POLS 318: Theories of IR Lecture 12 (09.29.2020): International Political Economy

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# Overview

- Quick review
- 2 Introduction
- Global Trade Policies
- 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





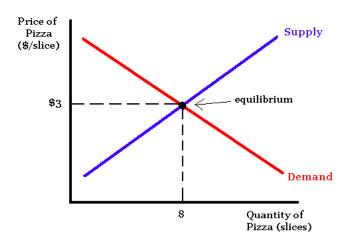
# Basics of Free Trade

### Comparative advantage and consumer benefits

- Trading in the global market.
- Higher wages, lower product prices → "more" income.
- The system of market competition.
- Consumers  $\rightarrow$  low prices.
- ullet Producers o maximize profit.
- ullet Price o equilibrium of supply and demand.
- A Nash equilibrium. JohnNash

# Basics of Economic theory

### 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  $\rightarrow$  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

- 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.
- 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  $\rightarrow$  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

- Economic growth reduces inequalities.
- $\hbox{$\color{red} {\color{blue} 0}$ More revenue} \rightarrow \hbox{$\color{blue} economic cooperation and government} \\ \hbox{$\color{blue} stability}.$
- Market reduces incentives for extracting rents (dictators).
- 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

- Factors and capital mobility → 'please' foreign investors at the expense of domestic consumers.
- 2 Slow adjusting local industries and global competition.
- § Free flow of capital  $\rightarrow$  economic crises strengthen identity and ethnic politics (social cleavages).
- 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)

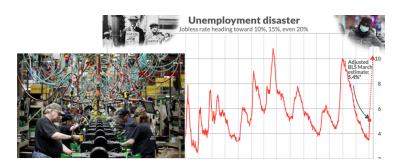
#### What shapes citizens' attitudes?

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

### What shapes citizens' attitudes?

- ullet Education o 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.

### **Sociotropic Preferences**



# Free trade attitudes (Mansfield and Mutz 2009)

- Innovation → non-economic factors (ethnocentric views).
- Survey items. SurveyAttitude

#### **Findings**

- High education and free trade.
- ② No self-interest. ► TradeEffect
- Sociotropic economic views.
- Individual isolationism, ethnocentrism.

# Recommended readings

More studies on political economy, trade and public opinion:

- Rho, Sungmin, and Michael Tomz. (2017). "Why don't trade preferences reflect economic self-interest?." International Organization 71, S1, S85-S108.
- Irwin, Douglas A. (2017). "The false promise of protectionism: Why Trump's trade policy could backfire." Foreign Affairs, 96, 45.
- 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

