

POLS 318: Theories of IR

Lecture 12 (09.29.2020): International Political Economy

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Overview

- 1 Quick review
- 2 Introduction
- 3 Global Trade Policies
- 4 Institutions and Trade
- 5 Public and Free Trade
- 6 Extra Material

Review

WHAT WE COVERED LAST MEETING?

- Political leaders in IR.
- The Institutional leadership school.
- Leader attribute school.
- Personality and IR behavior.
- Past experience - military, combat and rebel.
- Past experience - business.

Questions?? Email me!

Background

MAIN PUZZLES

- How governments regulate cross-border exchanges?
- How trade influence domestic and global prosperity?

Governments in Global Economy

- Regulation and taxing cross-border transactions.
- Guaranteeing contract enforcement.
- Monitor compliance with international rules.

Basics of Free Trade

Economic theory and free trade

- The concept of *comparative advantage*.
- When countries have specializing sectors...
- Exchange of production and growth.
- How do we develop a specialty?
 - Skills - high-tech in Israel.
 - Structural conditions.

Basics of Free Trade

USA vs. FRANCE



Basics of Free Trade

Comparative advantage and consumer benefits

- Trading in the global market.
- Higher wages, lower product prices → "more" income.
- The system of market competition.
- Consumers → low prices.
- Producers → maximize profit.
- Price → equilibrium of supply and demand.
- A Nash equilibrium. [▶ JohnNash](#)

What sets prices?



Government and the Economy

How taxes affect supply and demand?

- Governments institute taxes.
- Then what?
- Demand and supply shift...how?
- Prices increase.
- Tariff → tax on foreign products.
- Local prices will rise!!

Government Role

Two views of governments and global trade

- Protect domestic firms versus global competition.
- Foster competition → lower prices.
- Tensions b-w both 'roles'.
- Prioritize citizens' welfare of firms survival?

THE QUESTION:

Protectionist policies or free trade?

Trade Policy outcomes

Protection or Free trade?

- Distributional consequences of free trade.
- Uneven 'awards' and push for different policies.

Economic models of trade attitudes

- 1 Factor endowment model
 - Easy mobility of factors between sectors.
 - Abundant factors → benefit from trade.
 - Scare factors → favor protectionism.
- 2 Ricardo-Viner model:
 - One factor is immobile.
 - How trade affects certain industries?
 - Export versus import-oriented sectors.

Trade Policy

Examples

- Factor endowment model: US and high educated and skilled workers.
- Support for global free trade.
- Low skilled, labor-intensive and import-sensitive → favor protection. [▶ Agriculture](#)
- Models focus → demand-side of protection policy.
- What about supply?
- Domestic institutions, interest group pressures and trade policy.

Domestic institutions and trade

Free trade - an aggregate view

- Free trade is good for consumers and the economy.
- Global free trade → global integration.
- Economic outcome - multilateral exchange of goods and capital.
- Ideas and norms - spread of democracy.
- Free trade → more democracies.

Free trade, globalization and democracy

Globalization & democratic institutions (Li and Reuveny 2003)

MECHANISMS TO PROMOTE DEMOCRACY

- ① Economic growth reduces inequalities.
- ② More revenue → economic cooperation and government stability.
- ③ Market reduces incentives for extracting rents (dictators).
- ④ Lower information costs - free media.
- ⑤ Stable institutions - norms of law, civil and human rights.

Free trade, globalization and democracy

Globalization & democratic institutions (Li and Reuveny 2003)

MECHANISMS THAT HARM DEMOCRACY

- ① Factors and capital mobility → 'please' foreign investors at the expense of domestic consumers.
- ② Slow adjusting local industries and global competition.
- ③ Free flow of capital → economic crises - strengthen identity and ethnic politics (social cleavages).
- ④ Globalization - nationality and citizenship, civic commitment.

Free trade, globalization and democracy

Let's test it...

- Data: 127 countries (1970-1996).
- Trade flows and democracy scores.
- Findings:
 - (1) Trade - negative (ST) effect on democracy.
 - (2) FDI - increase growth but also inequalities.
 - (3) Ideas and norms - positive flow of democratic values.
- Need for global coordination of socio-economic policies.
- Actually, it's the politics, st#### (WestWing Clip)

Free Trade - Public view

What shapes citizens' attitudes?

- The distribution of free trade.
- Factor endowments - Ricardo Viner models.
- Education → support for free trade.
- Not so fast...
- Education → tolerance for out-groups, risk profile, dogmatism and delay gratification.
- Public attitudes - not a function of economic well-being.

Free Trade - Public view

What shapes citizens' attitudes?

- Education → knowledge of economic principles.
- The role of information and trade attitudes.
- College education versus trade union members.
- Still, why not self-interest?
- Separate public policy from personal life.
- Collective, not personal state.

Free Trade - Public view

Sociotropic Preferences



Free Trade - Public view

Free trade attitudes (Mansfield and Mutz 2009)

- Innovation → non-economic factors (ethnocentric views).
- Survey items. ▶ [SurveyAttitude](#)

Findings

- ① High education and free trade.
- ② No self-interest. ▶ [TradeEffect](#)
- ③ Sociotropic economic views.
- ④ Individual - isolationism, ethnocentrism.

Recommended readings

More studies on political economy, trade and public opinion:

- ① Rho, Sungmin, and Michael Tomz. (2017). "Why don't trade preferences reflect economic self-interest?" *International Organization* 71, S1, S85-S108.
- ② Irwin, Douglas A. (2017). "The false promise of protectionism: Why Trump's trade policy could backfire." *Foreign Affairs*, 96, 45.
- ③ Jedinger, Alexander, and Axel M. Burger. (2020) "The ideological foundations of economic protectionism: Authoritarianism, social dominance orientation, and the moderating role of political involvement." *Political Psychology* 41, 2, 403-424.

The Nash equilibrium



Industries and Global Trade



Measuring support for Global Trade

Survey item

I'm going to read you some actions the federal government in Washington can take on a variety of issues. For each one please tell me whether you favor or oppose the federal government doing it...**How about the federal government negotiating more free trade agreements like NAFTA? Do you favor or oppose the federal government doing this?**

Global Trade

The perceived impact of trade on respondents' families and on the U.S. economy

