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## **Realism and Postwar US Trade Policy**

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# REALISM AND POSTWAR US TRADE POLICY

This paper examines the credentials of the realist approach to international political economy as explanatory theory of postwar US trade policy. It argues that the realist link between international structure, US national trade interest and policy outcome is not strong. Empirical anomalies are identified in terms of both the general openness of US policy and the sectoral pattern of protection. The realist approach to explaining US trade policy suffers from the twin problems of a high level of policy indeterminacy and the theoretical neglect of state–society relations crucial to domestic trade preference formation.

## Introduction

The end of 1998 sees the world confronting what may be the most serious economic crisis since World War II. Claims that economic policymakers have learned the requisite lessons about avoiding depressions (much less recessions) are no longer made with great confidence. What began as an Asian financial crisis has now become a test of global economic order and global leadership. Having the world's largest national economy, the United States is seen to shoulder a special obligation to stabilise and promote recovery in the international economic system. The historical episode which continues to haunt the minds of many is the Great Depression of the 1930s, and the US lurch towards economic nationalism and increased protection which exacerbated it.

The desire of analysts to place current events in historical perspective has focused renewed attention on the work of Charles Kindleberger and other scholars concerned with the political underpinnings of global economic order. Kindleberger's (1973) classic study of the 1930s has a special place in international political economy (IPE) research as the progenitor of 'hegemonic stability theory' (HST): the argument that global economic disorder and increased economic closure are likely to occur in the absence of a single, powerful state acting to stabilise the international system.<sup>1</sup> This proposition provided the foundation for the modern 'realist' approach to IPE. Where Kindleberger saw the global system in terms of the provision of the public good of stability, realists directed attention to the capacity of a dominant hegemon to structure international economic relations in the pursuit of power, wealth and security. Given the pervasiveness of global 'anarchy' and threats to state survival,

realism granted analytical priority to the international political-economic structure seen as shaping and constraining state behaviour.

In the fog of current global economic instability and heightened concern about US protection, it is timely to reconsider the realist IPE enterprise and, in particular, its capacity to explain US trade policy outcomes in the postwar period. This paper focuses on two questions: to what extent has the international political-economic structure, and the US position in that structure, determined the shape of US trade policy over the last five decades; and is it sensible to grant theoretical primacy to international constraints and incentives over domestic factors influencing US trade policy behaviour? While discussions of theory in the midst of real-world disorder may strike some observers as ridiculously removed from the main game, important normative implications follow from theoretical debates, if only where the task is to apportion blame when things go wrong. Our theories, as Ikenberry (1996: 11) has observed, ‘tell us who should be held accountable in the conduct of foreign policy’.

This paper cautions against a rush to realism (and structural theories in general) as an explanation of US foreign economic policy. It argues that realism is theoretically inadequate in seeking to explain the substantive content and underlying causal mechanisms of postwar US trade policy. Empirical anomalies have bedevilled realist IPE scholars in terms of both the general persistence of US trade openness and the sectoral pattern of US protection. Realist conceptions of international structure are (at best) theoretically permissive and recognise multiple sources of policy indeterminacy. As in other areas of international politics, international structure ‘has proved to be a weak predictor of state action and has had to be “supplemented”, often in an *ad hoc* way, with nonsystemic explanations’ (Haggard 1991: 404). The central lesson which follows from the indeterminacy of structural theory is that state preferences matter. Accounting for the content of trade policy requires exploring the process of domestic trade preference formation, not simply the international distribution of state capabilities or power. The central question is whether the state’s external position is likely to be the *dominant* source of state trade preference. Realism diverts theoretical attention away from state–society relations with an unjustified assumption that international level analysis should receive primacy.

The second section of this paper looks at how the realist conceptualisation of US trade policy has measured up against the broad patterns of US openness and protection since World War II. It suggests that the realist link between international structure, state trade interest and US policy outcomes is not strong. Contrary to the research program of Robert Gilpin and

Stephen Krasner (representative of 'first generation' IPE realists), the central decision makers in the American state (defined as the executive branch of government) have maintained a generally pro-openness trade preference despite a shift in the structural economic position of the United States. And, contrary to David Lake's 'second generation' neorealism (informed by Waltz (1979)), societal pressures for sectoral protection rather than state strategic trade motivations provide a more compelling explanation of US departures from openness.

The third section examines more closely the theoretical limitations of realism and other international structural theories of trade policy which are based on the premise that state trade preferences can be assumed with limited reference to domestic (unit-level) variables. The interrelated problems of indeterminate policy outcomes from systemic parameters and theoretical neglect of state–society relations limit the capacity of systemic theory to explain the substantive content of US policy. Theoretical attention to the process of domestic trade preference formation grounded in state–society relations seems a necessary component in analysing pressures for change and continuity in US trade policy.

## **Realism, US decline and US openness**

Realism focuses on the unitary, rational state's struggle for power, wealth and security. Power identifies the capabilities of states and, because relative power is considered crucial to the success of many other ends, power is also a primary goal (Caporaso 1993: 461). Power capabilities tend to be operationalised as material capabilities or resources, and states are distinguished only by their relative power in the international system. Hence, they are assumed to have 'stable and broadly similar domestic preferences, decision-making procedures, and abilities to extract resources from society' (Moravcsik 1993: 5). In a world of 'anarchy', the relative gains motive (how states fare relative to other states) is assumed to dominate mutual interest in absolute gains (how states fare in and of themselves), limiting severely the scope for international cooperation. In the international economy, realists assume that powerful states structure economic exchange in pursuit of the complementary goals of power, wealth and security. Such variables as the distribution of world output, trade and direct investment, relative per capita income and relative productivity constitute the international economic structure. Realists consider departures from free trade to be rational state behaviour given the state's non-economic objectives (security and power), and/or

because of economic gains from protection. In this vein, realist IPE is the lineal descendent of state-centred mercantilism.

Not surprisingly, strands of variation among realists have accompanied different research questions and variations in the dependent variable. Realism appears most powerful as a parsimonious theory of patterns of order and disorder in international politics. Translating it to the realm of foreign policy behaviour usually carries certain caveats. Thus, for example, Waltz (1979: 72, 77) deliberately draws a distinction between his structural realist theory of international politics and a theory of foreign policy. Nonetheless he maintains that the enduring importance of national security and relative power calculations is such as to shape and constrain policies 'toward a common quality of outcomes even though the efforts and aims of agents vary' (Waltz 1979: 74). Given the primacy of survival under anarchy, realists look to the incentives and constraints of the international political-economic structure as being the primary factors shaping and constraining foreign economic policy behaviour.

Evaluating realist IPE's explanatory leverage over postwar US trade policy involves probing the links between international structure, state trade interests and policy outcomes. In approaching this task it is useful to distinguish between two generations of IPE realists. For the first generation — in particular Robert Gilpin and Stephen Krasner — the main dependent variable is the openness or closure of the international economic system. Along with Kindleberger (1973), they follow HST and the argument that a powerful hegemon is necessary for the maintenance of an open and stable international economic order. Relative US decline is expected to lead to a less open, more unstable international economy as the former hegemon becomes less willing and able to bear the costs of maintaining openness. Although the trade policy of the hegemon is not the central focus of HST, the link drawn by Gilpin and Krasner between change in the US relative economic position and change in state trade interest is sufficiently strong to predict increasing US trade closure after hegemonic decline.

Second generation 'neorealists' — for example, David Lake and Joseph Grieco — focus more narrowly on the trade policy preferences of states. The influence of Waltz's (1979) parsimonious theory of structural realism informs their efforts to build stronger micro-foundations to explain the international sources of foreign economic policy. Lake seeks to solve HST's puzzle of continued US openness following relative decline by developing a more detailed conception of the international economic structure. He concludes that, contrary to



HST, a single hegemon is neither necessary nor sufficient for continued international economic openness. A non-hegemonic economic structure of multiple, medium-sized, relatively productive states can provide the structural conditions for openness. Drawing on strategic trade theory, Lake suggests that the US state has had incentives for 'increasing returns' or strategic trade protection since the mid 1960s, but fear of retaliation by other trading partners has been crucial in keeping this trade preference at bay.

### ***Gilpin and Krasner: it takes a hegemon***

Robert Gilpin (1971, 1975, 1977, 1981, 1987) pioneered modern realist analysis of international economic relations. Emphasising the state-centred, political foundations of the international economic system, Gilpin challenged alternative intellectual trends focusing on the role of non-state actors and the mitigation of conflict due to economic interdependence (Keohane and Nye 1972, 1977). His organising concept of 'economic nationalism' embodies the idea that 'economic activities are and should be subordinate to the goal of state building and the interests of the state' (Gilpin 1987: 31). A continuing theme of Gilpin has been the gloomy implications for the international trading system of relative US decline. His argument that 'a liberal international economy requires a power to manage and stabilize the system' is at the core of HST (Gilpin 1975: 40).

For Gilpin, the liberal international economy after World War II rested on the structure of world power, and in particular the hegemonic power of the United States. The United States 'emerged as the dominant power and reordered international economic and political relations in accordance with its primary interests' (Gilpin 1977: 47). By launching the Bretton Woods institutions and leading the General Agreement on Tariffs and Trade (GATT) negotiations on trade liberalisation, the United States ensured that the world economy moved in a liberal direction. Indeed, 'behind the facade of these institutions, the United States has run the international economy' (Gilpin 1977: 56). The preponderant power position of the United States meant that it could support international openness and stability even while permitting allies in Europe and Japan to depart from reciprocal open trade under cover of the bipolar security struggle with the Soviet Union. Gilpin maintained, however, that US hegemony was to be short-lived, linking increasing instability in the world economy from the late 1960s to US decline in the face of increasing Soviet military power and the rise of Western Europe and Japan as economic competitors. Writing in the mid 1970s, Gilpin sketched a range

of scenarios for the international economy, suggesting that the 'most likely' saw the US-led economic order 'break down and fragment into conflicting imperial systems or regional blocks' (Gilpin 1975: 72). By the 1980s 'the Pax Americana was in a state of disarray' (Gilpin 1981: 231). The implication of Gilpin's theory of hegemonic rise and decline was a change in the international power structure, sweeping the United States along in a general tide of rising protectionism and economic nationalism.

Two points should be kept in mind when assessing Gilpin's relevance to theoretical debates about the determinants of US trade policy. First, his brand of realist theory is eclectic, drawing on aspects of liberal and Marxist thought. Second, given that his central focus is on systemic outcomes (international openness and stability) rather than national trade policy, Gilpin's approach is bound to be theoretically permissive. Nevertheless, the realist links between international structure and US state trade interests are fairly clear, at least in Gilpin's earlier work. Hence, international politics is defined as 'a recurring struggle for wealth and power among independent actors in a state of anarchy' (1981: 7). For nation states, the essence of that struggle is 'to improve or preserve their relative power positions' (Gilpin 1975: 35). A hegemon's structural power is defined in terms of its political and military strength and economic efficiency. At some points, Gilpin seems to imply that only the most 'efficient' nation finds free trade in its interests, but his argument also relies on the collective goods approach to international economic relations advanced by Kindleberger (1973). In any event, 'after a brief three decades' of economic dominance 'the international economy confronts the dangers accompanying the relative decline of American hegemony' (Gilpin 1987: 78, 80). In this setting, 'undoubtedly the most prominent feature of the emergent trading regime and the most significant departure from historic patterns will be the expansion of sectoral protectionism'. Gilpin (1987: 230) maintains that this new era of economic nationalism and strategic trade protection demands that the United States overcome its free trade ideology which 'has become unrealistic under the present circumstances'.

Stephen Krasner (1976, 1978, 1979, 1982) is the other writer commonly associated with both first generation realist IPE and HST.<sup>2</sup> Like Gilpin, Krasner's primary focus is on international openness and stability rather than national policy, but his state power model draws explicit links between international structure and state trade interests. His starting point is that 'the structure of international trade is determined by the interests and power of states acting to maximize national goals' (Krasner 1976: 317). In line with HST, the central conclusion Krasner (1976: 323) draws is that 'openness is most likely to occur during periods

when a hegemonic state is in its ascendancy'. Krasner defines a set of indicators to denote the distribution of state 'potential power' in the international economic system: aggregate size, relative per capita income, share of world trade and share of world investment. States are assumed to seek a broad range of goals: aggregate income, social stability, political power and economic growth. Krasner calibrates the relationship between state interest and economic openness across two dimensions: the relative size and relative level of development of an economy. Each of the four national goals is linked to some optimal degree of economic openness.

***Aggregate national income*** Krasner accepts the implication of neoclassical trade theory that national income is positively related to openness, but argues that these static benefits are inversely related to size. Smaller states gain relatively more than larger states characterised by extensive factor endowments or potential for national economies of scale.

***Social stability*** Because greater openness exposes the national economy more to the exigencies of the world market, social stability is considered inversely related to openness. Krasner suggests that this relationship is mitigated for larger economies (given that a smaller share of their factor endowment is affected by the international market) and for more developed economies (given that skilled workers are better able to adjust to changing production patterns).

***Political power*** Drawing on the work of Hirschman (1945), Krasner argues that the relationship between political power and openness turns on the relative opportunity costs of closure across countries. A state that is relatively large and more developed will find its political power enhanced by an open system because its opportunity costs of closure are less. Moreover, a large state 'can use the threat to alter the system to secure economic or noneconomic objectives' (Krasner 1976: 320).

***Economic growth*** Krasner (1976: 321) describes as 'elusive' the relationship between potential economic power and economic growth. In the case of a large, developed economy the national interest calculus depends on whether the benefits of openness (larger markets and the competitive spur for ongoing technological advancement) outweigh the potential costs (transfer of resources and knowledge from the domestic economy, allowing other states to

develop competing industries). Krasner (1976: 321) observes that the evidence on this question 'is not yet in'.

Krasner views a hegemonic state as having a clear preference for an open structure during its ascendancy, while it can use its symbolic, economic and military capabilities 'to entice or compel others to accept an open trade structure' (Krasner 1976: 322). Like Gilpin, Krasner alludes to the bipolar political structure of the Cold War which led the United States to accept European discrimination and Japanese import restrictions 'to make sure these areas remained within the general American sphere of influence' (Krasner 1976: 337). US ascendancy is dated from 1945 to 1960. The state power explanation of international openness is persuasive in relation to this period — tariffs fell, trade flows recovered above interwar levels, and regionalisation of trade began to decline.<sup>3</sup> Krasner concedes, however, that his realist theory of trade policy has difficulty explaining the continuation of trends towards openness from 1960 to the mid 1970s. He cites evidence that the United States has remained more open than the theory would predict on the basis of its relative economic decline as measured by share of world trade and relative per capita income. Krasner (1976: 341) amends his state power theory of trade interests, suggesting there is likely to be a lag until a crisis sees the state adjust policy:

Systems are initiated and ended, not as a state-power theory would predict, by close assessments of the interests of the state at every given moment, but by external events — usually cataclysmic ones.

Following its relative decline, the United States has been 'prevented from making policy amendments *in line with state interests* by particular societal groups whose power had been enhanced by earlier state policies' (Krasner 1976: 318) (emphasis added). Hence, Krasner does not question the theory's fundamental proposition that change in the US position in the international system has reshaped the state's trade interests towards increased trade closure.

In summary, one of the fundamental tenets of first generation realist IPE was that international economic openness after World War II rested precariously on US hegemonic power. Both Gilpin and Krasner maintain that a relative US decline should see the state move away from openness, in the national trade interest, though they recognise obstacles to such

a policy shift. What, then, has been the evidence on both the US position in the world economy and trends in openness since World War II?

### ***International economic position and trade openness of the United States***

Gilpin and Krasner look at a range of indicators of the relative position of the US in the international economic system to identify the relative decline in US economic power since World War II. These include: the relative size of the US economy (Gilpin 1975, Krasner 1976); relative economic growth rates (Gilpin 1975, Krasner 1976); relative per capita income (Krasner 1976); relative productivity performance (Gilpin 1977); the relative US share of world trade (Krasner 1976); and the relative US share of foreign direct investment (FDI) (Gilpin 1975, Krasner 1976).

Measured on a purchasing power parity (PPP) basis, since 1950 the US share of world output has fallen from around 27 per cent to below 20 per cent. In a long-term context, this figure is comparable with US output shares in the interwar period, and above the US share at the start of the twentieth century (Table 1). The bulk of the post World War II decline took place between 1950 and 1970 — a period of very rapid recovery and growth in Japan and Western Europe. Since 1970, the US relative output share has declined only marginally, with

**Table 1 Shares of select nations in world output (%)**

	USA	Japan	China	former USSR	Germany	UK	France
1900	15.8	2.5	13.2	7.8	5	8.9	5.8
1913	19	2.5	11	8.5	5.3	7.9	5.3
1929	22.8	3.3	10.3	6.4	4.8	6.5	5.2
1950	27.1	2.9	6.2	9.5	4	6.4	4.1
1960	23.9	4.3	6.9	10	5.6	5.3	4
1970	22.1	7.1	6.5	9.8	5.2	4.3	4.2
1980	20.8	7.7	7.2	8.5	4.7	3.6	4
1992	19.7	8.6	12.9	4.9	4.5	3.3	3.7

*Note:* Multilateral comparisons using the Geary-Khamis approach based on PPP and international average prices of commodities.

*Source:* Maddison (1995); sample 199 countries.

larger proportionate falls being registered by the major European economies and the former USSR. The output share of Japan continued to climb until the early 1990s, while China's share has grown significantly since the 1970s.

Focusing on the advanced industrial economies, the US share of total Group of Seven (G7) output fell by around ten percentage points between 1950 and 1970, but remained fairly stable at around 45 per cent through to the mid 1990s (Table 2). By 1990, Japan's share had risen to almost 20 per cent of G7 output, while the individual shares of the major European economies had fallen relative to their postwar peaks. Comparative growth rates further illustrate that relative US economic decline among the large developed economies was concentrated in the high-growth, 'catch-up' phase from 1950 to 1973 (Table 3). Japan was the best performer over the subsequent two decades of slower GDP growth, but the United States has outperformed the major Western European nations.

**Table 2 Shares of select nations in G7 output (%)**

	USA	Japan	Germany	UK	France
1950	55	5.9	8.1	13	8.2
1960	49.5	8.9	11.5	11	8.3
1970	45.5	14.7	10.8	8.9	8.8
1980	44.8	16.5	10.2	7.7	8.7
1990	44.3	18.6	9.6	7.6	8.2
1994	45	18.6	9.7	7.3	7.9

*Source:* Maddison (1995).

**Table 3 Real GDP growth in advanced industrial nations (%)**

	USA	Japan	Germany	UK	France
1950–73	3.9	9.2	6	3	5
1973–94	2.5	3.6	2.2	1.7	2.1

*Note:* Based on annual average growth rates.

*Source:* Maddison (1995).

Comparisons of per capita gross domestic product (GDP) and productivity are also used by realists to identify the erosion of US economic hegemony. Using PPP measures, US per capita GDP was more than five times that of Japan and more than twice that of Germany in 1950 (Table 4). Both these economies had moved to within approximately 15 per cent of US per capita GDP by the mid 1990s, with the most rapid convergence occurring in the first half of the postwar period. Higher growth rates in labour and total factor productivity in Japan and Germany, compared with the United States, have propelled this convergence (Table 5). But whereas Germany's labour productivity level had almost caught up with the US level by the early 1990s, Japan still lagged about 30 per cent below the US figure as measured by GDP per hour worked (Table 6). At the same time, Japan's output and per capita income growth

**Table 4 Real GDP per capita in industrial countries**

	Japan	Germany <sup>a</sup>	USA
1950	19.6	44.7	100
1973	66.3	79.2	100
1994	86.4	84.6	100

*Note:* <sup>a</sup> Figures in Tables 4–6 relate to former West Germany.

*Source:* Maddison (1995).

**Table 5 Productivity growth in major industrial countries (%)**

	Japan	Germany	USA
<b>Labour productivity</b>			
1950–73	7.7	6	2.7
1973–92	3.1	2.7	1.1
<b>Total factor productivity</b>			
1950–73	5.1	4.1	1.7
1973–92	1	1.5	0.2

*Note:* Based on annual average growth rates.

*Source:* Maddison (1995).

**Table 6 Productivity levels in major industrial countries (GDP per hour worked)**

	Japan	Germany	USA
1950	16	35	100
1973	48	71	100
1992	69	95	100

*Source:* Maddison (1995).

**Table 7 Capital-labour ratio in advanced industrial countries (Gross non-residential capital stock per person employed)**

	Japan	Germany	USA
1950	13	32	100
1973	41	68	100
1994	101	91	100

*Source:* Maddison (1995).

have been driven to a greater degree by very high rates of capital accumulation which have seen Japan's capital-labour ratio surpass the equivalent figure for the United States (Table 7).

The United States has continued to account for the largest share of world trade since World War II although trends for merchandise exports and imports have diverged since 1980s, reflecting movements in the overall US external trade position (Table 8). The US merchandise export share fell from 16.9 per cent in 1950 to 11.7 per cent in 1980. Imports declined more or less in tandem, from 15.4 per cent to 12.9 per cent, over the same period. Since then, the US share of world exports has been broadly stable, but the US share of world imports has risen to levels higher than those of the 1960s and 1970s on the back of continuing large US trade deficits. Germany surpassed the United Kingdom as the world's second largest trader in the 1960s and was briefly the world's largest exporter around 1990, before the United States reattained that position. Realists consider the power implications of trends in US trade shares as mixed. The decline in export shares is usually interpreted as a sign of



**Table 8 World trade shares of select nations (%)**

	USA		Japan		Germany		UK		France	
	X	M	X	M	X	M	X	M	X	M
1950	16.9	15.4	1.4	1.5	3.4	4.3	10.7	11.7	5.2	4.9
1960	16.1	12.6	3.3	3.5	9.3	7.8	8.7	10.1	5.6	4.8
1970	14.3	13.5	6.5	6.0	11.5	9.5	6.5	7.0	6.0	6.1
1980	11.7	12.9	6.8	7.1	10.0	9.4	5.7	5.8	6.0	6.7
1985	11.8	18.2	9.6	6.7	9.9	8.2	5.5	5.6	5.5	5.6
1990	11.7	14.9	8.5	6.8	12.1	10.0	5.5	6.4	6.4	6.8
1995	11.5	15.0	8.7	6.5	10.3	9.0	4.8	5.1	5.6	5.4

Note: X= merchandise exports; M= merchandise imports.

Source: IMF, *International Financial Statistics*, various issues.

eroding power. On the other hand, high import shares point to a major source of leverage in international trade bargaining (Webb and Krasner 1989: 189).

The US share of the stock of Organisation for Economic Cooperation and Development (OECD) FDI abroad has fallen significantly from over 50 per cent in 1970 to less than 30 per cent in the mid 1990s (Table 9). The United Kingdom retains the second largest stock of outward FDI at 13.5 per cent, but the rapid growth in Japan's FDI in the 1980s has seen its international FDI position reach a comparable level. The Japanese share of FDI outflows exceeded that of the United States in the 1980s, although the US proportion recovered in the first half of the 1990s (Table 10). In line with the large US current account deficits in the 1980s,

**Table 9 Shares in FDI stock abroad – select OECD nations (%)**

	USA	Japan	Germany	UK	France
1970	53.6	n.a.	n.a.	16.6	n.a.
1980	46.7	n.a.	n.a.	17.0	n.a.
1985	41	7.8	6.5	17.9	n.a.
1990	28.5	13.3	7.4	15.3	6.5
1994	29.2	13	10	13.5	7.4

Note: Figures for 1970 and 1980 from Webb and Krasner (1989).

Source: OECD, *International Direct Investment Statistics Yearbook*, various issues.

**Table 10 Shares in OECD cumulative FDI investment flows (%)**

	Outflows		Inflows	
	US	next highest	US	next highest
1971–80	44.4	18.2 (UK)	29.9	21.5 (UK)
1981–90	17.1	18.1 (Japan)	42.9	15.3 (UK)
1991–95	30.3	12.7 (UK)	19.8	12.3 (UK)

Source: OECD, *International Direct Investment Statistics Yearbook*, various issues.

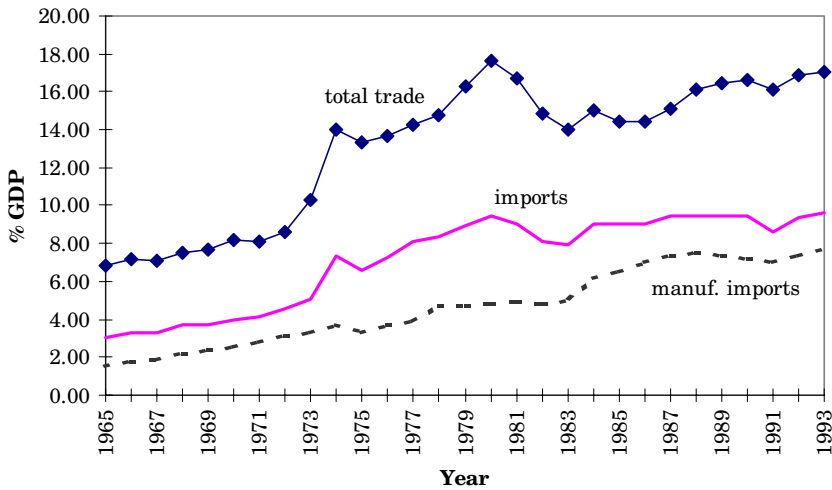
the US share of FDI inflows into the OECD rose sharply compared with the 1970s, but has since fallen back.

The data suggest that the relative margin of US economic capabilities has eroded, but that the experience of relative US economic decline since World War II has been an uneven one. In terms of output, trade shares, per capita GDP and productivity convergence, most of the relative decline in America's international economic ascendancy occurred between 1950 and 1970. Based on these measures, the US international economic position was broadly stable over the subsequent 25 years. Japan's position continued to advance up to the early 1990s, while in some areas the major industrial nations of Western Europe declined after achieving postwar peaks before 1970. China's rapid growth has given it an increasing aggregate presence in the world economy since the 1970s, but it remains much less developed in terms of per capita income and productivity. Change in the international financial position of the United States has been more pronounced since 1970. In summary, while the United States remains the major state actor in the world economy in terms of aggregate economic capabilities, its relative position has clearly deteriorated.

What has been the relationship between US relative economic power capabilities and trade policy outcomes? In general, the level of openness of the US economy has exceeded the expectations of first generation realists even though the actual mechanisms by which changes in the US international economic position would translate into trade policy behaviour were never clearly specified in simple HST. Trade openness is not well-defined in political-economy analysis but it is usually taken to encompass both actual trade flows and the policy instruments designed to influence imports (Krasner 1976, Webb and Krasner 1989, McKeown 1991). The United States has continued on a steady path of trade integration into the international economy in the past 30 years (Figure 1). Total merchandise trade (exports plus

imports), total imports and manufactured imports have continued to rise as a share of US GDP. Import volumes rose at an annual growth rate of 6.2 per cent between 1965 and 1995, and there is evidence of increasing import elasticity in the US economy in the 1990s (Table 11).

**Figure 1 US merchandise trade shares**



Source: World Bank.

**Table 11 US import experience (annual average growth rates) (%)**

	Volume of imports	Import elasticity
1965–70	9.7	3.2
1970–75	2.9	1.3
1975–80	6.1	1.8
1980–85	6.8	2.7
1985–90	4.9	1.8
1990–95	7	3.7
1965–95	6.2	2.4

Note: Import elasticity is the ratio of change in import volume to change in real GDP.

Source: IMF, *International Financial Statistics*, various issues.

As to policy instruments, the general picture is one of low tariffs and pockets of high protection due to non-tariff barriers (NTBs), but no generalised move towards trade closure by the United States. Fifty years of GATT-based tariff bargaining saw the trade-weighted tariff average of the United States fall to 3.5 per cent by the mid 1990s, following the Uruguay Round (Table 12). All tariff rates are bound and 40 per cent of US imports are duty free (Table 13). The major long-term departures from this general postwar trend towards increasing openness have been in parts of the agriculture and textiles and apparel sectors.<sup>4</sup> In addition, since the late 1960s a number of standardised-technology manufacturing industries with long-term structural adjustment problems have gained varying levels of protection. A period of low growth, exchange rate appreciation and rapid deterioration in the US trade deficit in the first half of the 1980s saw industries such as steel, automobiles and machine tools secure voluntary export restraint protection, suggesting a rising tide of NTB protection.

Measurement problems mean that accurate data on long-term trends in NTB protection, and especially the intensity of such trends, are not readily available. But the best estimate is that the share of US imports affected by some form of NTB increased from 36 per cent in 1966 to 45 per cent in 1986 (Laird and Yeats 1990). Data compiled by the OECD (1996) suggest that during the late 1980s and early 1990s approximately 20 per cent of US tariff lines were subject to NTBs (Table 14). As to the intensity of protection in the United States, Hufbauer and Elliott (1994: 8, 9) calculated that tariff equivalents in 1990 for six sectors receiving high NTB protection ranged from 23.4 per cent for textiles to 85 per cent for

**Table 12 US tariff reductions by GATT round**

	Cut in all duties (%)	Remaining duties (% 1930s tariffs)
Pre-GATT (1934–47)	33.2	66.8
Geneva, 1947	21.1	52.7
Annecy, 1949	1.9	51.7
Torquay, 1950–51	3	50.1
Geneva, 1955–56	2.5	48.9
Dillon Round (Geneva), 1961–62	2.4	47.7
Kennedy Round, 1964–67	36	30.5
Tokyo Round, 1974–79	29.6	21.2

Source: Lavergne (1983: 32, 33).

maritime services. They suggest that of 21 sectors receiving unusually high protection in 1990, three-quarters of the potential consumer surplus loss was in textiles and apparel while the costs of protection in other unusually protected sectors had fallen significantly since 1984 (Figure 2). This suggests that progress has been made in winding back a significant element of the NTB protection erected in the late 1970s and first half of the 1980s.

**Table 13 US tariff rates**

	Trade-weighted tariff averages (%)	% imports at bound rates	% imports duty free
pre-Uruguay Round	5.4	99	10
post-Uruguay Round	3.5	100	40

Source: Hoda (1994: 47–49).

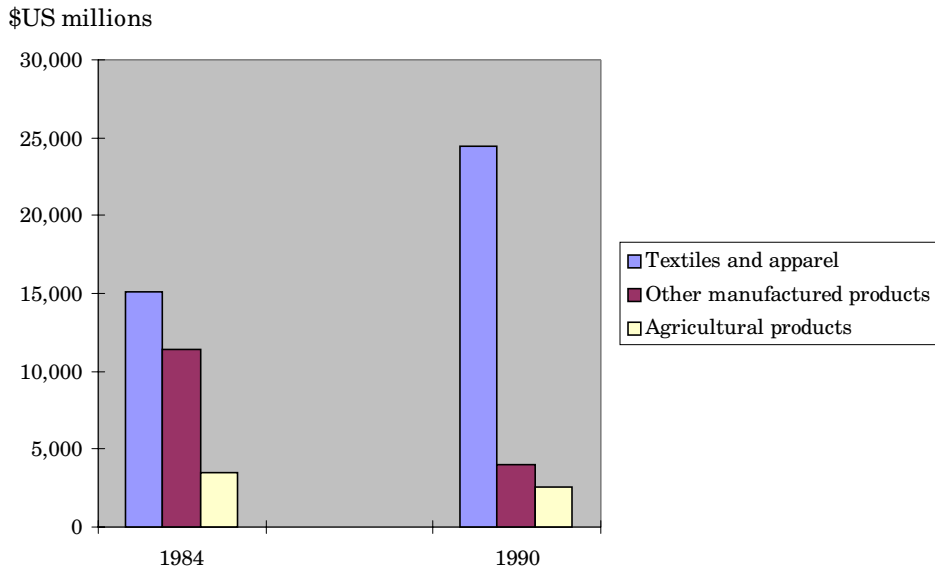
**Table 14 Non-tariff barriers in the US (%)**

	Frequency ratio <sup>a</sup>		Import coverage ratio <sup>b</sup>	
	1989	1993	1988	1993
<b>All NTBs</b>	25.5	22.9	16.7	17
<b>Quantitative Restrictions (QRs)</b>	20.4	18.1	13.7	10.2
export restraints	19.5	13.1	12.9	10.1
non-automatic licensing	0	0	0	0
other QRs	6.6	5.6	1.1	0.2
<b>Price Control Measures (PCMs)</b>	17.8	10.8	3.6	7.3
variable charges	0.1	0	0.1	0
antidumping/countervailing duties and voluntary export price restraints	17.8	10.8	3.4	7.3
other PCMs	0	0	0	0

Note: a The frequency ratio indicates the proportion of national tariff lines affected irrespective of whether the products affected are actually imported.

b Import coverage ratios are import-weighted frequency ratios.

Source: OECD (1996: 46).

**Figure 2 Cost of special protection in the US**

Source: Hufbauer and Elliot (1994).

Based on both trade flows and trade policy instruments, the general picture is one of continued trade openness in the United States but with a few sectors favoured by high protection. Simultaneous moves towards greater openness in some areas and increased closure in others (such as in the administration of anti-dumping laws) make neat conclusions about trends in US protection difficult to draw, but Uruguay Round commitments point to a continued broad US commitment to openness. What is clear is that the type of generalised, state-sanctioned movement away from openness conjured up by first generation realists has not occurred. The extent to which the US market has remained open remains an empirical anomaly for proponents of simple HST.

It is worth examining briefly the responses of first generation IPE realists to the accumulation of evidence that both the international trading system and US trade policy have remained more open than HST would have predicted. Robert Gilpin has accepted as legitimate a range of criticisms of his earlier work. He concedes that HST overemphasised 'the role of the state and of political factors in the existence and operation of the international

market economy' and underemphasised 'the importance of motivating ideologies and domestic factors, of social forces and technological developments, and of the market itself in determining outcomes' (Gilpin 1987: 91). He acknowledges that critics of HST 'have correctly noted its limited scope, its inability to demonstrate a close association between power and outcome, and its failure to predict when and how the hegemon will act in particular instances' (Gilpin 1987: 91). Most tellingly, Gilpin departs markedly from deterministic versions of structural realism, stating that: 'Commercial policy is determined primarily by domestic coalitions and interests, or what Ruggie has called "social purpose"' (Gilpin 1987: 86).<sup>5</sup>

Stephen Krasner has also acknowledged the role played by powerful societal forces in sustaining openness, or at least a 'differentiated regime with some sectors characterized by greater liberality and others by more closure' (Krasner 1979: 491). In such an environment, 'there is no internal dynamic leading to closure of the trading system' (Krasner 1979: 493). In a systematic review of HST written more than a decade after the publication of Krasner's original state power theory, he and Webb concluded that 'the world economy has performed too well, and remained too open' for HST, as commonly understood, to apply (Webb and Krasner 1989: 195). Rather than retire the theory, Webb and Krasner sought to rehabilitate HST, or more specifically a 'security version' thereof. They did so by drawing on a thread in first generation realist IPE which noted 'the implications of international economic transactions for state power and national security' (Webb and Krasner 1989: 184).

Webb and Krasner (1989: 184) reoriented HST around the Cold War, though conceding that the bipolar political struggle 'did not play a central role' in the earlier realist analyses of the international political economy. In this security version of HST, the Cold War bipolar conflict 'not only led the United States to follow open-handed policies during the immediate post-war period... [but also] continued to vitiate concerns about relative gains among alliance members' (Webb and Krasner 1989: 197). According to Webb and Krasner (1989: 196), bipolarity 'supports the basic orientation of the security versions of the hegemonic stability thesis even as it helps to explain why the specific analytic arguments associated with this approach have not been sustained by recent empirical evidence'. Nevertheless, the implication is that any dramatic change in the bipolar political structure (say, the collapse of the USSR) should trigger a significant readjustment of US trade interest away from openness. There is no reference to what, if any, lag may apply to this relationship. To date, a tight link between the Cold War and US openness to trade remains to be demonstrated.

***Lake: strategic trade at bay***

The 1980s saw a number of challenges to simple HST's conclusions about the implications for the international trading system of relative US decline. Many writers emphasised the role played by international institutions or regimes in maintaining the international economic order following the US economic decline (Krasner 1983, Keohane 1984). For others, the main problem with HST was not that it neglected the role of international institutions, but that it failed to describe the international economic power structure in sufficient detail. David Lake (1984, 1988) sought to reassert the primacy of the international economic structure in realist IPE and in explanations of US trade policy. His approach was deemed:

a deductive, systemic-level theory of national trade interests which attempts to specify the conditions and circumstances that stimulate rational power- and wealth-seeking nation-states to pursue free trade, protection, or some combination of both' (Lake 1988: 3).

Representative of the second generation of realist IPE theorists, Lake is more closely aligned with Waltz's structural realism than with Gilpin's more eclectic classical realism. He formally hypothesises that 'nation-states will normally give priority to the constraints and opportunities of the international economic structure' in determining trade policy preferences given 'the anarchic nature of the international system and the consequent need to ensure national survival in a competitive environment' (Lake 1988: 64).

Lake (1988: 4) finds 'strong support' for his international structural theory of US trade strategy between 1887 and 1939 — a period he divides into four different international economic structures. He concludes that 'despite the disproportionate authority granted to Congress, American trade strategy from 1887 to 1939 did reflect the constraints and opportunities of the international economic structure' (Lake 1988: 87). Updating his case study, Lake offers a structural interpretation of US trade policy since World War II which challenges both domestic-level accounts and simple HST. In contrast to HST's pessimism about the consequences of relative decline for US openness, Lake characterises the United States as evolving from possessing hegemonic status to being one of a number of actors whose temptations towards protection are held at bay by the constraints of the international economic structure.



Lake's approach defines the international economic structure along two dimensions: relative size, and relative labour productivity. 'Size' is determined by a country's proportion of world trade (exports plus imports), and 'productivity' by national output per worker-hour relative to the average national output per worker-hour in the other middle-sized or large countries. The key trade thresholds are less than five per cent of world trade (small countries), between five and 15 per cent of world trade (middle-sized countries), and above 15 per cent of world trade (large countries). The demarcation between relatively high and low labour productivity countries is 1.0. Across these dimensions, Lake identifies seven categories of nation states, each with its own trade strategy preferences ordering. Different international economic structures are distinguished by the number of middle-sized and large nation states present in the international economy.

A full specification of Lake's structural theory is outside the scope of this paper. But its implications for postwar US trade policy can be explored based on the identified international economic structures and the position of the United States within those structures. Lake identifies three different structures since 1945: US hegemony (1945–65), US–West German bilateral opportunism (1965–75), and US–West German–French multilateral opportunism (from 1975).<sup>6</sup> The trade interests of two categories of nation state are relevant to understanding postwar US trade strategy: a 'hegemonic leader' (HL — large and above average productivity), and an 'opportunist' (OP — middle-sized and above average productivity). According to Lake's theory, the United States was an HL from 1945 to 1965, and has since been an OP. Given above average productivity, both HLs and OPs are assumed to share a strong interest in free trade abroad but also have incentives for protection at home.

Lake's neorealist theory of protection draws on the familiar optimal tariff argument, but more fundamentally relies on the strategic trade policy literature and the case for protection of industries with increasing returns to scale. Movement into increasing returns in capital-intensive industries is deemed 'an almost universal goal of economic statecraft' (Lake 1993: 475). While HLs are assumed to have an incentive for optimal tariff protection, OPs are assumed to have a relatively higher incentive for increasing returns protection. The differing incentives for increasing returns protection reflect in part the role of the Keynesian 'open economy multiplier' and the presumed differential impact of imports and exports. Lake (1988: 27) claims that:

[I]ncreased exports or a reduction in the marginal propensity to import (conditions often reflected in a trade surplus but not necessarily so by definition) ... create virtuous cycles of growth whereas decreased exports or a higher marginal propensity to import can initiate vicious cycles.

Lake deduces that HLs have a dominant strategy of free trade at home regardless of the policies of others (FT/FT).<sup>7</sup> The HL's optimal tariff is considered low in the presence of actors able to retaliate and, because a HL's exports are at least partially endogenous, increasing returns protection is assumed to end up inhibiting exports and reducing the open economy multiplier. Thus, the HL's preference ordering is given as: FT/FT > FT/P > P/FT > P/P. In contrast, OPs have a greater incentive for increasing returns protection, given their limited market power and exogenous exports. In addition, an OP may have free-rider incentives if an HL assumes the task of maintaining the public good of international economic stability. As a result, Lake deduces that an OP's first preference is protection at home and free trade abroad (P/FT), and its overall trade preference ranking is given as: P/FT > FT/FT > P/P > FT/P.

Using simple game-theoretic models, Lake argues that a hegemonic economic structure (centred around a single large, relatively productive economy) is neither necessary nor sufficient for a liberal international economy. It depends on whether the HL has the capacity to pay both the 'price of compliance' and the 'price of infrastructure' in the international economy. The 'price of compliance' refers to the need for negative sanctions or positive inducements by the HL to entice other actors to accept universal free trade. In addition to OPs, a number of other categories of states are deduced to have a first preference for protection at home and free trade abroad: 'liberal free riders' (small and above average productivity), 'spoilers' (middle-sized, below average productivity and large domestic market), and 'protectionist free riders' (small, below average productivity and large domestic market). The HL needs to gain sufficiently from universal free trade in order to 'directly alter the costs and benefits of free trade that spoilors, protectionist free riders, opportunists, and liberal free riders face as a result of their positions within the international economic structure' (Lake 1988: 50). HLs also have to pay the 'price of infrastructure' — in other words, ensure that 'relatively strong monetary, transit, and financial regimes be created or maintained and that the international economy be stabilized' (Lake 1988: 51). In summary, a liberal international economy will arise only when the net benefits to the HL from universal free trade at least cover the price of compliance and the price of infrastructure. As an aside, Lake notes the historical

use by hegemons of their political-military power to ensure compliance by others with a free trade regime.

Challenging simple HST, Lake's approach asserts that the absence of a HL does not ring the death knell for a liberal international economy. A free trade regime is consistent with a structure of bilateral or multilateral opportunist states, even though their trade preferences are more ambiguous than under a hegemonic economic structure. Two or more OPs are assumed to confront a classic prisoner's dilemma — they cannot simultaneously obtain strategic trade protection at home and free trade abroad — so that the incentives for cooperation become critical. Drawing on the repeated games and regimes literature, Lake (1988: 55) concludes that cooperation can be expected to occur when multiple plays of a game are possible and/or when the parties are able to structure a regime to constrain their self-seeking behaviour. As in the case of a single HL, for the free trade regime to be universal any subset of OPs must pay both the necessary costs of compliance by other actors and the costs of infrastructure. In addition, there are 'costs of negotiation' which are assumed to rise as the number of OPs increases. In the end, OPs will cooperate to bring about a liberal international economy 'only when the net benefits of free trade for the opportunists, less the costs of negotiation, and less the price of infrastructure, exceeds the price of compliance of the other nation-states' (Lake 1988: 55).

How does Lake apply his structural theory to explain the links between the international economic structure, US state trade interests and policy outcomes over the postwar period? Lake describes the period from 1945 to 1965 as a 'Pax Americana' during which the United States led the international economy towards freer trade. As an HL, the United States possessed both the desire and the capacity to pay the price of compliance and the price of infrastructure. In the mid 1960s, the United States evolved from a HL into an OP as its share of world trade fell below 15 per cent. West Germany moved from being a spoiler to being an OP at about the same time, while France followed a similar path about a decade later. Despite its newly acquired preference for increasing returns protection at home, structures of bilateral and multilateral opportunism have maintained US openness. More specifically, some combination of fear of trade retaliation, regime cooperation and international macroeconomic coordination has served to maintain the basic international structure of open trade. The lesson Lake (1988: 228) draws is that 'current policy, classical international trade theory, and the theory of international economic structures all agree that universal free trade is still in the national trade interest of the United States'.

It is important to state the methodological logic behind Lake's approach, and to note the (ad hoc) link he draws to the domestic political process. First, the theory is separate from any normative criteria. Lake is not concerned about whether the policies actually pursued are, by some definition, optimal. He argues that:

the costs and benefits of free trade or protection are treated by assertion as if the theory ... has indeed identified *the* national trade interest. Thus the focus of the analysis is not on whether the United States maximized its long-term national income, but whether national policymakers chose trade strategies and conducted affairs in pursuit of the national trade interest identified by the theory (Lake 1988: 63).

Second, Lake modifies his version of structural theory by incorporating domestic politics into the analysis. The unitary, rational state assumption is replaced by two sets of conflicting state actors. The 'foreign policy executive' is defined as 'executive officials who typically face a national electorate, and high ranking bureaucrats charged with the overall conduct of defense and foreign affairs' (Lake 1988: 70). Meanwhile, the 'representative element' of the state is defined to include the legislature and the executive's constituent agencies, which serve as 'the principal link of the state to society'. It is the clash between these two sets of interests which ultimately determines trade policy, according to Lake's approach. The foreign policy executive is considered 'particularly sensitive to the national trade interest and, in turn, to the international economic structure that shapes this interest' (Lake 1988: 71). In Lake's realist framework, the foreign policy executive is the only national actor mandated to preserve and enhance the position of the nation state within the anarchic and competitive international system, and thus ensure that relative power considerations are taken into account.

By appending the domestic political process to his international structural theory, Lake conveniently creates extra explanatory room for his analysis and raises the bar for critics. Now, he asserts, the theory can be confirmed if the foreign policy executive articulates preferences and pursues policies consistent with the international constraints and opportunities, even if the final policy does not fully coincide with the national trade interest. Conversely, 'the theory will be falsified if a country's trade strategy is inconsistent with the constraints and opportunities of the international economic structure *and* the foreign policy executive fails to advocate and pursue the predicted policies' (Lake 1988: 14). If any nation state chooses to contravene its national trade interest, Lake assumes that the foreign policy

executive will be cognisant of the trade-offs between this interest and other political pressures. One means of gaining stronger support for the theory, he argues, is 'to isolate favoured and suppressed policy options through 'process tracing,' or a 'detailed analysis of the policy making process and the terms of political discourse' (Lake 1988: 14).

As it relates to postwar US trade policy, Lake's argument can be summarised as follows. From 1945 the United States was a 'hegemonic leader' with a trade preference for free trade at home and free trade abroad, and the capacity to move the latter goal towards realisation. In the mid 1960s, the position of the United States changed to one of 'opportunism', with a first preference for strategic trade protection at home and free trade abroad. The US foreign policy executive has been cognisant of this shift in the national trade interest, but because other opportunist states have stood ready to retaliate, and there are still residual benefits to the United States from international openness, it has not been in the US national interest to move towards trade closure. Detailed analysis of the policymaking process and the terms of political discourse offers one way to assess the theory's validity.

Lake offers a careful attempt to construct a conception of the international economic structure which improves on simple HST. His theory is consistent with continued US trade openness despite the relative decline of the United States from hegemonic economic power status. Nevertheless, Lake's approach is less than satisfactory on two counts: first, its high level of generality leaves significant scope for ambiguity concerning the content of trade policy; and second, by focusing on the strategic trade motive for protection to the exclusion of other possible explanations, Lake leaves important empirical anomalies in the pattern of US postwar protection unexplored.

Lake (1988: 64, 65) concedes that his theory 'posits only constraints and not determinants of behaviour', and that the causal linkages are 'often difficult to observe in specific cases'. The more specific problem is that Lake's approach permits ambiguous, and at times contradictory, conclusions about actual trade policies. It would appear, for example, that the *only* US trade policy outcome which would unquestionably falsify Lake's approach in the postwar period would be one in which the US foreign policy executive either supported or did not actively oppose an across-the-board change in US trade strategy towards protectionism. In other words, Lake's international economic structures are severely underdetermining. The theory appears to accommodate scenarios ranging from movement towards freer and freer trade after 1945, a level of protection maintained roughly at late 1940s levels, or movement

towards freer trade for a period with a partial shift back towards protection following hegemonic decline.

Lake's description of West Germany's trade orientation in the postwar period further illustrates the elastic nature of his analytic categories. On the one hand, Lake implies that the United States successfully brought West Germany into the free trade camp after World War II despite what the theory predicts would be strong German protectionist preferences, given its status as a spoiler state. He asserts that 'America's military presence in Europe has been a critical influence on the Federal Republic of Germany's liberal orientation toward the international economy during the postwar era' (Lake 1988: 51). But in order to account for West Germany's economic rise to the position of OP, Lake reaches for strategic trade arguments. The United States is depicted now as 'preoccupied with Cold War concerns' and allowing 'protectionist competitors' in Western Europe and Japan to 'create comparative advantage in increasing returns industries, ultimately undermining the economic base of the hegemon' (Lake 1988: 60). Hence, in Lake's approach, West Germany can be simultaneously 'liberal' due to US influence, and a strategic trade 'protectionist competitor' due to the Cold War distraction. Either Lake's theoretical construct is flawed, or it permits a level of ambiguity which limits accurate description, much less explanation, of trade policy outcomes.

The second problem with Lake's second-generation realist approach concerns the emphasis he places on strategic trade externalities as the key rational state motivation for trade protection. States are assumed to implement strategic trade protection to shift industrial structures towards capital-intensive industries which in turn create large technological spin-offs and a virtuous cycle of rising economic progress. Yet Lake (1993: 475) concedes this is no more than 'intuition' and that he is unable to 'measure or demonstrate these basic linkages'. Lake does not claim that strategic trade motives account for all protection, but he does assert that if his intuition is correct and external economies are large 'they may explain the widespread patterns of protection observed historically' (Lake 1993: 475). Questions then arise as to the sorts of evidence which may shed light on the explanatory power of Lake's theory in the context of postwar US trade policy. Based on the trade preference orderings he identifies for an OP, the United States is seen as having greater incentives for strategic trade protection from the mid 1960s, following its decline from its earlier postwar hegemonic position. Lake's theory does offer an account of why the preference for strategic trade protection may be overridden in the presence of continued gains from openness and the retaliatory threat of other states. It is nevertheless instructive to examine the sectoral shape

of US protection in light of potentially powerful strategic trade motives. Might there not be at least some evidence of the state apparatus of the world's largest economic power redirecting policy towards strategic trade protection despite the postulated incentives of iterated prisoners' dilemmas and cooperation under anarchy?

Tables 15 and 16 present data on the sectoral distribution of US protection in the early 1990s to gauge the types of industries which the US state has sought to protect. While short of a systematic examination of the issue, the data suggest that motives other than capturing the commanding heights of the international economy have dominated state-sanctioned protection in the United States. The OECD data suggest that the highest levels of protection in 1993 were afforded to textiles and apparel and basic steel products, both industries facing long-term structural decline in the US economy. The 21 sectors receiving special protection which Hufbauer and Elliott (1994) investigate also suggest a pattern of protection flowing to industries which are politically influential and/or which employ large numbers of low-wage, low skill workers. Indeed, the weighted-average relative wage across these high protection sectors is some 30 per cent below the manufacturing average.

Given the other incentives and constraints in Lake's theory, analysis of the sectoral spread of US protection can not be considered decisive evidence against the strategic trade

**Table 15 Sectoral protection in the US – 1993**

ISIC description	average MFN tariff rates (production weighted)	core NTB frequency ratio
1 Agriculture	n.a	3.6
Mining quarrying	n.a	2.3
3 Manufacturing	4.9	24.7
31 - food, beverages & tobacco	7.4	12.1
32 - textiles & apparel	11.5	69.9
33 - wood & wood products	4.1	0.6
34 - paper & paper products	2.1	1.3
35 - chemicals, petroleum products	5.2	5.8
36 - non-metallic mineral products	4.9	5.3
37 - basic metal industries	4.2	57.1
38 - fabricated metal products	3.7	13.8
39 - other manufacturing	5.9	1.1

Source: OECD (1996).

**Table 16 Special protection in the US – 1990**

	Tariff or equivalent as % world price	Hourly wages relative to manufacturing average
<b>Protected by high tariffs</b>		
ball bearings	11	1.2
benzenoid chemicals	9	1.55
canned tuna	12.5	0.44
ceramic articles	11	0.88
ceramic tiles	19	0.85
costume jewelry	9	0.61
frozen concentrated orange juice <sup>a</sup>	30	0.74
glassware	11	1.07
luggage	16.5	0.63
polyethylene resins	12	1.36
rubber footwear	20	0.61
softwood lumber	6.5	1
women's footwear (except athletic)	10	0.57
women's handbags	13.5	0.56
<b>Protected by import quotas</b>		
agriculture		
- dairy products <sup>b</sup>	50	0.97
- peanuts <sup>c</sup>	50	0.62
- sugar	66	1.08
maritime	85	1.28
<b>Protected by VERs</b>		
apparel	48	0.6
textiles	23.4	0.74
machine tools <sup>d</sup>	46.6	1.13
<b>Total</b>	<b>35.2</b>	<b>0.71</b>

Notes: a (av. 1988–91); b (av. 1989–91); c (av. 1988–89); d (av. 1989–90).

Source: Hufbauer and Elliott (1994).

motivation. But it does underline the fact that Lake's second generation realism is based largely on assertion and intuition about strategic trade policy in the absence of empirical investigation as to what actually determines protection.<sup>8</sup>

Even if factors such as the threat of retaliation were to hold the strategic trade motives at bay, there is still a puzzle, given the prominence Lake gives to the foreign policy executive of the US state as the key actor divining the national trade interest from the international economic structure. How has the foreign policy executive conceptualised US trade policy choices? While Lake's theory is consistent with the US executive's maintaining support for



open trade despite the relative decline in the international economic position of the United States, one might expect at the same time a recognition by the executive that the state's first trade preference moved from free trade at home and abroad (FT/FT) to strategic trade protection at home and free trade abroad (P/FT) in the 1960s. Indeed, Lake suggests that the foreign policy executive will be cognisant of the relevant policy trade-offs and that tracing the policymaking process and the terms of the political discourse may offer stronger support for his theory. It also may not. Is it realistic to assume that actors such as the President of the United States and the US Secretary of State would like to have pursued strategic trade protection since the mid 1960s but resisted these temptations because of the fear of trade retaliation, or is it more realistic to assume that the executive branch of the US government has generally sought to avoid protection in light of US international *and domestic* interests, and reluctantly acceded to protectionist demands in specific cases either for reasons of domestic political expediency or to avoid an even more protectionist trade policy outcome? As Haggard and Simmons (1987: 514) observe in the context of regime cooperation, even if one advances a structural explanation, 'the most convincing evidence must be found in the calculations of national decision-makers'.<sup>9</sup>

### **Limitations of structural theory**

As explanatory theory, realist theories of trade policy suffer from two interrelated problems. First, realism is theoretically permissive, allowing for multiple sources of policy indeterminacy. Second, realism neglects the process of domestic trade preference formation because of an a priori assumption that domestic level factors are secondary. The indeterminacy problem is a feature of structural approaches to foreign economic policy choice, of which realism is a subset.<sup>10</sup>

One source of indeterminacy is the disagreement between realist scholars on such basic theoretical issues as the nature of the international power structure; the goals of states; the way states pursue their goals; distributional consequences across states; and whether or not states have identical or conflicting trade policy preferences. Realist approaches deduce or impute from the international structure a set of state preferences that are hypothesised to shape policy choice. But inferring interests and actions from the distribution of capabilities 'demands, first, that there is some unambiguous way to assess the distribution of capabilities, and second, that a restricted set of outcomes results from that distribution' (Haggard 1991: 407). Existing realist theories of trade policy fail to meet either test.

What is the international power structure? Are we interested in the state's position in the military–security structure (as in the 'security version' of HST) or the international economic structure (as Lake is)? Or is some more general conception of international power relevant in shaping trade policy preferences? What is the appropriate metric? For a given conception of international power, a degree of arbitrariness characterises the dimensions of variation — both between states within a given structure, and across different structural environments. Disagreement surrounds a number of key questions relevant to realist explanations of US trade policy. How much power is enough for 'hegemony'? When did the United States become a 'hegemon'? Has it ceased to be one? (Russett 1985, Strange 1987, Nye 1990, Nau 1990) Lake's approach illustrates how these (arbitrary) lines of demarcation can be forced to carry heavy causal burdens relating to variations in a state's trade policy behaviour. By a range of measures, the United States had already reached hegemonic status by the time of the 1930 Smoot-Hawley tariff and its structural parameters, which were roughly equivalent to those in the 1950s era of GATT-based liberalisation (Frieden 1986). Making Lake's approach account equally well for US policy behaviour in 1930 and in 1950 virtually demands a high level of policy indeterminacy and a weak link between international structure and policy outcome. As one skeptic has noted, 'it is difficult to agree that the future of world trade hinges on whether the US share is 14 per cent or 17 per cent' (Odell 1990: 159).

Why a dominant international position shapes the state's trade interest in one direction and not another remains a puzzle for realist IPE theory. Why, for example, should a hegemonic power necessarily pursue open trade policies? Reliance by dominant powers on illiberal commercial policies appears at least as prevalent as liberal hegemony, as the cases of the former USSR in Eastern Europe and Germany before World War II seem to attest. Large structural power is likely to lead dominant states to seek access to weaker states, but power does but appear to determine the content of the resultant economic order (Ruggie 1982, Hirschman 1945, Nau 1990). Moreover, international trade theory identifies incentives for a hegemon to exploit its market power with optimal tariffs rather than maintain openness (Conybeare 1984). Some realists counter that a rational hegemon might forgo an optimal tariff and instead promote trade liberalisation, if this could prevent the development of economic challengers (Gowa 1989a, Lake 1988). In any case, the scope for hegemonic choice, and hence policy indeterminacy, appears substantial.

The fact that states usually have multiple goals introduces a further source of indeterminacy proportional to the complexity of states' utility functions. Given multiple state

goals, a fully specified theory requires analysis of factors which affect the trade-offs between state goals when they conflict, including the weights which states attach to different decision criteria — in other words, the circumstances under which states are interested in relative gains versus absolute gains. At a minimum, realists would argue that states simultaneously seek security and wealth. Gowa (1989b) develops a model which identifies tension between these two potentially conflicting objectives as the main source of variation in national trade policy preferences. She suggests that, in a bipolar security context, a rational hegemon may forgo optimal tariffs vis-à-vis allies because free trade has security externalities. Thus, the hegemon has conflicting security and economic incentives, but it is effectively constrained to facilitate free trade between friends for security reasons even if allies thus enjoy relative economic gains. For other realists, however, relative economic gains by allies remain central obstacles to cooperative behaviour by the hegemon (Grieco 1990). More fundamentally, there seems to be no systematic link between bipolarity and trade policy if one contrasts the trade relations within the liberal postwar Western alliance with those within the interwar German-led authoritarian alliance and the Cold War Soviet bloc. Rather, 'the relationship between bipolar systems and free trade appears to be subject to the domestic political and economic organization of the major alliance partners' (Simmons 1994: 6).

Krasner's (1976) original model offers a further example of indeterminacy in the presence of multiple state goals. Four state goals — political power, national income, economic growth and social stability — are related to openness. Again, predictions of the state's trade policy preference depend on the weights attached to different goals and associated decision criteria. For example, Krasner's model posits an inverse relationship between openness and social stability, but it is a differential relationship across states. States will try to limit openness if social stability is valued in and of itself. But, with a relative gains motivation, a large, developed state will favour international openness because it erodes social stability to a greater degree in other smaller, less developed states. Again, conflicting goals and decision criteria can yield indeterminate results in the absence of information about weights in the state's utility function (Lake 1993: 471).

Despite realism's reification of power politics and the relative gains motive, both the instruments of power and the distribution of gains remain surprisingly underspecified in realist explanations of US postwar economic hegemony (Snidal 1985). Was the United States a benevolent hegemon, accepting the burdens of leadership as implied by Kindleberger's (1973) collective action approach to international economic relations, or was it coercive —

forcing weaker states to make contributions for the maintenance of the postwar liberal economic order? At various points, Gilpin, Krasner and Lake imply elements of both in the case of postwar US trade policy. The United States is cast variously as taking the lead on trade liberalisation, actively using leverage to change other states' policy preferences, and gaining relatively less than weaker states. The finding that the United States was a coercive hegemon but that other states secured relative economic gains poses a particular puzzle for approaches which focus on the international economic structure as the *deus ex machina* for policy behaviour. Ad hoc references to the Cold War may add explanatory power, but they also call into question the basic theoretical construct seen as shaping trade preferences. Lake concludes that the United States was necessarily coercive because, according to his theory, not all states gain from free trade. The hegemon must change the policies of others to satisfy its own goals. But identification of the instruments of power and how the hegemon alters others' behaviour — in other words, policy — is deemed merely a 'second-order question'. It may take the form of 'negative sanctions (threats), positive sanctions (rewards), the restructuring of market incentives, ideological leadership, or simply success worthy of emulation' (Lake 1993: 469). With such a wide policy selection available to the hegemon, it is hardly surprising that the capacity to predict actual policy outcomes is low.

As Beth Simmons (1994: 6) observes, systemic theories of foreign economic policy choice are 'based on the *supposition* that the strongest incentives facing states in the system are indeed external and can be deduced from systemic variables'. But the high level of indeterminacy in structural theory weakens the logic that the preferences of states, especially dominant economic powers, will be tightly constrained by the external environment. Simmons underlines this point with her analysis of the domestic sources of foreign economic policy during the interwar years — the period which spawned modern structural theories of international political economy and, particularly, the work of Charles Kindleberger (1973). She notes that:

Kindleberger himself was not *puzzled* by the United States' unwillingness to open its markets, maintain a stable currency, and maintain countercyclical capital flows during the Depression. He understood the domestic political incentives facing American policymakers (and deplored these actions nonetheless). The point is quite general: without some information about the preferences of the dominant economic power and the other states in the system, the logic of systemic hegemonic theory is less than compelling (Simmons 1994: 6).

Game theory offers a more formalised structural approach to foreign economic policy choice, but it does not resolve the 'level of analysis' issue on the source of state preferences. Game theory defines preference orderings exogenously and the logic of game theory is unassailable 'as long as we make the correct assumptions about the nature of the game, which in turn rests on correctly identifying state preferences' (Simmons 1994: 6). The variables which shape trade policy preferences may be systemic or structural or they may be domestic or institutional, but this remains an empirical issue. In short, game theory can not resolve the problems of indeterminacy in structural analysis. While generating important insights, the limits of the game-theoretic approach to trade policy choice have become more rather than less obvious over time. As one survey has noted, 'at times, the relationship between particular issues (e.g., trade), game structures (e.g., prisoners' dilemma), institutional forms (e.g., regimes), and outcomes (e.g., cooperation, allocative results) is very confused' (Caporaso 1993: 456).

Of course, all theories in international politics are likely to suffer from some degree of indeterminacy. The second, and more fundamental, question when it comes to US trade policy is whether theorising about international structural incentives and constraints provides the appropriate trade-off between parsimony and explanatory power. Haggard (1991: 419) poses the question nicely: 'Is international politics like a market in which many outcomes can be predicted on the basis of spare assumptions about the units, or is it, in fact, a choice system in which understanding actor preferences is critical?' The indeterminacy of realist theories of foreign economic policy (and structural theory in general) suggests that actor preferences do indeed matter, and this has important theoretical implications. Should, as some scholars argue, international level theory be the 'first cut' when approaching research questions in international political economy? According to Keohane (1984: 16) international theory is a necessary first-cut because '[w]ithout a conception of the common external problems, pressures and challenges (facing states) we lack an analytical basis for identifying the role played by domestic interests'. But if the issue is explaining the content of foreign economic policy, it is not immediately obvious that reaching for structural theory first is the best research strategy. The failure of realist IPE to explain patterns of US trade policy in the postwar period indicates a research program which fails the test of theoretical progressivity in this domain (Lakatos 1970).

Claims to parsimony, on which realism and other structural theories rely in claiming first-cut status, should be considered highly contingent. As Haggard (1991: 417) has observed:

... the claim for the superiority of a theory on the basis of its parsimony cannot stand alone. What use is a parsimonious theory that is wrong or that explains only a small portion of the variance? The issue, therefore, is not one of parsimony per se but of the trade-off between parsimony and explanatory power ... given the complexity of international phenomena, it is highly unlikely that we would get powerful predictions using theories that predict primarily from one variable alone. Indeed, we should probably be suspicious of highly parsimonious theories. The general point, however, is that there is no reason to grant priority to systemic theory on the basis of its parsimony alone, unless it can be proved also to have at least equal explanatory power.

In a similar vein, Nye (1988: 248) criticises both structural realism and game theory in terms of a 'negative heuristic that directs attention away from preference formation and transnational interactions'. In the case of Waltzian realism, he argues that:

by assigning everything except the distribution of capabilities to the unit level, that category becomes a dumping ground hindering theory building at anything but the structural level. The result may be theoretical parsimony, but parsimony is not the only way by which one judges good theory. Good theory also requires a good explanatory fit (Nye 1988: 243).

In recent years a number of scholars of comparative and international political economy have made the case for research agendas less enamoured with the search for a single grand theory of foreign economic policy behaviour (Cohen 1990; Dillon, Odell and Willett 1990; Odell 1990; Haggard 1991; Ikenberry 1996). The call is for more contingent analysis looking to identify the conditions under which particular variables are causally significant. This provides an opening for possible synthesis of existing 'theories' and 'approaches', integrating variables often treated as mutually exclusive sources of explanation. This equates with an appeal for theoretical pluralism and theory development less hide-bound by a rigid 'level of analysis' distinction.

A potentially productive approach to the study of US trade policy (and foreign economic policy more generally) is to begin (rather than end) with inquiring into the process of domestic preference formation. This means directing theoretical attention to explaining what states want before concluding whether systemic or unit-level factors are the binding constraints on state behaviour. Focusing on state-society relations is in the tradition of scholarship which

has emphasised variation in unit- or domestic-level variables, across nation-states and over time, as causally significant for explaining policy variation. The insight that systemic factors can shape domestic politics has been a distinctive strand in international political economy literature seeking to integrate sources of explanation from different levels of analysis (Gourevitch 1978, 1986; Katzenstein 1978, 1985; Milner 1988; Rogowski 1989). International level variables may set broad parameters for foreign economic policy behaviour, but the degree of policy indeterminacy arising from international pressures and the importance of domestic preferences strengthens the case for reversing Keohane's logic and making the unit- or domestic-level approach theoretically prior to systemic theory.

## Conclusion

Despite its status as the dominant theoretical approach in international relations, realism has trouble explaining important aspects of postwar US trade policy. Empirical anomalies emerge in terms of both the general openness of US policy and the sectoral pattern of protection. As a result, the realist link between international structure, state trade interests and policy outcome is not clear in the US context. Realist approaches suffer from two interrelated problems: a high level of policy indeterminacy and a neglect of state–society relations. If preferences matter, as the postwar record of US trade policy suggests, probing the process of domestic preference formation should be the first cut in theory building, rather than the last.

## Notes

- 1 Kindleberger maintained that: 'For the world economy to be stabilized there has to be a stabilizer — one stabilizer'. The quotation is on p. 304 of the revised and expanded 1986 edition of *The World in Depression*, originally published in 1973. Keohane (1980) first coined the term 'hegemonic stability theory'.
- 2 Keohane (1997: 151) describes Krasner's important 1976 paper, 'State Power and the structure of international trade', as having 'crystallized issues and set the terms for more than a decade of work in the field of international political economy'.
- 3 Krasner acknowledges that the United States became the largest power in terms of all four structural economic indicators after World War I, but notes that it did not reach the relative share of world trade and investment achieved by Britain in the 1880s until after World War II.

- 4 Maritime services have also been heavily protected since the earliest years of the republic.
- 5 See Ruggie (1982) on the link between states' social purpose and the shared norm of 'embedded liberalism' as embodied in the postwar economic regime.
- 6 Based on his calculation of labour productivity, Lake foresaw Japan emerging into the multilateral opportunist structure only in the late 1980s/early 1990s.
- 7 In these expressions the first term refers to the state trade preference at home, the second to the state trade preference abroad.
- 8 It is instructive that in Lake's original version of his realist theory of US trade policy, he noted that the recipients of US protection in the early 1980s were the 'least competitive industries' (Lake 1984: 165). A similar statement does not appear in his 1988 book. For detailed empirical work on the determinants of US protection, see Lavergne (1983) and Baldwin (1985).
- 9 A perusal of the memoirs of Ronald Reagan, George Shultz and James Baker finds index references to 'Strategic Air Command' and the 'Strategic Defense Initiative', but no references to 'Strategic Trade Policy' as part of the US state's policy calculus in the 1980s.
- 10 Structural institutionalist and game-theoretic approaches looking to explain trade cooperation between states constitute other important strands of the systemic literature.

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