



# Domestic Politics and Governance of Trade

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POLI 150

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## Today's Class

- Trade and comparative advantage recap
- Why does trade protectionism occur?
- How do international institutions resolve some trade issues?



# Key Terms

- Ricardo-Viner Trade Theory
- Firm-level trade theory
- Domestic influences on trade
- Winners and losers from trade



# Central Question

How do domestic politics impact international trade?



# Trade Growth Over Time

## Value of exported goods as share of GDP, 1827 to 2014

Estimates correspond to merchandise export-to-GDP ratios.

Our World  
in Data

+ Add country



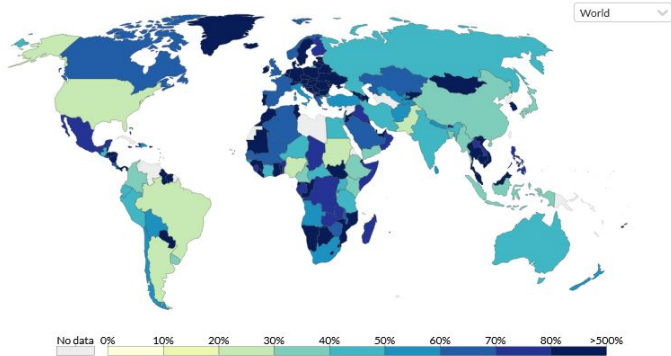


# Trade Importance Over Space

## Trade – exports plus imports – as share of GDP, 2017

Shown is the 'trade openness index' – the sum of exports and imports of goods and services, divided by gross domestic product.

Our World  
in Data



Source: World Bank

CC BY



# Why Trade?

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- Different resources allow for **specialization**.
- Thanks to the territorial limits of sovereignty, resources differ by state.





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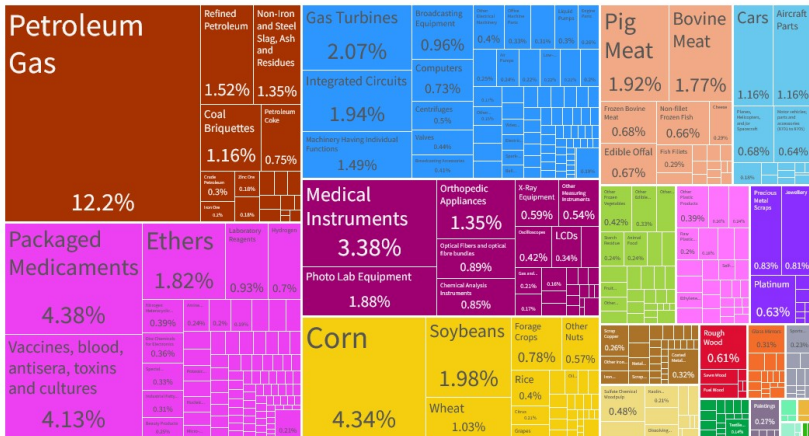
States export those goods for which they have a comparative advantage, and import those for which they do not.



# US Exports to Japan

Exports from United States (🇺🇸) to Japan (🇯🇵) (2021)

Total: \$71.8B





Total: \$128B





# The Economic Case for Trade

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**To summarize the case for free trade according to comparative advantage: more products, more cheaply, in more places while enabling more economic growth.**



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- **Firm-level theory:** comparative advantage comes from size and specialization of important companies.



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- Human capital: skilled labor (sometimes combined with Capital).



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- However, ISFM is really unlikely to be realistic in the short-term...
  - Could physical capital (a factory) used to create cars be used to create pharmaceuticals?



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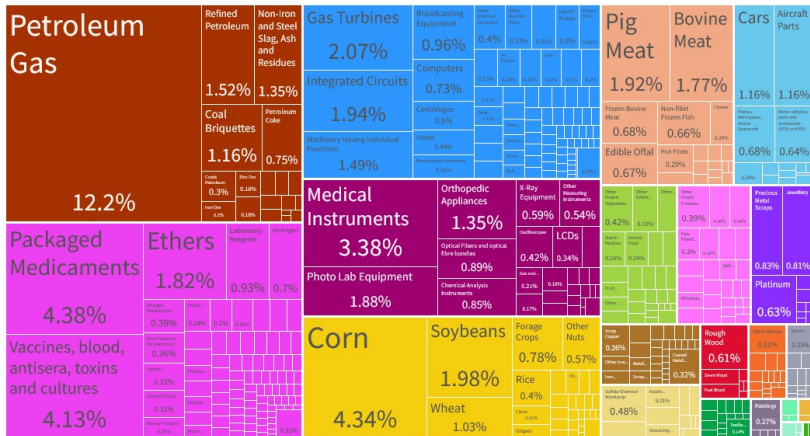
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- **Ricardo-Viner trade theory:** comparative advantage comes not from general factors of production, but from the specific economic sectors in which those factors are located.
- **How factors are used is more important than the factor itself.** The physical capital used to build cars is not the same as the physical capital used to make pharmaceuticals, even though HO would classify them both as “capital.”



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- In practice, international trade is dominated by relatively few MNCs.
  - In US, top 1% of firms account for more than 80% of exports.
- Given this dominance, these “superstar” firms may be able to lobby for special political treatment, and may have oversized impact on trade policy considerations.





# Trade Barriers and Protectionism

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  - **Non-tariff measures**: rules often related to quality of imports that naturally restrict quantity ([see UNCTAD's online database of NTMs](#))
- **Tariffs are the most common form of protectionism.**



# Costa Rican Tariffs on Ball Point Pens

## 96081000 - BALL POINT PENS

HS Code	96081000
Description	BALL POINT PENS
Staging Basket	10 Years, Non-Linear
Zero Duty As of	2015
Base Rate	15
Annual Rates	

Year	Tariff Rate
2006	15.0
2007	15.0
2008	15.0
2009	12.0
2010	10.8
2011	9.6
2012	7.2
2013	4.8
2014	2.4
2015	0.0



## Central Question 2

Why do states engage in protectionism?



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- This is counterproductive, from an economic viewpoint.
- Additionally, citizens frequently rally **against** proposed free trade agreements and in favor of protectionist measures.
- Example: Trans-Atlantic Trade and Investment Partnership.



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- Thus, the study of the domestic politics of trade is effectively the study of who is hurt or helped by trade in a given state.
- So, who are the domestic winners and losers from free trade?



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- Citizens in general (FLS example: post-Soviet states), who are often consumers.



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- **Each of these groups has a strong interest in trade protection.**



# Gains and Losses by Development Level

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- **Trade protections are thus tend to be narrowly targeted at otherwise uncompetitive factors/sectors that overcome the CAP and lobby for protection.**



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- However, domestic institutions may impact this, in particular democracy.
- If politicians care about voters' wellbeing, they should (in theory) opt for more free trade.
- This is especially likely in systems where the chief executive (i.e., president) has a national constituency: if consumers all over the country are harmed by trade protection, and benefit is only enjoyed by small local industry, the president should be more likely to favor free trade...



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- The costs of protectionism come in the form of price increases for protected goods (impacting consumers in general) as well as the state effectively subsidizing businesses that would otherwise fail.

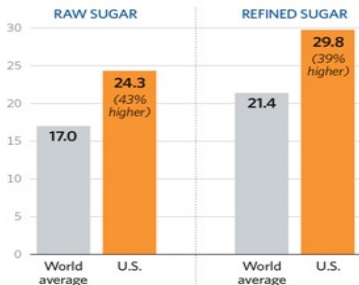


# Example: US Sugar Lobby

CHART 1

## U.S. Pays More for Sugar

PRICES FOR APRIL 2014  
IN CENTS PER POUND



**Source:** U.S. Department of Agriculture, Economic Research Service, Sugar and Sweeteners Yearbook Tables, [http://www.ers.usda.gov/data-products/sugar-and-sweeteners-yearbook-tables.aspx#.U2-00\\_IdV8E](http://www.ers.usda.gov/data-products/sugar-and-sweeteners-yearbook-tables.aspx#.U2-00_IdV8E) (accessed May 20, 2014)

BG 2914 heritage.org

CHART 3

## The Sugar Lobby

Sugar represents just **2 percent** of the total value of U.S. crop production ...

2%

... but the industry accounts for **35 percent** of crop industries' total campaign donations ...

35%

... and **40 percent** of crop industries' total lobbying expenditures.

40%

**Note:** Production figure is from 2012. Donations are for the 2014 election cycle and lobbying expenditures are from 2013.

**Source:** Center for Responsive Politics, "Interest Groups: Agribusiness," <http://www.opensecrets.org/industries/indus.php?ind=A> (accessed May 20, 2014).

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- **Compensation:** using economic gains from trade to provide trade losers with benefits to offset their losses.



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  - Sweden: solidarity wages, pension reforms
- This was the **Compromise of Embedded Liberalism**: sustain popular support for free trade by ensuring that those from less competitive sectors could recover as trade barriers were removed.





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  - Scaling back and defunding of social safety nets
  - Expansion of global finance without similar compensation
- Today's Rodrik (2019) article argues that this expansion of globalization without the compromise's safety net ("hyperglobalization") has negative consequences (job losses, financial crises, austerity policies) that have motivated opposition to globalization and economic openness more broadly.



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- We predict winners and losers using models of comparative advantage
- Domestic institutions structure those conflicts
- Governments can respond via protection or compensation, though both have declined over time



## Closing Question

What about international financial exchanges?