

POL 396: International Organization

Precept 9

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Reminders

- Weekly assignment
- Memory devices
- Extra credit
- Office hours
- Precept feedback

Plan

- Comparative Advantage
- Winners and Losers
- WTO and PTAs
- Politics of Trade
- IO and Democracy

Comparative Advantage

- Example 1
- Example 2

Winners and Losers

When goods can be traded freely

- Winners: (Relatively) abundant factor
- Losers: (Relatively) scarce factor

And also:

- Winners: Consumers*

Overall welfare is \uparrow , but has **distributive** consequences

- Winners prefer free trade
- Losers prefer protection

Trade Policy Making

Government preferences of trade policy result from the competing pressures of winners vs. losers

- Funneled through POLITICAL INSTITUTIONS (domestic and international)
- Trade *policy* is the outcome

Trade Policy Making

Ideally, free trade + *redistribution/compensation*, but:

- Losers might be more (politically) powerful
 - Even though they are the minority
 - Collective action problem
 - The gains are **diffused** across the society (consumers), and losses are **concentrated**
 - People hate loss more! (Loss aversion)



Daniel Kahneman, pioneering behavioral psychologist,
Nobel laureate and 'giant in the field,' dies at 90

Winners and Losers

Economic gain/loss can translate to **political power**

POLITICAL CLEAVAGES AND CHANGING EXPOSURE TO TRADE

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Combining the classical theorem of Stolper and Samuelson with a model of politics derived from Becker leads to the conclusion that exogenous changes in the risks or costs of countries' external trade will stimulate domestic conflict between owners of locally scarce and locally abundant factors. A traditional three-factor model then predicts quite specific coalitions and cleavages among owners of land, labor, and capital, depending only on the given country's level of economic development and its land-labor ratio. A preliminary survey of historical periods of expanding and contracting trade, and of such specific cases as the German "marriage of iron and rye," U.S. and Latin American populism, and Asian socialism, suggests the accuracy of this hypothesis. While the importance of such other factors as cultural divisions and political inheritance cannot be denied, the role of exogenous changes in the risks and costs of trade deserves further investigation.

How can Democracy and IO help?

MMR (2002) — Mansfield, Milner, and Rosendorff

- Democracies sign FTAs to send a credible signal (of commitment to free trade)
- Protectionist policy signals that the government is captured by narrow interest (from losers)
 - Ignore broader societal interests (winners: producers + consumers; welfare gain)
- FTAs as fire alarms
 - Public alarmed by trade partner countries if their own governments are not complying with free trade

Regional vs. World Trade Agreement

Why do countries join RTAs instead of world-level trade agreements?

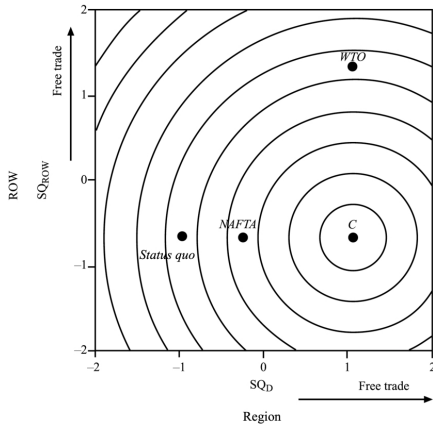
- Gains from “scale” within the region (efficient because they can produce and sell goods on a larger scale)
- Liberalize without opening up to competition throughout the world (which could be detrimental to losers)

What are the consequences of RTAs?

- Trade creation: more trade within the region
 - Trade diversion: trade partners shift from outside to FTA-partners (less incentive to trade with non-members)
- What is the net effect on global trade?

Trade creation (Richardson hypothesis)

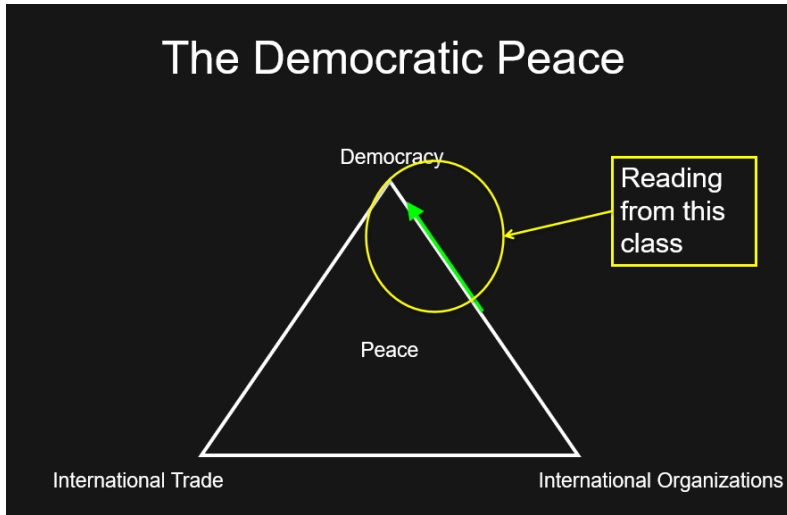
- Richardson hypothesis
 - RTAs weaken the political strength of losers from trade
 - Therefore, it should eventually lead to more trade liberalization (reduced tariffs)
 - Bohara et al. (2014) empirically confirms with the case of MERCOSUR: external tariffs also reduced in Argentina when the industry experienced more imports from MERCOSUR partner



- Complainant (C) prefers $(SQ_D, SQ_{ROW}) = (1, -0.5)$
- Status quo is $(-1, -0.5)$
- If goes to WTO, outcome is $(1, 1.5)$
- If goes to NAFTA, outcome is $(-0.1, -0.5)$
- So NAFTA is better than WTO (closer to C's ideal point).

- The preference has two dimensions! (Region vs. ROW)
- WTO is not ideal if C only wants regional liberalization.

Demoratic Peace



IO and Democracy

Pevehouse (2002): (Regional) IOs → Democratic Transition

- Why regional organization?
 - Small numbers of members
 - Higher levels of interaction
- How does it work?
 - Hands-tying: reassure business elites
 - ★ They fear expropriation
 - Socialization: reassure military elites
 - ★ They fear subjugation & reprisals

IO and Democracy

Donno (2010): Not necessary, due to obstacles

- Geopolitical importance
- Uncertainty about allegations of democratic-norms violations
 - Election monitoring can help

Election monitoring can help?

Zombies Ahead: Explaining the Rise of Low-Quality Election Monitoring¹

*Contribution to the Special Issue on “Autocratic
Regimes, Democratic Backsliding, and International
Organizations”*

Sarah Sunn Bush²

Christina Cottiero³

Lauren Prather⁴

IO and Democracy

Pevehouse: Focus on “Democratic regional IOs”

- How about the rise of “autocratic regional IOs”?

Donno: Election monitoring can help

- Low-quality election monitoring