International Political Economy: Politics and the Design of Commercial Agreements

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Outline of Talk

1. Teaching International Political Economy
   - The scope of IPE
   - Typical syllabus
   - Current themes in IPE

2. Uncertainty and Flexibility in International Institutions
   - Cooperative Trade Institutions
   - Japan Case Study of Hidden Protection
What is International Political Economy?

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- Politics:
  - Interests: political survival, individual ideology, class interests.
  - Policies: tariffs, regulations, nationalization, default, monetary policy.
  - Institutions: bilateral trade agreements, customary international law, colonial powers.
The scope of IPE

Competing definitions of Political Economy

- The relationship between economics and politics.
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- The relationship between **economics** and **politics**.
- The importation of *economic* tools to study *political* phenomena.
  (optimization, general equilibrium, game theory, dynamic programming)
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- The importation of **economic** tools to study **political** phenomena.  
  (optimization, general equilibrium, game theory, dynamic programming)
- The use of material interests to explain social phenomena.
International economic markets ⇔ politics
The effects of international economic markets on politics.
International economic markets $\iff$ politics

$\Rightarrow$ The effects of international economic markets on politics.

- Domestic politics: redistributive consequences of markets
  - *Stolper Samuelson; trilemma.*
The scope of IPE

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⇒ The effects of international economic markets on politics.
  - Domestic politics: redistributive consequences of markets
    - *Stolper Samuelson*; *trilemma*.
  - International politics: consequences of global shocks.
    - *1930s in Europe*; *IMF lending*.
The scope of IPE

International economic markets ↔ politics

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   - Domestic politics: redistributive consequences of markets
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⇐ The effects of politics on international economic markets.
   - Domestic politics: the role of preferences and domestic political institutions on openness
     - Democratic commitment to investors.
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- International politics: consequences of global shocks.
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The effects of politics on international economic markets.

- Domestic politics: the role of preferences and domestic political institutions on openness
  - *Democratic commitment to investors.*
- International politics: How does the system of states shape market.
  - *Effects of borders; Power politics and trade*
Typical Syllabus Part I: Theory

- Foundations of IPE
  - E.E. Schattschneider *Politics, Pressures and the Tariff* 1935
  - Albert Hirschman *National Power and the Structure of Foreign Trade* 1945

- Modeling Cooperation:

- International Institutions:
Syllabus Part II: Trade

- Trade - Domestic Politics
  - Domestic Preferences
    - Rogowski 1987 “Political Cleavages and Changing Exposure to International Trade” APSR
    - Hainmueller and Hiscox 2006 “Learning to Love Globalization” IO
  - Domestic Institutions
- International Power and Institutions
Syllabus Part III: Investment

- Foreign Direct Investment
  - Domestic Preferences
    - Pandya 2010. “Labor Markets and Demand for Foreign Direct Investment.” IO
  - Domestic Institutions
- International Power and Institutions
Some areas of Active Research in IPE

- **Domestic Preferences:**
  - Exploring firm level data and ‘New New’ theories of trade with lobbying.
  - Testing behavioral theories with experimental behavioral evidence.
  - Using ’text as data.’

- **International Institutions:**
  - WTO+ Environment? Development?
  - The role of uncertainty in international institutional design.

- **IPES**
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  - Governments can enact policies, like tariffs, that harm other states.
  - Left on their own governments will set policies inefficiently from a global perspective.
  - Institutions help governments reduce this mutual harm.
Design features of International Institutions

- Membership
- Scope of issues covered
- Centralization of tasks
- Rules for controlling the institution
- Flexibility of arrangements.
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Regulatory Protection and Trade Cooperation

- Regulatory barriers to trade are the principal barrier to trade.
- Regulations can serve **public policy** demands or **disguised protectionism**.
Institutional Design of the GATT/WTO System

- GATT Institutional Features:
  - Most Favored Nation - Article I
  - Reciprocity In Market Access - Art. XXIII, Art. XXVIII
  - Flexibility: DSB, Antidumping Art. VI, Escape Clause Art. XIX
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- Multilateral Standards Agreements
  - National Treatment - Art. III
  - Tokyo Round Standards Code (Technical Barriers to Trade Agreement)
  - Uruguay Round Technical Barriers to Trade and Sanitary and Phytosanitary Agreements
Hidden Protection after the Tokyo Round Standards Code

Japanese Ambassador to the GATT, Masao Sawaki signing the Tokyo Round *Procès-Verbal* on April 12, 1979
The Consumer Products Safety Association of Japan introduced SG “to take into account the specific skiing conditions in Japan.”

The US, EC, and Switzerland case in the GATT: SG is disguised protectionism, fails to follow international standards and is not supported by the scientific evidence.
Legal preference (SPS, TBT) for *international standards* set a range of acceptable behavior.

Member States may determine their own appropriate level of protection, even up to the elimination of risk.

To go beyond international standard, governments must spend money on scientific evidence for their regulation.
Institutional Weakness?

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How might we explain these apparent weaknesses in the agreement?
We can use models of private information to explain these institutional choices.

If governments were unbiased, communication $\rightarrow$ efficient cooperation.

However, in the presence of private information about preferences, governments cannot be trusted to merely announce their preferred policy.

Governments can be incentivized by threat of permanent defection more easily when they can buy temporary allowances.
IPE is a growing and vibrant field of international relations.
Many of the issues that affect conflict are also relevant for economic relations.
There is room to grow.