomplete information and interest groups. While the theoretical framework for the study of strategic interaction is now well developed, some of the underlying assumptions remain relatively heroic and more theoretically informed empirical analyses remain yet to be carried out.

### 4.2 Position of States in the International System

A second set of literature has focused on the position of states in the international system to explain trade policy. Following realist conceptions of international relations, scholars have posited that power differentials influence state interests and policies. The analytical framework emphasizes thus outside-in effects, asking how the international political and economic system shapes states preferences based on the assumption that states compete to maximize security and economic power. A common corollary of this assumption is the hypothesis that small states tend to have more open economies than large states. The argument follows essentially from the economics of small states suggesting that the size of these economies is not sufficient to efficiently produce the entire range of demanded products, compelling small states to choose between

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150 Aggarwal & Dupont 1999, pp. 393-409
151 Frieden & Martin distinguish between two types of uncertainty. Firstly, actors may have incomplete information on the preferences of other actors. Secondly, actors may have uncertainty about the causal relationships. The type of uncertainty defines contexts in which expert knowledge such as in epistemic communities and learning become the prime focus of analysis. See Frieden & Martin 2003, p. 139-141
152 Milner 1997
higher prosperity and dependency on international markets on the one hand and less prosperity with lower dependency on the other.\textsuperscript{155} Empirical observations find support that the trade openness ratio is indeed higher in small states than in large states. Katzenstein, for instance, investigates a number of small states in Europe and finds that not only preferences but institutions too are shaped by the position of small states in the world economy.\textsuperscript{156} While some arguments of this literature have been criticized on theoretical and empirical grounds, the observation that preferences of small states and to some extent its institutions are shaped by the position in the international economy is not very controversial. In addition, the growing integration of the international economy as evidenced by rising trade openness ratios suggests that this literature may become increasingly relevant for larger states as well. Scholars have also considered the impact of the international system on trade policies of large states. The main argument flows from the economic proposition that large countries are able to influence international prices and thus its terms of trade. However, the empirical evidence for this so called “optimal tariff” proposition is mixed, presumably due to the risk of retaliation of this “beggar-thy-neighbor” type policy. The most influential and perhaps also most controversial strand of literature focusing on states position in the international system hypothesizes that the largest, i.e. hegemonic states are conducive to free trade environments.\textsuperscript{157} While the so called Hegemonic Stability Theory (HST) was challenged on theoretical and empirical grounds by many scholars, it has provided an impetus to the more rigorous analyses of international regimes and institutions. In addition to these strands of literature, Frieden & Martin point to a number of other scholars, who have traced the position of states in the international system to domestic policies, focusing on the precise power distribution in the

\textsuperscript{153} Frieden & Martin 2003, p. 125 and p. 141  
\textsuperscript{154} Frieden & Martin 2003, p. 138. See also Milner 1999, p. 104-105  
\textsuperscript{155} Kuznets, cited in Eisenstadt 1985, p. 44  
\textsuperscript{156} Katzenstein 1985  
\textsuperscript{157} Milner 1999, p. 105
international system, specific issue areas, as well as the interaction of economic and security interests.\textsuperscript{158}

4.3 International institutions

Both of the previous strands of literature on the international systemic level have prepared the ground and provided an impetus to the thorough analysis of international regimes and institutions. The literature on strategic interaction emphasizes the crucial role of the strategic context, in particular the role of information, uncertainty and beliefs. Variance in the assumptions on information and uncertainty in the strategic context of state interaction generates a potentially powerful role for international institutions.\textsuperscript{159} In the literature focusing on positions of states in the international system, the Hegemonic Stability Theory (HST) raised a number of questions concerning the creation and continuation of international regimes and organizations. A collaborative research project by Krasner on international regimes\textsuperscript{160} and the work of Keohane on cooperation “after hegemony”\textsuperscript{161} proofed to be seminal with respect to scholarly work on international institutions. While Krasner articulated a lasting definition of the international regime concept and related it to broader theories of international relations, Keohane studied the continued economic cooperation and simultaneous institutionalization of international relations despite the decline of US hegemony. In the realm of trade, international cooperation and institutionalization was particularly conspicuous with the evolution of the open multilateral trading system, the GATT and its successor institution, the WTO as well as the World Bank and the IMF.\textsuperscript{162} Focusing on the creation, maintenance and evolution of international institutions, Keohane called attention to the

\textsuperscript{158} Frieden & Martin 2003, p. 138  
\textsuperscript{159} Frieden & Martin 2003, p. 141  
\textsuperscript{160} Krasner 1982, pp. 185-205  
\textsuperscript{161} Keohane 1984  
\textsuperscript{162} International economic institutions also gained increasing importance at the regional level, particularly with the European Union, but also with other regional integration institutions such as NAFTA, ASEAN, MERCOSUR to name but the most im-
functions of institutions.\textsuperscript{163} In the wake of this early theoretical work on international institutions, scholars have postulated and investigated a number of effects on countries’ trade policies.\textsuperscript{164} Specifically, scholars have drawn attention to information provision,\textsuperscript{165} dispute resolution,\textsuperscript{166} as well as more sociological functions such as norm encapsulation.\textsuperscript{167} Some scholars have also begun to merge rationalist and sociological explanations to explain the emergence and evolution of governance structures more generally.\textsuperscript{168} In the context of trade liberalization, scholars have analyzed the informational functions of the WTO affirming that international institutions may exercise considerable impact on the both domestic preferences and the socio-economic institutions aggregating them.\textsuperscript{169} The same research suggests as well that the provision of more information may not necessarily lead to more liberal trade policies. Other scholars suggest that international institutions such as the GATT and WTO provide an additional, crucial function in that international trade institutions address the structural problem of trade liberalization in domestic politics by counterbalancing producer interests in the domestic political arena: The coalition of import-competing producers is confronted with the coalition of export-oriented producers by means of reciprocal market access commitments between countries. This function with respect to domestic politics may in fact well be the main function and \textit{raison d’être} of the WTO.\textsuperscript{170} The effect of international trade institutions on domestic politics exhibits not only static effects but also distinct dynamic properties. In a dynamic context, the political logic of the multilateral trade liberalization implies that each negotiation round should increase the influence of export-oriented

\textsuperscript{163} Keohane pointed to several crucial functions of international regimes: reducing transaction costs for legitimate transactions (and increasing transaction costs for illegitimate ones), reducing uncertainty by providing information, facilitation of bargaining as well as the provision of incentives for compliance. See Keohane 1984, p. 85-109

\textsuperscript{164} Milner 1999, p. 106

\textsuperscript{165} See for instance again Keohane 1984, p. 85-109

\textsuperscript{166} See the work of Yarbrough & Yarbrough, for instance Yarbrough & Yarbrough 1997, pp. 134-163

\textsuperscript{167} Ruggie 1982, pp. 379-415

\textsuperscript{168} See in particular Stone Sweet 1999, pp. 147-184

\textsuperscript{169} Goldstein & Martin 2000, pp. 603-632
interests while the political weight of the import-competing interests should decrease.\textsuperscript{171} Liberalizers should thus be playing a winning game in which each multilateral negotiation round strengthens their own coalition and weakens the coalition of protectionist interests for the next round.\textsuperscript{172} While theoretical arguments point to a number of potentially important functions performed by international institutions, scholars generally assume that international trade institutions are relevant but have so far not engaged in systematic empirical testing of the postulated hypotheses. The few scholars who attempted to empirically test the impact of international institutions on trade policies and trade patterns more generally have found controversial results.\textsuperscript{173} While the impact of international institutions on trade policy may be weaker than anticipated, other scholars have noted that the crucial function of international trade institutions may not be to propel ever faster and deeper trade liberalization but rather to support current trade liberalizations and prevent protectionist backlashes.\textsuperscript{174}

4.4 Conclusions

The literature surveyed in this section suggests that trade policy both shapes and is shaped by international factors. While domestic trade policy impacts on the international system directly, the effects of international factors on domestic sectors are less direct but not necessarily less influential. With respect to the dynamics of trade policy, international institutions such as the WTO perform several important functions. Specifically, the WTO influences the process of preference formation and aggregation by providing information and mobilization incentives to domestic actors. In addition, the most important dynamic function of the WTO may well be to block pro-

\textsuperscript{170} Hoekman & Kostecki 2001, p. 27  
\textsuperscript{171} Keohane & Nye 2001, p. 268  
\textsuperscript{172} Keohane & Nye 2001, p. 268  
\textsuperscript{173} See Rose 2004, pp. 209-235. See also Rose 2004a, pp. 98-114  
\textsuperscript{174} Milner 1999, p. 107
tectionist backlashes and to allow trade policy dynamics only to move in one direction, i.e. further trade liberalization. Absent extraordinary pressures threatening to unravel its institutional foundations, the WTO has institutionally locked trade policies on a liberalizing trajectory. Even though progress on this liberalizing trajectory may at times be slow, intermittent or even slightly reversed by states creatively using the domestic policy space, the history of the GATT/WTO suggests that institutional provisions are indeed exerting a powerful effect on the dynamics of trade policy.
5  **Dynamics, Endogeneity and Feedback Mechanisms**

Trade patterns and policies are not static but rather dynamic and interdependent in their effects. Scholars of the political economy of international trade have thus dedicated some attention to the effects and dynamics of trade. While trade patterns have been important at any time in history and by some accounts even laid the initial building stones to the first higher civilizations, the level and patterns of trade certainly have profound effects on modern economies and polities. In addition, not only patterns and levels of trade matter but also the evolution and dynamics of trade. By virtually any measure international transactions have grown at extraordinary rates over the last four decades. Scholars have attributed increasing levels of international interactions to a variety of factors, most notably of course countries’ trade policies. Enumerating a more comprehensive typology of factors, Frieden & Rogowski argue that increasing levels of international interactions reflect deeper changes and that such “exogenous easing” of international exchange is either a consequence of a decrease in the costs or increase in the rewards of international economic transactions. Frieden & Rogowski refer to at least five particularly salient factors shaping international economic interactions: transportation costs, infrastructure, economies of scale, disparities in total factor productivity and last but not least, government policies. Concerning international economic transactions, government policies may both increase or lower costs. Most government policies such as tariffs and quotas represent costs or barriers; however, some policies such as a stable international monetary and trading system reduce costs of international

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175 Milner 1999, p. 108
176 See Frieden & Rogowski 1996, p. 25. For more details on evidence concerning the evolution of trade and investment, see for instance Milner & Keohane 1996, p. 10-14
178 Transportation costs obviously affect international economic transactions since these costs are factored into the product price of exported goods. In the 19th century, the startling growth of international transactions has commonly been attributed to railroads, steamships and canals. See Rogowski 1989, p. 21-22. In the 20th century, particularly in the second half, increasing levels of international transactions have similarly been attributed to aircraft, containerization and trucking. See Frieden & Rogowski 1996, p. 26
179 Infrastructure, according to Frieden & Rogowski, refers to both physical and institutional infrastructure, including systems of international communication as well as credit, insurance and forward markets. See Frieden & Rogowski 1996, p. 26
transactions.\textsuperscript{180} While Frieden & Rogowski argue that in the final analysis all government policies are endogenous to the global political economy, they consider the aforementioned factors as exogenous since the focus of their analysis is on the effects of internationalization on domestic politics.\textsuperscript{181} The focus on exogenous factors or factors only shaped indirectly by government policy is a valuable analytical contribution for it draws attention to the fact that trade policy is only one, albeit an important one, of the factors influencing trade patterns and it emphasizes that the international political economy is also interlinked with the evolution of science and technology. However, trade policy is clearly the most direct and most endogenous factor. For if the extent of economic openness influences preferences and preferences shape trade policy which again impacts on the level of economic openness, then clearly trade policy may have an important endogenous component. In addition, the domestic institutions shaping trade policy may themselves be constrained or influenced by the evolving international political economy.\textsuperscript{182} Dynamic models taking into account a more complete interaction of the domestic and the international level of the political economy and feedback mechanisms may thus yield a better understanding of preferences and trade policy making, complementing or perhaps modifying the existing more static models.\textsuperscript{183} While many scholars identify dynamic models of international trade as important research areas and call for “general equilibrium” models,\textsuperscript{184} relatively few have tackled this research field. Subsequently, some promising research efforts in this research field will be reviewed in somewhat more detail.

\textsuperscript{180} Frieden & Rogowski 1996, p. 26
\textsuperscript{181} See Frieden & Rogowski 1996, p. 27
\textsuperscript{182} Frieden & Martin 2003, p. 121
\textsuperscript{183} Frieden & Martin 2003, p. 120
\textsuperscript{184} Milner for instance emphasizes that dynamic models are an important area of research. Milner 1999, p. 110. Frieden & Martin are more explicit indicating that “The core of the domestic-international connection is the impact of domestic institutions and interest on international interaction and vice versa. Our ultimate goal is a simultaneous understanding of this mutual causation, recognizing feedback effects at both levels – a general equilibrium model, rather than a partial equilibrium model in which one level is held fixed while the other varies.” See Frieden & Martin 2003, p. 120
5.1 Dynamic Factors and Mechanisms of Trade Policy

Dynamic but not endogenous models of trade policy have been proposed by scholars emphasizing the importance of preferences in the formation of trade policy. As indicated previously, Rogowski posits an argument to account for political effects of increasing and decreasing exposure to trade over time. Depending on the factor endowment structure of a specific country, increasing trade exposure will either lead to increasing class conflict or increasing urban-rural conflict while decreasing trade exposure will have the reverse effect. In Rogowski’s model any number of exogenous factors can lead to an increase or decrease in trade exposure. Limiting and specifying the exogenous variable to factor mobility, Hiscox argues that variance in factor mobility over time shapes preferences structures and thus policy coalitions. Specifically, he hypothesizes that high factor mobility periods led in tendency to class conflicts while low factor mobility periods have generally prompted sectoral conflicts on trade policy. While Rogoski’s and Hiscox’s models are explicitly dynamic models of trade policy, important variables are unexplained or purposefully assumed to be exogenous. Both models focus on how exogenous factors shape preferences but do not extend analysis to institutional dimensions of trade policy making and feedback mechanisms. Other scholars have attempted to explicitly close this feedback loop and to approach more endogenous models of trade policy.

Knudsen, for instance, explicitly states the need for dynamic modeling of trade policy preferences in her work on the integration of Western and Eastern European markets. Knudsen proposes a dynamic analytical framework considering how economic adjustment options and political constraints combine to alter trade preferences over time. According to microeconomic theory, economic adjustment entails such options as technological innovation, specialization in high-
quality goods and the relocation of labor-intensive production giving rise to multinational value chains and production networks. Political constraints on the other hand influence adjustment strategies and indirectly trade policy preferences. In deciding whether to adjust or to raise voice, industries under pressure through import competition will thus consider adjustment options as well as the perceived willingness and ability of the political system to act on protectionist demands. Once industries opt for adjustment strategy and the adjustment indeed proves successful in improving the international competitiveness of the industry, then preferences for trade liberalization may be strengthened over time. In her empirical case study of the German textile and apparel sectors, Knudsen finds unequivocal evidence for changing trade preferences from strongly protectionist to qualified support for free trade. Underlying Knudsen’s argument is the proposition that initial adjustment or exit strategies of industries may largely be dependent on political constraints while subsequent adjustment strategies tend to be self-reinforcing, leading to progressively more liberal trade policy preferences.

Lusztig develops a similar argument suggesting that governments may under certain conditions promote rent-seeking opponents of trade liberalization to turn into critical supporters of trade liberalization over time. In his argument, Lusztig focuses on the costs and benefits of rent seeking and the ability of governments to credibly commit to the reduction of state-supplied rents in the form of protectionism. Distinguishing between flexible and inflexible rent seekers, he argues that faced with increased costs or decreasing benefits of rent seeking the flexible rent seekers will substitute adjustment for protectionism while the inflexible rent seekers will eventually exit the market. Both ideal-typical tendencies will strengthen demand for trade liberalization.

\[\text{(188) Knudsen 1998, pp. 203}\]

\[\text{(189) The transition or change of trade policy preferences may not necessarily be smooth. Knudsen notes that within the textile and apparel industries trade liberalization will quite obviously affect producer and labor interests differentially. While trade liberalization is attractive to producers, labor and in particular low-wage, low-skilled labor will loose. Surprisingly, however, labor organizations opted relatively quickly for qualified support to free trade, tying free trade to notions of fair trade, i.e. social and environmental issues. Knudsen argues that this change in labor preferences reflects "the union’s declining political clout in the EU, brought about by economic adjustment and liberal policies". Knudsen 1998, pp. 208-212}\]
Lusztig identifies three conditions under which government induced preference changes are possible and feasible.\textsuperscript{191} Firstly, structural imposed factors beyond government control such as severe economic crisis decrease the benefits of rent seeking. Secondly, structurally imposed pressures from international regimes such as the WTO, World Bank or IMF reduce the supply of rents. Faced with international pressures, governments may credibly commit to the reduction of state-supplied rents due to high non-compliance costs. This is indeed an important function which international organizations perform at the intersection of domestic preferences and institutions. Thirdly, governments may reduce rents for entirely strategic reasons, attempting to use such a “high-risk” model of trade liberalization with the objective of electoral realignment.\textsuperscript{192}

Lusztig tests his argument and finds empirical support with case studies of the United States, Canada and Mexico. The main implication of Lusztig’s research is that trade policy may not only be structurally determined by preferences of societal forces; policy supply may also play an important role, particularly in setting trade policy on specific trajectories.

Aggarwal, Keohane & Yoffie investigate the dynamics of negotiated protectionism and in so doing combine demand and supply side aspects of trade policy.\textsuperscript{193} On the demand side, Aggarwal, Keohane & Yoffie draw from cartel theory and identify three important variables: the barriers to entry into an industry, the size of the domestic industry, and the exit barriers for domestic industry. On the supply side, the scholars indicate that the supply of protectionist policies is a function of two factors: the economic and foreign policy costs of trade barriers, and the values and preferences of government officials.\textsuperscript{194} Based on this analytical framework, Aggarwal, Keohane & Yoffie argue that the success or failure of protectionist policies shapes their evolution

\textsuperscript{190} Lusztig 1998, pp. 38-63
\textsuperscript{191} See Lusztig 1998, pp. 43-45
\textsuperscript{192} Lusztig argues that such electoral alignment “can be triggered by exploiting opportunities for institutional change. In instances where advocates of free trade are in a position to block the institutional initiatives of the political entrepreneur, the entrepreneur may be willing to logroll the interests of free traders with those of advocates of institutional change”. See Lusztig 1998, pp. 44
over time since success or failure trigger different patterns of political action. Depending on the specified variables they identify three patterns of protectionism, which they label institutionalized, temporary and sporadic protectionism. The framework and dynamic patterns of protectionism are corroborated by brief case studies of protectionism in several US industries. Two aspects appear of particular interest in this work. Firstly, the interplay of the identified variables allows for a convincing explanation of how trade preferences change over time. In so doing the authors not only consider variables shaping the locus and intensity of preferences, but also variables defining the weight attached to preferences through socio-economic institutions. Secondly and more generally, Aggarwal, Keohane & Yoffie argue that protectionism does neither follow strictly linear nor cyclical patterns but develops in more complex ways. Specifically, they note that “protectionism’s economic failures are often its political success and vice versa”.

This stands in contrast to most other dynamic arguments which propose rather linear or at least unidirectional developments. While Aggarwal, Keohane & Yoffie focus their analytical work on negotiated protectionism and in particular on Voluntary Export Restraints (VERs), the identified variables and mechanism seem to be relevant more broadly for most types of protectionism.

In perhaps the most comprehensive analytical framework of the feedback mechanisms in trade liberalization, Hathaway develops a model of dynamic preference and strategy formation. Hathaway’s work takes the initial impetus to liberalize trade as given and focuses on feedback effects once trade policy is on a liberalizing path. In her model, the industry is the basic unit of analysis and the producer is the central actor within the industry. The decision-making process
leaves the industry with two possible modes of action: adjustment or voice. In the wake of tariff reductions, industries will weigh the expected utility of adjustment and voice in the decision-making process. Hathaway posits that the decision-making is shaped by two broad categories, each comprising several independent variables: the potential benefit of voice and the perceived chance of success. Firstly, the potential benefit of voice refers to the total benefit of obtaining protection and as such is a function of the adjustment costs. According to Hathaway, the potential benefit of voice depends on capital intensity, trade dependence and factor specificity. Secondly, the perceived chance of success refers to the expected probability that the industry will indeed be successful in securing protection. In determining the chances of success, Hathaway refers to variables that public choice theorists use to explain the supply of protection. These variables include the receptiveness to protectionist arguments of the various formal political institutions involved, the size of the industry, the industry distress as well as the past success of protectionist demands. Based on this decision-making framework, Hathaway shows how trade liberalization may increase the global competitiveness of firms, lower the potential costs of future trade liberalizations and thus render industries less likely to demand trade protection.

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199 Hathaway specifies adjustment, indicating that “producers adjust to market conditions by downsizing and revitalizing their production processes, specializing in specific sectors of the market in which they expect to be most competitive, or exiting from the industry altogether”. If the industry chooses to adjust, the market characteristics and conditions will determine the adjustment process and outcome. The voice strategy is subdivided in two alternatives, i.e. the administrative and legislative route. See Hathaway 1998, pp. 578.

200 By including capital intensity, Hathaway refers to factor-endowment models of trade preferences which posit that labor-intensive industries in industrialized countries would tend to be more protectionist than capital-intensive industries. In addition, however, Hathaway also relates capital intensity to the level of entry barriers in an industry, thus suggesting a similar explanatory variable as Aggarwal, Keohane & Yoffie. See Hathaway 1998, pp. 580.

201 The precise speed and scope of this process depends on whether industries will win full, partial or no protection at all. Consequently, firms will be forced to adjust not at all, partially or fully to the competitive forces of the markets. Hathaway points out that two different mechanisms are at work in the adjustment process. Firstly, firms able to adjust successfully by increasing capital intensity or engage international trade more actively will become more competitive in the global market. As a consequence, these firms will demand less protectionist policies or may even change trade preferences completely to become vocal supporters of free trade. Secondly, the perceived change of success will also be affected by adjustment for empirical observations suggest that at least some firms will invariably exit the market. Firms exiting the market, however, will reduce the size of the industry and thus lower the chances of perceived success. This negative effect on the perceived chance of success is balanced by the positively related factor of increased industry distress due to exiting firms. Hathaway argues that in the short run, industry distress may outweigh industry size in determining the perceived chance of success. However, once at least partial ad-
Changes in industries’ preferences and strategies and thus their level of future political activity.

Effects in one period become causes in the next.”

Analyzing the footwear, textile and apparel industries in the US, Hathaway finds strong support for the theory and the posited feedback effects. Four implications of Hathaway’s research appear to be particularly noteworthy. Firstly, some variables seem to possess greater explanatory value than others. Specifically, the level of trade dependence and the past success rate seem to be most relevant in the decision-making process of industries. Secondly, the case studies suggest that smaller industries and industries with highly concentrated output may in fact not be more likely to organize in demand for protectionism. This argument runs counter to widely accepted theories of collective action but may indeed result due to changing industry characteristics in the process of industry concentration. Thirdly and more generally, the case studies confirm the crucial im-

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Hathaway observes this tendency in all case studies. She argues that the decline in demand for protection results from the fact that in the concentration process the industry characteristics will change due to increased capital intensity and trade dependence. Hathaway also points to a rift in preferences between larger firms better able to adjust and smaller firms, pointing thus implicitly to the importance of industry cleavages and echoing arguments of Milner’s research of firm’s preferences with increasing international ties. Hathaway 1998, pp. 607
importance of industry organization or more broadly of socio-economic institutions aggregating preferences. In a dynamic context, time-lags in preference aggregation and representation seem to exert an important influence on feedback mechanisms. Fourthly, the research suggests a more active role for government policies shaping the demand for policies. As an interesting footnote, her research also suggests that regional integration efforts may indeed be stepping stones rather than stumbling blocks since domestic industries are rendered more competitive and less protectionist in the process of regional integration.

5.2 Conclusions
The review of existing literature specifically focusing on the dynamics of trade policy yields a number of interesting results. Firstly, dynamic change in all models seems to work through the modification of preferences of domestic actors, pointing thus to the critical importance of variables affecting preferences. While institutions perform vital functions in aggregating, channeling and feeding preferences into the political process, preferences appear to be the crucial agent of change. Secondly, several scholars have noted the differential role of political and economic actors in the dynamic process of trade policy. A somewhat stylized argument seems to be emerging that emphasizes the role of policy supply and political actors in shaping the dynamic path of trade policy. Several scholarly contributions suggest that within these boundaries, economic forces tend to produce progressively more liberal trade policy preferences through feedback mechanisms. Thirdly, most scholars have noted that feedback mechanisms tend to operate in a unidirectional and self-reinforcing manner. Only the work of Aggarwal, Keohane & Yoffie suggests the possibility of more complex patterns of trade policy. It would thus be interesting to determine how the more linear models would react to stalling trade liberalization or protectionist backlashes. Presumably, the self-reinforcing effect would work in both directions of trade policy, to-
wards increasing liberalization and protectionism. Fourthly and finally, institutional arguments point to the crucial role of institutions in blocking or impeding the realization of certain policy outcomes. The WTO appears to exert a particularly important function in this respect. The modification of the feasible policy range by institutions is not absolute however, as the blocking of certain policy options may potentially undermine institutional stability. While institutional stability seems only threatened in extreme circumstances, questions of policy flexibility and discretion nonetheless appear to be important in this context.
6 Conclusions and Outlook

This literature review has demonstrated that a diverse literature is available on the formation of trade policy employing different epistemological and methodological approaches. Concretely, the literature review suggests that trade policy is shaped by a large number of possible explanatory variables under different conditions and at varying analytical levels. While research on trade policy preferences is perhaps most mature and advanced, broad and thorough research on the institutional components of trade policy has been carried out and knowledge on the roles and effects of international institutions is accumulating. One of the central conclusions of this literature review is that the study of trade policy making should not focus on one specific analytical level; rather it is the interplay of explanatory variables at different analytical levels that seems to generate the highest explanatory value. The conceptualization of trade policy as being embedded in a “vertical” decision making system, compromising the societal, state and international levels of analysis, does seem to hold analytical value.\(^\text{206}\) With respect to the analysis of the dynamics of trade policy and the role of business interests, the literature review suggests that a few important contributions have been made. However, despite the fact that scholars have repeatedly pointed out the need and relevancy of further research on the determinants of the evolution of trade policy,\(^\text{207}\) considerable room for further research remains.

The scholarly work on the dynamics of trade policy available so far highlights a number of possible explanatory variables and feedback mechanisms as well as potential areas for further research. Specifically, the reviewed literature suggests at least three possible directions for further research. Firstly, certain exogenous variables, particularly science and technology, may shape or alter options of economic actors in important ways and exercise a crucial effect on their interest

\(^{206}\) Frieden & Martin in particular argue for the inclusion of various analytical levels and a specific focus on the domestic-international interaction. According to Frieden & Martin, the integration of various analytical levels holds “the troubling yet
formation and organization. Evaluation of these factors, impact mechanisms and respective background conditions would thus constitute a first area of investigation. Secondly, the interplay of policy demand and policy supply over time appears to warrant closer analytical attention. Specifically, policy supply seems to influence the long or longer-term path of trade policy while policy demand tends to produce self-reinforcing dynamics along these paths. Thirdly, certain variables hold greater explanatory value than others according to the surveyed literature. Past success rates in securing protection, trade dependence as well as industry structure and organization are particularly salient variables, suggesting thus the relevancy and validity of the analytical focus on the role of business interests in trade policy making. Hence, research on how the interplay of business preferences and organization combines with institutional factors to shape trade policy represents one of the most promising grounds for additional research efforts in this context.

In conclusion, the main purpose of this paper was to provide a literature review as foundation for a research project on the dynamics of trade policy making. As indicated, the review of the available literature suggests that evolution of trade policy is shaped by a multitude of factors on several analytical levels. Quite evidently, no analytical endeavor can realistically aim to take into account all possible explanatory factors at multiple levels, nor should it. As is obvious in much of the scholarly literature on trade policy making, there is an inherent trade-off between parsimony and explanatory reach of theories. The goal of any theoretically grounded research must be to maintain the former while optimizing the latter. Focusing on the role and importance of business in the evolution of trade policy is therefore a research design choice aiming to select few variables with potentially high explanatory value. Hence, this literature review suggests that research on the role of business interests and the dynamics of trade policy making represents both a relevant and promising field of research. It is expected that the research project following this exciting possibility that we think we have learned from the studies lodged solely at the domestic or international level may
literature review helps to account for the difficulties in the current multilateral negotiation round. In so doing, it is also expected that the results may contribute to a better understanding of the dynamics of trade policy making more generally.

have to be revisited when we take interactive effects more seriously”. See Frieden & Martin 2003, p. 121

See Milner among others, Milner 1999, p. 110
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