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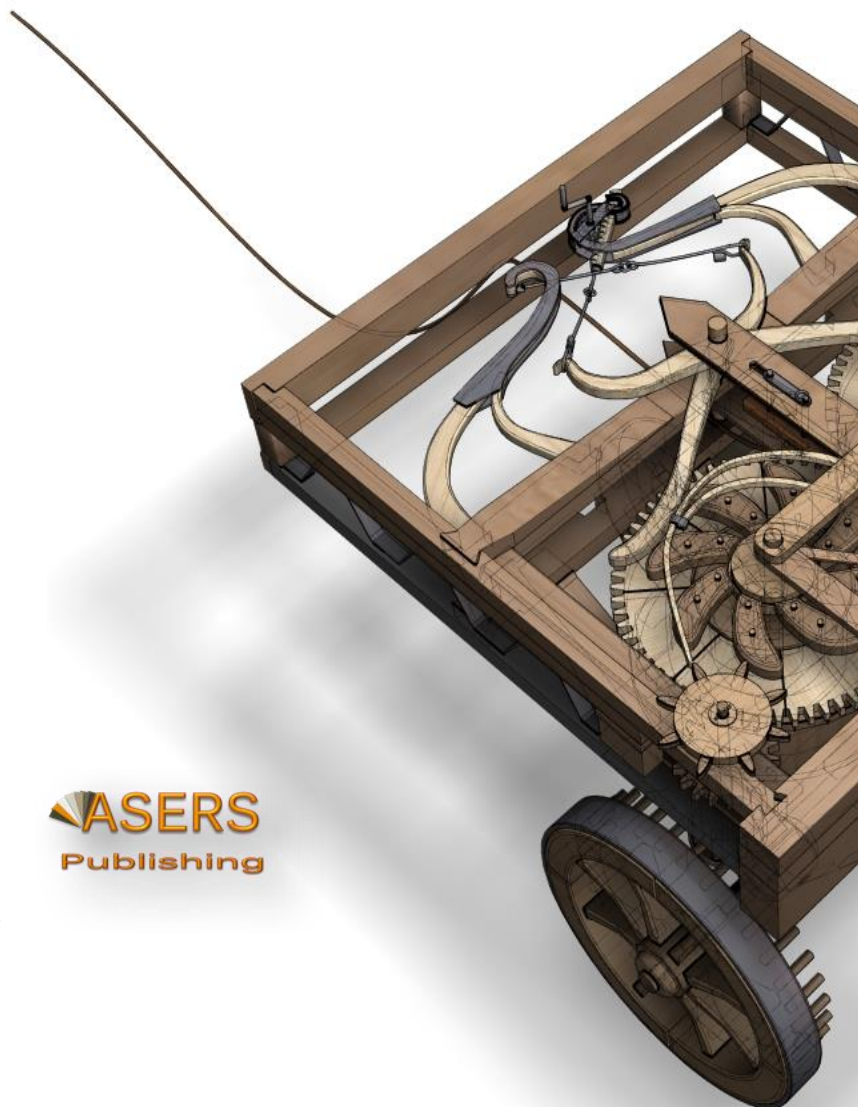
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POLITICAL ECONOMY OF TRADE PROTECTION AND LIBERALISATION: IN SEARCH OF AGENCY-BASED AND HOLISTIC FRAMEWORK OF POLICY CHANGE

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Abstract

The paper provides comprehensive review of alternative explanations of the trade policy formation, associated rise of trade protectionism, and difficulties of trade liberalization. Normative economic, systemic, public interest, political, institutional and constitutional economic theories of trade policy, together with political science models of trade cooperation are considered. The paper shows that current research in the area tends to accentuate the factors that entrench trade protectionism, while paying insufficient attention to the role of agency, policy dynamics and informal institutions that may bring in trade liberalization. Requirements for holistic and dynamic analysis of trade policy are outlined.

Keywords: trade policy; protectionism; liberalization; policy dynamics

JEL Classification: F13; F50; P11; Z18

1. Introduction

The topic of trade protectionism and trade liberalization as its dual has been subject to extensive research in economics, political science and international relations over the past few decades. A great majority of research contributions reviewed in this paper tended to adopt one of the two views of trade liberalization – mechanistic (in the sense that removal of endogenous or exogenous factors that bring protectionism will more or less automatically result in free and liberal trade), or reductionist (protectionism can be remedied by dealing with one of the relevant components, e.g. changing organizational structures, rules and institutions, providing expert advice, insulating trade policy from, or exposing it to, systemic economy-wide influences, moderating protectionist lobbying etc).

We posit in contrast that trade liberalization is:

1). A complex undertaking that requires attending to all these factors and integrating them in analytical framework;

2). Driven and brought in through agency, leadership and facilitation of various types; and

3). Involves multiple layers, varying paths and speeds of policy and institutional change.

The respective purpose of this paper is two-fold:

Firstly, to review in a sufficiently comprehensive fashion the existing approaches to trade policy with a particular emphasis on the above-mentioned issues. Not all of the theoretical explanations presented below capture the process of trade policy reform and liberal trade policy formation, and hence it is necessary to identify their deficiencies and outline how the latter can be remedied in the dynamic model of policy regime.

Secondly, to discuss methodological foundations that allow holistic analysis of trade liberalization. We argue that appropriate methodology will have to incorporate policy entrepreneurship and be grounded in dialectical scientific method.

The scope of discussion in this paper is limited to trade policy in the developed economy setting. The analysis of trade protectionism and liberalization in developing countries, while showing some similarities, will require separate investigation.

2. Review of existing theoretical approaches

The theoretical explanations of trade policies originate from several social sciences – economics and political economy, politics and international relations as well as public policy and law. We look at the following theoretical approaches:

- 1) Normative economic theory arguments stressing the importance of conformity of policies to economic theoretical principles;
- 2) Systemic views of policy, accentuating the influence of exogenous economic factors on policy outcomes;
- 3) Public interest views of policy, emphasising the centralisation of the policymaking process and the aggregation of political interests;
- 4) Political economy approach, seeing policy as an outcome of endogenous formulation process, determined by policy demand and supply forces;
- 5) Contractarian-constitutionalist perspective, highlighting the role of legal constraints and rules as well as contractual arrangements in shaping policy outcomes;
- 6) Political institutions arguments, viewing outcomes as a function of formal policy and decision-making procedures; and
- 7) International cooperation arguments, pointing to political power and negotiation complexities as intermediate variables conditioning policymaking.

2.1. Normative international trade theory

Normative international trade theory (NITT) argues that there exist economic arguments supporting free trade and that free trade is superior to restricted trade or autarky (Kemp 1962, Bhagwati 1987). NITT elaborates on the method of trade liberalisation (multilateral, bilateral, unilateral), the latter being economically superior, but not politically palatable, while the former two bringing concerted reduction in trade barriers, yet instilling reciprocity-based thinking and thereby slowing down liberalisation process (Glassman 1998). NITT also compares various trade protection instruments, and argues in favour of production subsidies as less trade-distorting and against quotas and export subsidies as most distorting (Jones and Kenen 1984).

The main problem with NITT is that the reality of policymaking in most of the sectors is at complete variance with theoretical recommendations, as attested by rare occurrence of unilateral liberalisation, by insulation of many trade domains from liberalisation (e.g. agricultural trade) or slow liberalisation progress therein, and ongoing sophistication of non-trade and technical barriers to trade.

Political science scholars (Cohen 1990, Bromley 2006) argue that weakness of NITT lies in its sterility as far as political and institutional determinants of trade policy are concerned. Once these two factors are taken into account, it becomes possible to see that what we consider as policy abnormality or aberration (protectionism) is, in fact, a perfectly logical phenomenon from a political and institutional perspective. The elimination of protectionism would therefore require prior alteration of institutional and political conditions, rather than unsuccessfully trying to force some prescriptions on policy actors.

In this connection, the trade policy logics are numerous and not solely restricted to economic one. Other ideational foundations of trade policy are no less important, including (but not restricted to) traditional Mercantilist (Libby 1992), fairness (Benjamin and Yager 1993), food sufficiency and national security arguments (Winters 1990), managed trade considerations (Lemieux 1989), balance of payments stability argument (Bergsten 1996) and others.

In this regard, protectionism and liberalisation in GATT/WTO may be successfully explained with reference to managed trade logic. Managed trade idea does not imply free trade, but rather mutually agreed protection limits, *i.e.* in sectors where conventional trade barriers are agreed upon and protection limits are established, the new more sophisticated instruments are introduced – both to protect the domestic market (e.g. non-tariff barriers) and open foreign markets (e.g. US Section 301 sanctions). The GATT/WTO history is thus a continuing attempt by contracting parties to gain market access concessions by agreeing (in early Rounds) on tariff limits, and later by putting in order new instruments that prevent market access. GATT/WTO is therefore not a “free trade charter”, but

a mechanism to prevent closure of markets, to stop countries' continuing marches towards protectionism, while allowing exemptions and loopholes in certain sensitive areas, e.g. agriculture (Downs and Rocke 1995). Other trade policy logics likewise are extensions of this managed trade, *quid pro quo* philosophy.

The presence of multiple logics of trade policy points to following analytical requirements. Firstly, the analysis of trade policy needs to consider contestation of ideas/logics process, with normative economic prescriptions playing important, but not necessarily formative role. The application of sociological institutionalist literature (Hall 1993, Peters 1999), studying the interplay between ideas, beliefs and norms on one hand and institutions and policies on the other, may prove fruitful. Secondly, in contrast to Keynesian view of ideas of economists having their own life and sufficient power to dictate and transform policy (policymaker following prescriptions of some "defunct economist"), the wide spread of logics alternative to free trade suggests that the process of incorporation of economic advice in trade policy should be given proper consideration. In contrast to analysis of economic advice in policymaking in general or economic advice in selected policy areas (Niskanen 1986, Slembeck 1997), the analysis of the roles and functions of policy economists and the effectiveness of economic advice in the trade area has been scant (Evenett 2007 stands as exception).

2.2. Systemic explanations of liberalisation

Systemic explanations of agricultural protectionism postulate that the level of protection, the directions and objectives of trade policies are functions of broader economic and societal factors, such as balance of payments position of the country, the state of the budget, as well as prices (exchange rates, commodity and input prices). Specifically, as a result of changes in these factors, policymakers will have to consider whether current trade policy arrangements are sustainable and do not require any modifications, or the trade policy has to be reformed (in a radical or incremental way).

The majority of systemic explanations of trade policy assume that adverse economic conditions delay movement to a liberal economic regime and increase the supply and demand for protection (Gallarotti 1985, Gourevitch 1986, Wallerstein 1987). The demand for protection may come from affected sectors or industries (e.g. with no protection, profits of a particular sector are eroded by foreign competition), but also due to broader cyclical downturn (fall in aggregate demand and profits).

Stern (1987) however made certain clarifications to the general proposition – he argued that protectionism may be on the rise, even if a country's overall economic position is sound. This was the case of US trade policy in the early 1980s - the economy was growing, but the fortunes of certain US industries (steel production and car manufacturing) were eroded, leading to the call to protect these industries.

The alternative hypothesis (Rodrik 1992, 89) is that adverse systemic factors may be instrumental in protectionism removal by "enabling radical reforms that would have been unthinkable in earlier times." This is the case when the political and economic costs of sticking to protectionist and interventionist policies become higher than costs of adjustment. The deeper the crisis, the quicker comes the radical reform.

Gourevitch (1986) argues that reaction of trade policy to crisis is largely country specific: new policies can be profoundly different for similar-type economies. It is left unanswered nonetheless why this happens and whether there are any regularities in the responses. To understand the specificities of policy outcomes, one has to acknowledge that there exists no "general" transmission mechanism and that policy action is contingent and is driven by a unique and quite "anarchic" combination of building blocks – ideas, behavioural patterns and moves of particular people.

Also, while a dire economic situation indeed instils positive attitudes in policymakers towards change, it may be insignificant or even incidental to the speed of reform (Rodrik 1996). The latter is the function of problem recognition and agenda setting activities, the design of solutions to policy problems and resolution of policy conflicts.

The possibility of differential responses to crisis was evident in agricultural protection case. Agricultural recession in the 1920s and the Great Depression led to the rise of agricultural protectionism and agricultural welfare state in the USA, Western Europe and Japan (Winters 1987, Sheingate 2001). However, the period of low commodity prices in early 1980s led to different outcomes, in line with two alternative systemic explanations. Australia and the group of agricultural exporters began the campaign for a more liberal agricultural trade regime (Botterill 2004). Likewise, USA experienced the transformation of agricultural policy system with increasing number of policymakers lobbying for agricultural trade liberalisation (Browne 1995). Europe continued to resist agricultural trade liberalisation (at least in the early 1980s). However, the first agricultural trade liberalisation agreement in GATT history, signed in 1994, was only partially affected by these responses; decisive factors for liberalisation success were agenda setting and management, facilitation activities by many parties and judicious negotiations, conducted over almost a decade.

2.3. Public interest explanations

The early stream of literature attempting to explain public policy (including economic policy) adopted distinctly mechanistic and functional view of policy. It conceptualised the state as a single decision-making unit that acts for the interests of society as a whole.

Policy problem was in this regard a purely engineering one, with benevolent bureaucrat being a central figure in policymaking process (Tinbergen 1952). The analysis refrained from the consideration of competing political interests, ideas and the like in the dynamic setting, and instead conceptualised policy as social welfare maximization, using social welfare and political preference functions (SWF and PPF) as analytical tool.

In trade policy analysis, functionalist views were presented in 1). The analysis of common commercial and common agricultural policies in the EU in the early formative years and of the debate on role of elite technocrats in forming EU policies (Haas 1958, Rhodes and Mazey 1995), and 2). The analysis of agricultural protectionism and liberalisation (Paarlberg and Abbott 1986, Tyers 1990, Johnson *et al.* 1993).

Regarding PPF method, Bullock (1994) pointed to following methodological features of the approach: specification of power/weights of relevant interest groups; endogenous determination of equilibrium policies; arbitration by policymaker of conflicting objectives of interest groups; maximization of producer, consumer and taxpayer utilities within PPF; possibility of the analysis of welfare effects of alternative policies.

Numerous aspects of public interest theory and PPF method in particular came under scrutiny (Borcherding 2002): unlikelihood of real-life policymaking in a “top-down” directive fashion; inability by policymakers to get information about social preferences and order them; inherently subjective nature of preferences and the impossibility of inter-personal comparisons of subjective utilities; the absence in the functionalist view of multiple policy actors (interest groups, broader community or individuals within government) except for economic experts; restriction of economic and policy advice to supplying advice on how to reach the predefined “ends” with best available “means” without questioning the nature of those “ends”; the absence of normative views and ideas in the functionalist view; reduction of policy entrepreneurship and agency to political technology, defined vaguely as “improved means to negotiate the allocation of society’s welfare”.

2.4. Political economy explanations

Political economy (PE) models and theories attempt to explain such anomalies and inefficiencies observed in policymaking, as disproportionate involvement of particular groups; excessive and concentrated appropriation of political benefits; spreading the costs among all taxpayers; rent seeking activities are usual practice in policymaking (Krueger 1974, 1995). In contrast to older political science literature and Marxist views documenting policy capture by organised business interests (Schattschneider 1935, Chase-Dunn 1995), neo-classical political economy (Chicago and Virginia schools) view policy formation in terms of political market equilibrium (Johnson 1992). PE explanations of trade policies and trade protectionism thus fall in three streams – explanation of protectionist demand formation, explanations of supply of protectionism and role of the state in the process, and equilibration in a political market for protection.

Regarding demand side, the endogenous trade policy literature examined the rationales of demands for protection (Goldberg and Maggi 1999), specifically the link between the characteristics of economic environment (in which firms and businesses are placed) and the level of protection. It was established that more competitive industries typically demand freer trade, while industries that are sensitive to import competition usually oppose trade liberalization (Matsuyama 1990, Gilligan 1997, Chase 2003); protectionist demands are positively correlated with unemployment levels, declining profit rates, negative GDP dynamics and capacity utilisation (Bauer *et al.* 2007, Magee and Brock 1989); higher industrial concentration levels are also leading to higher demands for protection (Caves 1976); while labour intensive industries are more prone to demand protection (Helleiner 1977). A special case of firms (likely to benefit from export expansion or cheaper intermediate inputs) demanding free trade and liberalisation was mentioned by Odell (1993).

Recent contributions (Hiscox 2002) emphasized formulation of protectionist demands based on factor ownership (rather than on industry or sector lines). Factor endowment and factor returns were considered to be equally important (hence factor ownership as a determinant of policy preferences and demands). Synthesis of old and new literature suggests that depending on whether Stolper-Samuelson or Ricardo-Viner theorems hold, two types of protectionist coalitions are possible – one among production factors of the same industry (industry line coalition), when business and labour have same preferences (Rogowski 1989), and the other among factor owners of different industries (factor based coalition, Gourevitch 1986).

More recent literature examined variations of lobbying depending on institutional setting, e.g. lobbying executive versus legislative branch (Bennedsen and Feldmann 2002); lobbying in different electoral systems

(Besley and Coate 2001); and also expanded the concept of lobbying – informational lobbying, role of lobbies in agenda-setting (Anderson and Zanardi 2004).

PE explanation of policy supply side (*i.e.* provision of protection) considered the basis upon which policymakers form their preferences, and the degree and mechanics of autonomous operation of the government in formulating policies.

The early view of government as a “clearing house”, conceptualised government as a passive translator of electoral votes or protectionist demands into policy: for instance, Caves (1976) posited that industries with the largest number of votes become crucial in elections, and hence policymakers tend to grant protection to the industries. In contrast, Krueger (1990) argued that as policymakers do not know the preferences of all voters or groups, they tend to align with those industries (voters) who have already established their preferences (identity) in order to retain their contribution (votes). Fieleke (1976) noted that protectionist motives of governments are based on public concerns about inequality and the overall increase in living standards. Hence protection is granted to those who are less able to adjust in the face of increased import penetration.

State and policymakers’ own views of trade protection or liberalisation were also examined: specifically such issues as trade policy preferences of US government and resulting pro-free trade redirection of US trade policy in the 1980s (Bauer *et al.* 2007); or changing preferences of Western European governments in late 19th century and resulting move towards free trade (Kindleberger 1975).

Regarding autonomous operation of government in trade policymaking, several aspects of the issue were looked at. Katzenstein (1978) distinguished between “weak” states that are unable to resist private interest pressures and exercise leadership (USA) and “strong” states that are able to do so (France, Japan). The levels of protection were argued to be higher in the former. Davis (2005) noted that in such areas as agricultural trade, the level of protection is as high (or higher) in “strong” states as in “weak” ones. Vernon (1991) mentioned that that state autonomy and separation of executive bureaucracy from organised interests and parliamentary politics may indeed be artificial and exaggerated, as attested by the well-known practice of “revolving doors”, symbiosis of business, legislatures and executive branch, formation of policy “iron triangles”, present in both “weak” and “strong” states. PE literature also deliberated on the responsiveness of government to lobbying, its interest in the issue being lobbied (Grossman and Helpman, 2001); as well as varying interest of government in protecting certain sectors/industries (Rogowski 1989).

PE literature on policy supply side also outlined factors that prevent policy reform (trade liberalisation). Lindblom (1959) and Allison (1971) discuss such organisational practices within state as searches for “good enough” rather than “best” solutions (satisficing); limitation of the repertoire of policy choices by following the existing organisational routines; organisational parochialism; “muddling through” and incrementalism as a dominant mode of policy making – all making succession of policy regimes and reform difficult or hardly possible. The applications of these concepts in trade policy realm (specifically agricultural trade policy) included Petit (1985) and Josling and Tangermann (1996). In some trade policy areas (*e.g.* agricultural protectionism) the problem was seen as particularly pressing.

Likewise, PE research analysed bureaucratic behaviour and pointed to increased autonomy of economic (including trade policy) bureaucracy from top leadership and legislative branch; unwillingness to change and adapt; incongruity between bureaucratic preferences and preferences of other stakeholders; and related problems (Finger *et al.* 1982, Messerlin 1983).

The analysis of political market operation and equilibrium concerned two problems – the relative influence in the political markets, and optimality/stability of attained equilibria. Regarding former problem, the debate has been ongoing about the role of voters in policymaking, specifically rational ignorance of voters and their relative unwillingness to participate in policymaking (Downs 1957, Brennan and Buchanan 1984), giving rise to voting models literature. Applications to trade policy included (Dutt and Mitra 2002). Another aspect tackled related to collective action problems in political market (Olson 1965). Literature demonstrated that equilibrium policies are typically heavily skewed towards business interests, principally due to their substantial power and organisational ability, compared to diffuse and weak consumer groups and other stakeholders (Gawande 1998). Regarding optimality/stability of equilibria, Chicago-school economists (Becker, Stigler) adopted an efficiency view of political market, with policy capture by powerful interest being only transient and triggering political reordering competition from counter interest groups. In contrast, Virginia-school (Tullock) emphasized persistence of sub-optimal equilibria, principally due to rent-seeking activities.

The assessment of PE literature suggests that PE explanations are potent in explaining entrenchment of protectionism, but have little analytical instruments to explain trade policy dynamics and liberalisation. While endogenizing policy (by considering aggregation of preferences and interests), PE explanations pay little regard to

the content and origins of economic interests, goals of actors, formation of policy rules and institutions, as well as policy agency.

2.5. Contractarian and constitutional economics explanations

In contrast to political economic models that demonstrate contradictions and failures in the policy domain and point to the stability of this state, contractarian and constitutional economics (CCE) is preoccupied with change and dynamics issues – how trade protectionist entrenchment can be overcome and how the formation of a liberal regime can be facilitated. CCE accentuates institutions as driving forces of policy regime change – rules and procedures are assumed to mitigate protectionist preferences and channel political action into a more liberal direction. CCE sees incompatibility between existing protectionist and interventionist policies and individual welfare (which necessarily presumes the right of individuals to enter freely into contracts, i.e. “right to free trade”) – hence rules have to be devised and effectively enforced that would ensure contractual freedom and thereby individual welfare (Gwartney and Wagner 1988, Buchanan 1986, Buchanan 1987).

Thus, the only mechanism to prevent vested interests from benefiting from protection is to erect constitutional constraints that decrease the attractiveness of achieving economic goals by political means (e.g. by lobbying). These constraints will obviously have to be imposed at the domestic level (i.e. at the origin of the problem) and be complemented by international commitments by individual states, subjecting their national policies to mutually acceptable terms, which thereby have a similar function to national constitutional rules (Moser 1989, Tumlir 1983).

Several practical constitutional constraints were proposed for trade policy at domestic level – restricting the power of legislatures to impose trade barriers (Rowley *et al.* 1995); “generality constraint” on trade policy and the introduction of a flat tariff that would preclude non-uniform protection across industries (Parisi 1998).

At international level, the following constitutions were proposed - establishment of a set of rules (international legal regime) that provide a structure of obligations and liabilities that prevent free riding and opportunism (Guerrieri and Padoan 1988, Kovenock and Thursby 1992); a set of reciprocal obligations imposed on each nation state that allows each to contribute to the public good, conditional on the assurance that others would do the same (Sugden 1984).

It was noted that reciprocity was working well in the case of industrial products’ trade liberalization, but not in agriculture. The problem was attributed to the lack of distinction between policies that had to be regulated by domestic rules and those that had to be regulated by international ones; the lack of distinction between the distorting effects of different trade policy instruments and the lack of legal control over the most distorting ones; as well as the weak enforcement of international trade rules in the GATT dispute settlement mechanism (Petersmann 1988, Reinhardt 2001).

The major contribution of the CCE to policy analysis was in pointing to the core issue of public policy – stable order is achieved “only if the differing interests ... can be traded-off or compromised, actually or symbolically, in a social contract.” (Buchanan and Vanberg 1977, 171). Emergence of a liberal (or any) trade policy regime was thus seen as a result of the reduction of contradictions between various interests.

However, not all contracts satisfy the normative requirements mentioned by Buchanan: while the social contract is to rest (to the highest possible degree) on liberty, in real life it frequently compromises natural rights, particularly the “right” of free trade. Also, there is no embedded mechanism that ensures attainment of superior social contract (constitution) due to ideological and material conflicts pervading the policy system.

Buchanan is certainly right in that “good” rules are the prerequisite for non-contentious political behaviour: for instance, the post-war GATT conflicts in the agricultural domain were the result of “bad” rule writing (agricultural exceptionalism) at the outset. We, following Wegner (2004), see it as unrealistic however that constitution making and creation of social contracts (policy order) are non-conflictual processes with consent and constitutions achieved/changed effortlessly and instantaneously by some constitutional designer or reformer.

Thus, trade liberalisation analysis has to answer the following questions. Who will instigate and drive the above processes. Will that someone think and act in a re-distributional or collective welfare fashion? Will entrenched actors desist from opposition? Will pro-change actors be powerful enough? And so on. It is thus necessary to endogenize constitution making – indeed Herrmann-Pillath (2006) proposes seeing GATT reciprocity rules as an outcome of continuous constitutional bargaining.

2.6. Political institutions explanation

Political institutions literature examines the influence of formal policy and decision-making procedures, structures and configurations on policy outcomes, and argues that modifications to political institutions are likely to result in protectionist (or in contrast free trade) policies.

Early literature on trade policymaking institutions (Goldstein and Lenway 1989, Destler 1996) attempted to explain trade protectionism as a result of how easily organised interests can penetrate legislatures. In contrast, more liberal policies result from greater power of executive branch in trade policymaking. Later research (Persson and Tabellini 1999, Olper 2001, Thies and Porche 2007) focused on comparisons of the protection levels in democratic versus non-democratic systems, on the effects of different party structures, decision rules, organisation of legislatures, federations, and civil liberties levels on protectionism. It was shown (Ruppel *et al.* 1991, Lohmann and O'Halloran 1994) that protection levels positively correlate with multi-party democratic institutions (where legislatures are less insulated from organised interests and multiple veto players are present), and federal systems (lobbying at multiple levels of government, possibility of free-riding at sub-national level).

Literature on delegation of authority to executive branch (Destler 1996, O'Halloran 1994; Bauer *et al.* 2007) stresses the need to insulate trade policymaking from domestic pressure, as well as ensure efficiency of trade negotiations.

European research focused on complexities of decision and policy making within EC trade policy system. Pollack (1997) argues that despite original intent of European Commission autonomy, then European Commission was frequently subverted by protectionist interest (particularly in case of agricultural trade policy formulation and operation of Directorate General for Agriculture). The relationship between Commission and members of protectionist networks were poorly articulated too (Mazey and Richardson 1993, Daugjberg 1999). Likewise, unanimity rule and the need to accommodate the preference of protectionist members of EC (Murphy 1990, Meunier and Nicolaidis, 1997) were leading to increased transaction costs associated with time and efforts of reaching consensus. Specific issue of EU decision-making related to EU policy preference formation: i.e. whether EU was a transformer of member states' preferences (Wendt 1994), or purely messenger with ultimate negotiation and international treaty approval power resting with member states (Moravcsik 1991).

Institutionalist literature identified several possibilities for institutional reform:

1) Formation of new institutional arrangements that would decrease the costs of organising, and introduce new actors (e.g. consumer interests) into closed policy communities, thereby helping to detach policymakers (the Commission) from vested protectionist interests (Rausser and Foster 1990).

2) Creation of institutional structures that would prevent rising external costs and appropriation of other actors' benefits, for example, by re-nationalising policies that operate at supra-national level and preventing free-riding by EC member states, or by delegating income redistribution policies to the national level, while retaining structural and efficiency improvement policies at the supranational one (Koester 1991).

3) Reform of voting and separation of power arrangements that would reduce veto points in the decision procedure and allow the executive branch to work in tandem with the stable parliamentary majority. That is, adoption of a majoritarian rather than presidential or proportionate representation system (Tsebelis and Yataganas 2002).

4) Legitimation of direct democracy instruments (referenda) that can help bypass protectionist opposition in legislatures (Feld and Schnellenbach 2007).

It appears that the major shortcoming in institutionalist literature is as follows:

Assessment of political institutions literature suggests that it is not sufficient to write up new procedures and erect new political structures that would stipulate a particular course of decision making. Formal institutions cannot change the preferences of actors and predominant consensual views on policy. It still does not eliminate possibilities that protectionist policies would be formulated and adopted, because underlying consensual policy ideology is left intact.

Also, political institutions literature seems to underestimate the role of political machinations that lead to adoption of particular formal political institutions and, most importantly, the actual processes of policy construction that may vary dramatically even within the same formal institutions and structures, thereby indicating supremacy of agency analysis over the study of structures.

2.7. International economic power and cooperation explanations

International relations and politics literature has long related the shape and content of international economic policies and economic order to the stability, hegemony, or in contrast, anarchy in international system.

As put by Kindleberger (1986) and Lake (1993) among others, the early thinking about the problem considered that stability of the international system can be achieved in the presence of one power-hegemon

(hegemonic stability) using its power to structure international economic regime as well as prevent the enactment of undesirable changes. It was argued that US hegemony after WWII until early 1960s allowed preventing within GATT system protectionism and closure of international markets in many trade areas (industrial products), while allowing (or not preventing) protectionism in others (e.g. agricultural trade). US hegemony has been gradually eroding (including in trade domain) over the post WWII era.

The inadequacy of hegemonic stability explanations to account for the realities of the 1970s-1980s (rise of new economic powers) led theorists to recognise that the demise of the dominant power returns the international system to a state of anarchy, in which economic interdependence enhances and is a source of international economic frictions (Keohane 1998).

Thus, analytical focus shifted towards analysis of “soft” power, as was demonstrated by pro-liberalisation position of the USA in the Uruguay Round (Wiener 1995), or the analysis of international cooperation and conflict resolution in complex and interdependent setting (Nye 1990, Stein 1990).

The latter research stream stressed the need for rules and norms that ensure stability of interactions between states; minimise certain “bargaining perversities” (defection, free riding, heterogeneous interests etc.) preventing the achievement of international policy outcomes that are mutually beneficial to all involved; as well as ensure the modification and adjustment of countries’ policies - which would all lead to greater cooperation (Webb 1995).

Cooperation models, applied initially to the analysis of international macroeconomic cooperation (McKibbin 1988) stressed Pareto-improving nature of cooperation, delivering benefits to all members of international system, and eliminating negative externalities (e.g. currency wars). The early analysis of cooperation in international trade policy (Mayer 1991) examined three types of international trade games: pre-emption game between two countries, where each (or only one) country tries to set pre-emptively the tariffs above Nash equilibrium level; exploitation game, where one country chooses free trade, while other sets tariff; and cooperation game, when both countries set optimal tariffs and where welfare of both parties is maximized.

The contributions of the “new economics of organisation” and “transaction costs economics” (Williamson 1990) to international economic cooperation field were also salient, specifically application of such concepts as credibility and reputation in policy cooperation; opportunistic behaviour and associated tendencies to renege on agreements and free-ride; bounded rationality of individuals and the associated problems of the imperfect information; and the like.

Scholars thereby called for such international institutions and practices, as establishment of the bilateral ordering of the international disputes, damage limitation through third-party arbitration, an alignment of incentives in international trade policymaking through hostage-like arrangements, as well as further strengthening of the reciprocity principle as a way of signalling continuity and predictability of relations among trading parties (Yarbrough and Yarbrough, 1986, 1990, Weber 2000).

None-withstanding the above advances, political science recognised the importance of domestic cooperation for achieving international cooperation (Milner 1997), giving rise to conceptualisations, where preferences and payoffs are determined domestically.

Two-level games models (Putnam 1988) are indicative of this development. These models point to the impact of domestic constraints (principally due to need for domestic ratification of international agreements) giving international negotiators advantage during talks and preventing them from making concessions. Two aspects associated with domestic ratification are emphasized - domestic institutional structure, that allows (or prevents) easy passage of the agreement concluded at the international table, such as President’s “fast-track authority” in the US (Destler 1996); and the presence of domestic constituents or impediments in domestic system that may delay/preclude ratification (e.g. Council of Ministers in EU and national parliaments in member states). Applications of two-level games to trade policy have been numerous including non-formal (Mayer 1998) as well as mathematical models (Grossman and Helpman 1995).

Related stream of research (Schoppa 1993, Mulgan 1997) examined the ways to release and work through domestic constraints in the country resisting liberalisation, and finding domestic allies in a target country that support foreign demands. Several strategic actions (threats, reverberation, tying hands and linkage) were identified.

Early two-level game and cooperation models, whilst introducing dynamics and agency into the analysis, tended to adopt rather rigid view of two-level interaction (international talks followed by domestic ratification), when in reality a more complex interplay between domestic and international processes could be possible. Likewise, smaller consideration was given to instrumental issues and negotiation technology (actions and behaviour that would make agreement possible, leadership and control during talks, change in domestic preference and the like).

These shortcomings have been remedied by adopting and applying concepts from a broader literature on international negotiation that examines other areas as well – international security, environment and others (Davis 2005, Meunier 2005).

The following concepts and dimensions were incorporated among others in the trade policy analysis – information, commitment and credibility as sources of bargaining advantage (Lake and Powell 1999); negotiation context, including context of the two-level game (Davis 2005); type (offensive/defensive) of negotiation (Meunier 2005); the choice of and influence of negotiation forum (Morrow 1994, Fearon 1998); legitimacy of negotiation demands (Schoppa 1993); negotiation styles, personality of negotiators and their leadership and steering capability (Winham 1979); behavioural orientations (Walton *et al.* 1994, Odell 2002); presence of external stakeholders and expert groups (Sebenius 1992); coalition-building in a multilateral setting, multilateral cooperation, as well stages, including agenda-setting processes (Hampson and Hart 1995).

3. Theoretical approaches – state of affairs

The policy theories discussed above vary in terms of holistic and agency-based analysis of trade policy. The normative international trade theory view is manifestly non-dialectical, assuming that trade policies could automatically follow from economists' prescription. In contrast, the systemic view attends to change and policy transformation, but treats them as processes that are exogenously induced from outside the policy system. Hence, the review of endogenous policy formation approaches is required. The first of them (public interest explanation), however, trivializes endogeneity, resting on the unrealistic "single decision maker" assumption and ignoring policymaking conflicts by concealing them in social welfare and political preference functions. The second approach (political economic) clearly elucidates the clash of interests and contradictions in the policy system, which results in policy sub-optimality, but does not show how the resolution of these contradictions can be instrumental in reforming the old and creating new policy orders. Instead it sees policies as stable and (when Chicago-style political economy is concerned) efficient equilibria. In this respect, the contractarian-constitutionalist perspective is useful in outlining the conditions of contradictions' resolution (writing rules and establishment of constitutional framework), but is more naïve about the effectiveness of constitutional rules and the feasibility of constitutional reform (not specifying how the rules are created). Likewise, political institutions analysis, while specifying procedures and mechanisms that could decrease the degree of protectionist entrenchment and thereby bring liberal policy regime, assumes away the actual processes of formal institutions' formation. The final approach that was examined (international cooperation) is essential in that it adopts the dynamic view of policymaking and also integrates international and domestic policy domains. While some models within the approach attempt to specify the exact actions that policy participants make to agree upon policy, nonetheless the approach is mostly concerned with negotiation aspect of trade liberalization, while disregarding broader processes of institutional formation, agenda setting, consensus-making and policy experimentation.

Overall, despite clear advances (identification of key prerequisites for policy formation and change, including institutional and ideational factors, and consideration of interactive aspects of policymaking in some explanations), a complete framework of policy dynamics in trade domain is still beyond reach. The analysis of Canada-US trade negotiations (Dawson 2005) that incorporates agenda-setting models (adopted from public policy and administration literature) within two-level negotiation framework stands as notable exception.

Conclusion – requirements for holistic and agency based analysis

Prospective frameworks for trade liberalization analysis are likely to address following matters.

Firstly, it appears that analysis of trade protectionism entrenchment and of trade liberalisation (which necessarily takes place at both domestic and international domains) are two distinct methodological undertakings. While it is true that removal of factors that encourage protectionist policies is a necessary condition for trade liberalization, it is unlikely to be a sufficient condition. This is due to the fact that even most favorable prerequisites for free trade policies need to enhance and amplified by relevant policy action.

Secondly, due consideration should be given to those methodologies and theories that are suited specifically for the analysis of policy change, rather than policy entrenchment. In this connection, constitutional economics that stresses importance of rules and constraints will be useful only as a starting point for the framework construction (McKeown 1986). This is confirmed by Lieberman (2002, 698) stating that:

"Institutional theories share an emphasis on finding order and stability, comprehensiveness and coherences, patterns and models that elucidate more or less general propositions about a class of political phenomena. Because of their emphasis on eliciting ordered patterns and regularities from observations about politics, institutional theories in general run into trouble in accounting for political change."

Likewise, as put by Peters *et al.* (2005, 1278):

“...without including some dynamic conceptions of agency, the approach [institutionalism] cannot provide an adequate explanation of change. ... it is crucial to build a greater role for agency into this structuralist theory. The identification of agent(s) becomes the means through which internal disagreement can be translated into change activity.”

We argue that a more fruitful way forward is to start with negotiation and international cooperation models, but also to conceptualize trade liberalization as negotiation in the broadest possible sense, as negotiation along various lines and within broad political-economic context (this approach should be contrasted to usual negotiation models that tend to preoccupy with negotiation “technology” and processual details).

Another methodological issue that requires attention is the multi-layered and contradictory nature of trade liberalization. Firstly, the path and speed of liberalization process is important. The literature on policy paradigms (Hall 1993, May 1992) suggests that reform of any policy is triggered and enabled by failures/malfunctioning of existing policies (and importantly requires recognition/learning by policymakers of the fact that old policies stop working). Thus, the phenomena of accumulating inconsistencies, modest liberalization and in contrast, qualitative leaps and jolts in the policy system that allow speedy progression to free trade need to be accounted for. Secondly, the completeness and degree of trade liberalization is salient. Depending on the change processes, the outcomes may include either complete disappearance of previous protectionist order or more moderate results (when some of the older features are retained). Varying liberalization progress in GATT/WTO across negotiation areas (e.g. agriculture versus manufactured goods) or even within area (varying treatment of agricultural support instruments) attest to complexities of compromise and concession making, as well as insufficient policy leadership and advocacy in many areas. Thirdly, the new policy formation is likely to require two building blocks (Harris and Milkis 1996, Wilson 2000) - construction of policy instruments and mechanisms in the course of policy negotiations, as well as construction of underlying policy institutions. The latter process is likely to involve rational calculation, but also contestation of ideas, (counter-) framing and eventually achievement of consensually-held view that will be translated in formal rule (institution). The important feature of new policy formation process is that institutional construction is likely to delay policy negotiation. The experience of latest GATT/WTO rounds suggests that little breakthrough in international talks will be attained until consensual institution (based on shared frame or view) germinates.

On an applied side, several avenues for holistic and agency based research in trade policy are present. Firstly, the policy agenda-setting theories may be useful, specifically multiple stream model of Kingdon (1995) that examines policy problem recognition, proposal of solutions and political selection processes. Secondly, the “advocacy coalitions” framework (Sabatier and Jenkins-Smith 2007) may be instrumental in identifying ways to establish consensus or facilitate convergence between opposing coalitions. Thirdly, models of policy learning (Hall 1993) and punctuated policy changes (Baumgartner and Jones 1993) may contribute to understanding incremental and non-incremental changes in protectionist policies at domestic level. Finally, a policy entrepreneurship approach (see Shockley 2007 for tentative outline) that classifies and analyses multiple types of entrepreneurial behaviour at agenda-setting and negotiation stages (leadership, incremental experimentation, facilitation, advocacy and consensus-building, operationalization of problems) may be applicable.

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