

Trade Structure, Threat Effectiveness, and “Democratic Trade Peace”

The previous chapter summarizes the two empirical puzzles driving this research: Why has the United States been more successful in enforcing its demands on some of its trading partners (such as Japan, Canada, and Europe) than on others (such as China, Brazil, and India), and why are democracies not necessarily less likely to be engaged in trade wars with one another? In addressing these puzzles, I draw on the two-level game approach to develop a specific model for understanding the conditions under which domestic politics supports the use of threat tactics. Before doing so, I provide a literature review describing existing approaches to international negotiations and their limitations, focusing in particular on the contribution of the two-level game approach. This brief review suggests possible avenues for developing a more systematic theory of the domestic determinants of international behavior and provides a basis for my modified two-level game model.

Alternative Explanations

Three theoretical approaches may potentially help us understand the distributional patterns of international negotiations: realism, bargaining theories, and the two-level game approach. While realist theories emphasize how disparities in the power resources of the parties involved in a dispute shape the distribution of gains in international negotiations, bargaining theories posit that power balance is not determinant and that weak states may overcome their power inferiority to strike favorable deals if they have strong motivations in gaining a positive result or if they can skillfully utilize a range of bargaining tactics to their own advantage. While some strands of the bargaining theory

point out how negotiators may manipulate domestic politics by employing strategies such as "tying hands" to strengthen their credibility at the international level, bargaining theories as a whole do not have an explicit domestic focus. Instead, it is the two-level game approach that has sought to more systematically integrate domestic and international politics.

The Realist Paradigm

Existing international relations theories provide a good starting point for the analysis. As the dominant paradigm in the field of international relations, realism contends that, since anarchy is the defining character of the international system, states tend to view one another as potential threats, aim to maximize their security through the pursuit of power, and are predisposed toward conflict and competition. In international trade bargaining, realists predict, states' bargaining positions will be shaped by their interests in improving their relative power positions. International negotiating outcomes will reflect the relative power resources of the parties involved in a dispute.

Most realist analysts emphasize the primacy of military power in determining a nation's power resources, but some analysts in the realist tradition argue that economic power can be converted into bargaining resources in international negotiations as well. In particular, in situations of asymmetrical interdependence, where state A's degree of reliance on state B as an export market is much higher than B's degree of reliance on A, the less dependent one should be able to use its market power to win concessions from the more dependent one.¹ In other words, economic coercion is more likely to produce the desired effects when the power resources of the sender of threats are greater than those of the target nation.

While classical realism does not speak directly to trade dispute settlement, more recent realist theories have developed a set of critical assumptions about the international political economy. They propose that (a) states are the major actors in the world political economy; (b) states are primarily concerned about relative gains in power resources; (c) economic sanctions can serve as an important policy instrument; and (d) state policy choices are fundamentally shaped by the international economic structure and that states are predisposed to conflict rather than cooperation in international economic relations.²

One of the weaknesses of the realist explanation, as scholars in the liberal tradition have often pointed out, is that increasing international

interdependence has made the exercise of power more difficult. Weak states are often able to stand up to the strong because of the numerous points of leverage and influence among nations created by conditions such as economic interdependence, the existence of sub-state actors, the issue-specific nature of power resources, the multiple foreign policy goals that states possess, and the utilization of different bargaining tactics.³ Various scholars outside of the realist tradition have looked at cases of asymmetrical negotiation to explain how factors not related to aggregate raw material power can influence weak states' ability to get what they want some of the times.

William Zartman, in a study of trade negotiations between African states and the EEC, challenges the traditional conception of power in asymmetrical negotiations. He argues that power is situational and relative rather than aggregate and absolute. Powerful states may fail to impose their demands on weaker ones if they cannot effectively apply their aggregate power to the specific bilateral situation. He further suggests several conditions under which weak states may be able to overcome their power inferiority.⁴

In *Power and Tactics in International Negotiation*, William Mark Habeeb reaches similar conclusions through an analysis of several cases of asymmetrical negotiation. He illustrates that between 1958 and 1976 Iceland successfully negotiated with Britain to extend its fisheries limit from four to two hundred miles. In each stage of the negotiation, Britain backed off from its demands and eventually acceded to virtually all of Iceland's positions. Similarly, in U.S.–Panama negotiations over the status of the Panama Canal, Panama achieved considerable success not only in obtaining financial compensation from the United States but also in resuming sovereignty over the Panama Canal. In another case, involving U.S. attempts to secure additional overseas bases from Spain, Spain tried, with moderate success, to create a formula that traded bases for close military and political ties with the United States. Habeeb takes these cases as evidence that weak states are able to resist pressure from more powerful nations in a given confrontation. He examines the dynamics of the negotiation process in detail to explain why powerful states may sometimes fail to translate their aggregate power advantages into effective bargaining chips.⁵ Wiggins's analysis of negotiations between Malta and Britain uncovers an identical pattern: despite the power asymmetry to its disadvantage, tiny Malta managed to substantially reduce the presence of British and North Atlantic Treaty Organization (NATO) powers on the island and to get them to pay considerable cash payments for their

use of Malta's facilities by adroitly employing such ploys as making "a sufficient nuisance," dramatizing alternatives, and "protracting the negotiations interminably."⁶

John Odell presents case studies of U.S.–Korea trade negotiations as well as bilateral trade bargaining between the United States and Latin American states. He finds that both South Korea and the Latin American states were able to win some of the negotiations, attributing the weak states' victories in these cases to their superior negotiation strategies.⁷ In another study of U.S.–Brazil negotiations over informatics, Odell suggests that one reason why powerful nations frequently fail to achieve their negotiation objectives despite their overall power advantage is the web of interests spawned by international interdependence. He argues that Brazil, which is inferior to the United States in terms of power resources, was able to resist American demands to change its program designed to promote a national computer industry because it knew that American firms, which had extensive investments inside Brazil, were opposed to the government's pressure tactics.⁸

These examples all point to the inability of traditional realist explanations to account for the outcomes of asymmetrical negotiations. More importantly, even though realism may explain why weak states sometimes comply with the demands of stronger ones, it has a difficult time explaining why U.S. pressure worked and did not work in degrees not predicted by raw "power." In their studies of the United States' use of retaliatory strategies under Section 301, Bayard and Elliott and Erick Duchesne have found that it is insufficient to explain bargaining power solely in terms of structural power.⁹ Moreover, even negotiations between the same pair of countries have not always produced uniform results. For example, through an examination of negotiations between the United States and the EU, Sophie Meunier suggests that the strong, hegemonic United States did not always emerge as the winner and that the Europeans more frequently negotiated successfully during the Uruguay Round (1986–93) than during the Kennedy Round negotiations (1963–67) due to variations in internal voting rules and negotiating competence in the EU.¹⁰

Furthermore, as described in the previous section, in U.S. trade negotiations with its Asian trading partners, Asian countries differed in the extent to which they conceded to U.S. demands, even though they were similarly dependent on the U.S. market for exports. Japan, Taiwan, and South Korea, for example, were among the U.S. trading partners that were most responsive to U.S. pressure. However, China, while it already depended on the U.S. market for more than 30 percent

of its exports in 1994,¹¹ has not offered concessions to the U.S. as readily as these other Asian states. Realist power theories clearly cannot explain why the United States was not able to influence China more. Explanations for these variations have to be found in factors other than states' relative power balances.

Critics may be quick to point out that an obvious reason why countries such as Japan, Taiwan, and South Korea are more amenable to American demands than countries such as China is the first group of countries' greater degree of security reliance on the United States. Since these smaller states are America's allies, highly dependent on U.S. security guarantees, whereas China is capable of providing for its own security, the argument goes, it is not surprising that the greater leverage the United States wields in security issues would have translated into greater bargaining power in bilateral trade disputes.

Another potential criticism, similar to the one just mentioned, emphasizes the greater expectations of future conflict, as well as the opportunity costs of coercion between adversaries rather than between allies. In a study on the use of economic coercion, Daniel Drezner contends that, because of greater concerns about relative gains and bilateral reputation, the sender of threats should be more willing to initiate economic sanctions against its adversaries. He further argues that, paradoxically, these same relative gains concerns reduce the sender's ability to obtain positive results in disputes with its adversaries, as the target will be worried about the long-run implications of caving in and hence will be reluctant to concede to the sender's demands.¹²

However, arguments along this line of reasoning are ambiguous for a number of reasons. First, it is not clear to what extent security considerations weigh in international bargaining over purely economic issues. The primary U.S. objective in most trade negotiations is to expand American exports to overseas markets or to prevent unfair foreign competition in the American market. Concerns about the political-military relationship with the target country, while not totally absent, seem marginal at best.¹³

Second, granted that U.S. allies such as Japan can be more amenable to U.S. demands because of their greater dependence on U.S. security guarantees, alliance maintenance nevertheless entails considerable costs for the United States. At various points in U.S.–Japan trade negotiations, the United States was forced to soften its demands for fear of antagonizing Japan and thereby endangering the alliance relationship. In U.S.–Japan negotiations over semiconductors in the mid-1980s, for example, considerations on the part of the State Department and the National Security Council for Japan's role

as an American friend and ally complicated the decision-making process to name Japan an unfair trader, lessening the effectiveness of American pressure in the early stages of the disputes. Japan could count on those agencies within the U.S. government most concerned with security issues and refuse to negotiate seriously on semiconductors.¹⁴ As this example suggests, the incentives provided by the security relationship are often indeterminate: the leverage the United States derives from Japan's security dependence may well be offset by its need to maintain a close alliance relationship and therefore to be more attentive to Japan's perspectives.

It could be further argued that the United States, not for purely altruistic reasons, has actively worked to extend its security umbrella to Japan to prevent Japanese rearmament and the resurgence of Japanese military power in East Asia. Cognizant of the U.S. motive, Tokyo has during most of the postwar period enjoyed the benefits of free riding in the security domain and has refused to take up its fair share of the security obligation in the Asian-Pacific region. America's self-interest in providing a security guarantee to Japan may thus have lessened the imperative for Tokyo to cave in to American pressure on either security or trade issues.

Third, even though China is not dependent on America for security, as are Japan, South Korea, and Taiwan, the argument has frequently been made that security relations between great powers similarly involve mutual dependency. During the Cold War, the United States and the Soviet Union were dependent on each other for not launching a nuclear attack; the United States also sought to play the "China card" in efforts to counter Soviet expansionism in Asia. At present the United States needs to take into consideration China's role in maintaining peace and stability in the Asian-Pacific region (especially on issues such as North Korea and Taiwan) when dealing with economic issues; and China, in turn, depends on the United States for maintaining the strategic balance in East Asia. In this sense, security considerations influence America's economic relationship with China in much the same way as they shape U.S.–Japan economic bargaining outcomes. One cannot simply attribute America's greater negotiation success with Japan on trade issues to the latter's greater degree of security reliance on the United States.

Bargaining Theories

In light of realism's inability to explain the variations in the effectiveness of U.S. coercive diplomacy, analysts in the bargaining tradition

have sought to identify the conditions under which threats are more likely to work. As a modification of the realist emphasis on power asymmetries, a number of scholars suggest that the *interests* of the parties involved in a dispute play an important role in determining bargaining outcomes. It has been argued that a party can strengthen its credibility and enhance its chances of obtaining a favorable outcome if it has important stakes in the issue. For example, if the sender of threat only has peripheral interests in the issue, then the target country, knowing that the sender is unwilling to risk war (or trade war) for a relatively small gain, will most likely reject the sender's demands. Conversely, if the target country places a high priority on the issue and is dedicated to achieving its preferred outcomes, then the sender should be more likely to give up its demands.¹⁵ By emphasizing how factors other than power resources (such as the interests of the parties involved) may lead to variations in bargaining results across issue areas, this strand of the bargaining theory provides one plausible explanation for why weak states can sometimes stand up to strong ones. However, it still does not help us understand why bargaining outcomes often vary in the same issue area where a state's interests remain more or less constant.

Another strand of the bargaining theory emphasizes the importance of bargaining tactics. Some analysts focus on negotiating tactics on the part of the sender of threats that might enhance or undermine the credibility of a threat to retaliate. Following Thomas Schelling, who emphasizes the role of commitment in making a threat credible, these analyses suggest that threats to impose sanctions will be more credible if negotiators can tie their own hands with respect to retaliating, link agreement on one issue to another issue area where one has leverage over the partner, offer side payments to foreign governments in order to obtain the acquiescence of those domestic groups opposed to change, and add parties who support one's position to the negotiations.¹⁶ International negotiators would be able to improve the terms of the deal if they could expand the other side's perceived zone of possible agreement by using one or a number of these strategies.¹⁷ This approach helps to illustrate both analytically and empirically how bargaining strategies can work to improve the credibility of threats. However, it says nothing about the conditions under which these strategies are most likely to work. Many of the factors that may influence whether and when threats will be most effective have simply been assumed away. For example, the target's preferences, which play an important role in determining whether tactics such as threats and per-

suasion could work to expand the "zone of possible agreement," have generally been left out of the analysis.¹⁸

How weak states can use bargaining tactics to overcome asymmetric power balances has also been examined. In his study of East Asian states' strategies for dealing with the Americans, David Yoffie emphasizes that weak bargainers can resist demands from more powerful actors if they can make a commitment to realize long-term gains. According to Yoffie, weak states can better achieve their objectives when they can negotiate for ambiguity, demand compensation for restrictions, exploit bureaucratic cleavages within the opponent, and cheat on regulations and agreements.¹⁹ Habeeb offers a more general logic behind weak state capabilities. He argues that conclusions about state interactions drawn from a modeled structure of a static, aggregated power relationship ignore the dynamic of process. According to Habeeb, issue-specific power, which "is determined by asymmetries in alternatives, commitment, and control," is at least as important as aggregate structural power in explaining outcomes. A weak state can alter its dependence on a more powerful one if it can "gain its preferred outcomes from a relationship other than with the opposing actor," is strongly dedicated to achieving a positive outcome, or can achieve greater control in the negotiations.²⁰ While this emphasis on weak state bargaining tactics has considerable validity, once again it is not clear under what conditions these tactics will be more or less effective. Given the general availability of these bargaining tactics to weak states, the question remains as to why some weak states are able to resist U.S. demands more than others.

In a 1994 study directed by Thomas Bayard and Kimberly Elliott on the effectiveness of Section 301 provisions of U.S. trade law in opening overseas markets, the authors similarly attempt to identify the factors affecting the efficacy of threats in trade negotiations. They found that U.S. negotiators are more likely to obtain market-opening outcomes the "more dependent the target country is on the U.S. market, the larger the U.S. bilateral trade deficit with the target is, and the more transparent the targeted trade barrier is."²¹ Another important conclusion drawn from the collaborative project is that the success of bilateral negotiations depends critically on the value that the target country places on maintaining access to the U.S. market: "Threats typically 'succeed' when the perceived economic and political costs to the target of complying with a demand are lower than the perceived costs of defiance."²² Specifically, the United States can obtain a more favorable deal under the following conditions:

(a) the greater the harm to the targeted country from having its access to the U.S. market limited; (b) the smaller the targeted country's ability to harm the U.S. in retaliation; (c) the smaller the costs within the targeted country of complying with the U.S. demands; and (d) the greater the benefit to the United States—in the U.S. negotiators' perception—from the demanded liberalization.²³

This project makes a valuable contribution to understanding the conditions under which the use of aggressive tactics would be more effective. But many of the factors the authors identified as having credibility-enhancing effects (such as the benefits to the sender of carrying out a threat as well as the risks of retaliation and counterretaliation by the target) have been emphasized in earlier writings on international bargaining.²⁴ Most of these conditions are also linked to the bilateral economic interdependence ratio.²⁵ Moreover, other conditions the authors hypothesized to influence threat credibility, including U.S. concerns about possible counterretaliation, public or explicit threat, and GATT procedures, turn out to be relatively insignificant in determining outcomes.

On the whole, existing bargaining theories help to advance our understanding of the dynamics of international bargaining by highlighting how certain factors not related to raw material power can impinge on negotiation outcomes. But they also suffer from important shortcomings and are not able to fully explain the puzzles described earlier. This directs our attention to a third approach in the search for answers to the research questions: the two-level game theory.

The Two-Level Game Approach

Most of the theories described previously assume that states are rational, unitary actors,²⁶ an assumption that is increasingly difficult to sustain considering the diversity of interests, institutions, and opinions within most democratic countries. Since trade conflicts have a substantial domestic component that cannot simply be assumed away, there has been a burgeoning literature emphasizing how politics and divisions within countries can affect international bargaining behavior. These works challenge the view that states' behavior can be explained primarily by international structural factors, explicitly arguing that failure to examine domestic conditions may result in the neglect of a crucial source of international relations.²⁷

Most of this literature on how domestic politics affects international

behavior has utilized the concept of the two-level game developed by Robert Putnam. The two-level game approach, in Putnam's original formulation, views national leaders as engaging in two sets of negotiations simultaneously: one with their international counterparts and the other with their respective domestic constituents. Chief negotiators not only need to "win" at the international table but also have to make sure that any deal that is cut internationally will be accepted by those who could veto or block implementation of the deal at home. An international agreement will be possible only if the two parties' "win-sets"—the set of possible policies that can obtain the necessary domestic support—overlap. Putnam and other scholars working with this approach further identify three factors that affect the size of the win-set: the combination of the power and preferences of possible domestic coalitions, domestic political institutions, and the strategies adopted by the negotiators.²⁸

By emphasizing the interaction between domestic- and international-level variables and by integrating a number of previously disparate observations into a single theoretical framework, the two-level game approach has made a positive contribution to international relations.²⁹ It not only helps to remedy the neglect of domestic variables resulting from the dominance of structural realism in international relations theory but also provides a basis for organizing further empirical study.

Indeed, analyses of the domestic sources of foreign policy have mushroomed in the past decade. In the area of international security, Bueno de Mesquita and Lalman, in one of the most systematic investigations of international and domestic theories of conflict, make a strong case that domestic politics affects international conflict. But this investigation treats domestic politics as a black box, characterizing it as the vector sum of the power and interests of whatever domestic actors may be relevant in a given polity.³⁰

The influence of domestic politics also has been studied in the area of trade policy. Numerous studies investigate the role of political parties on trade; the most recent writings also emphasize how divided government could affect trade policy. Lohmann and O'Halloran, for example, argue that, in the United States, different party control of Congress and the White House can lead to a more protectionist trade policy. They observe that, when the congressional majority party is confronted by a president of the opposing party, the former has an incentive to delegate to and to constrain the latter by requiring congressional approval of trade proposals, forcing the president to adopt

more protectionist policies in order to bring together a congressional majority.³¹ Studies such as Lohmann and O'Halloran's emphasize the importance of domestic politics but have not devoted sufficient attention to the *interaction* between domestic and international politics. Since trade politics operates at both the national and international levels, both should be included in analyses of the policy-making process.

Other studies have emphasized how domestic politics in target countries influence the distribution of gains in international negotiations. In his study of U.S. trade bargaining with Japan, for example, Leonard Schoppa develops a framework for analyzing when and how U.S. synergistic strategies can work to extract the desired concessions. U.S. pressure is most effective in influencing Japanese policy outcomes when the United States is able to employ strategies such as "synergistic linkage," "reverberation," "participation expansion," and "alternative specification" to take advantage of divisions of interests and opinions on the Japanese side.³² Although Schoppa looks at how the effectiveness of U.S. synergistic strategies could be conditioned by domestic politics in the United States, the focus of his study is primarily on the interaction of these strategies with domestic politics in the target nation. This selective focus leaves ample room for future studies to develop explicit hypotheses about the domestic factors in the sender of threats that may have an important bearing on negotiating outcomes.

In a more recent study on the ten-year dialogue between the United States and China over IPR, Andrew Mertha extends the two-level framework to explain both the specific IPR issues being negotiated and the variations in the extent to which nationally negotiated agreements are being implemented in China. He argues that the organizational characteristics of the relevant IPR lobby critically influence the effect of transnational deterrence (i.e., implicit or explicit threat of retaliation issued by local governments in China to preempt these U.S. actors from exposing the deficiencies in China's IPR regime) and hence the kinds of issues that get onto the U.S. negotiation agenda. He further contends that the specific organizational characteristics of the various IPR enforcement bureaucracies in China determine enforcement outcomes and patterns of bureaucratic defection.³³ By looking at the organizational characteristics of both the IPR lobby and the IPR enforcement agencies in China, Mertha's work has made a valuable link between the organizational literature and international interactions.

The impact of ideas and institutions on trade policy has received attention as well. Although studies emphasizing the influence of ideas do not fall neatly into the two-level game framework, they capture an

important part of the evolution of trade policy and have important implications for some of the cases examined in the following chapters. Judith Goldstein, for example, emphasizes that ideas provide decision makers with strategies or guidelines that help to maximize their interests. While material interests may explain why groups and coalitions opt for certain positions, ideas serve to legitimize or mold these societal interests. Especially when ideas become embedded in political institutions, they can exert a sustained impact on policy and may constrain the policy choice of political elites, even when the social reality that produced them in the first place may no longer be in place. Thus congressional delegation of trade policy authority to the executive in the 1930s can be explained by the rise of liberal trade ideas following the Great Depression. In the early 1980s, when the ascendance of European and Asian competition resulted in the erosion of industry support for free trade, liberal trade ideas entrenched in institutional structures permitted a broad continuity in American trade policy.³⁴

Scholars have applied the two-level game approach to examine issues outside of the realm of trade policy. In her work on the domestic sources of international environmental policy, Elizabeth DeSombre systematically analyzes the conditions under which the United States will attempt to internationalize domestic environmental regulations and the degree to which the United States can successfully convince other states to adopt regulatory policies. She finds that the United States will most likely undertake efforts to internationalize its domestic environmental regulation when both environmental and industry groups in the sender country, who otherwise seem to be strange bedfellows, perceive positive results from such actions and form a variant of the Baptist-and-bootlegger coalition to push for internationalization. She further argues that the success of internationalization depends both on the market power the United States enjoys vis-à-vis the target in the commodity in question and on the continued existence and strength of the coalition initiating the threat.³⁵ In doing so, her study provides a valuable link between domestic coalitions and paths of internationalization.

Examining a wide array of U.S. foreign policy actions, Lisa Martin challenges the conventional view that legislative participation in the policy-making process undermines democratic regimes' ability to conclude and implement stable international agreements. She argues that institutionalized legislative-executive interactions can enhance the credibility of commitments made by democratic leaders by legitimizing and institutionalizing states' bargaining positions and international

commitments, thus allowing democracies to better achieve international cooperation.³⁶

By drawing our attention to the domestic sources of foreign policy, the literature just described has made a valuable contribution to our understanding of the complex interaction between domestic- and international-level games. This does not mean, though, that the existing state of the two-level game approach has not left room for theory development. Indeed, it may be argued that research inspired by the two-level game approach has two important shortcomings: first, the large body of literature on two-level games has so far generated only a few testable hypotheses about how domestic politics operates to affect international negotiating outcomes; second, where recent scholarship has tried to develop more parsimonious models of the linkage between domestic and international politics, the emphasis is primarily on how domestic conditions facilitate or impede the prospect for cooperation among nations rather than how they affect the ability of threats to extract concessions from the target country or the likelihood of trade wars. This makes efforts to develop a more systematic approach to understanding threat effectiveness and the probability of trade war a worthwhile endeavor.

In the first place, it should be noted that existing studies on two-level games have not developed systematic theories of the ways in which domestic politics can intervene in the international level of play to affect bargaining outcomes. None of these studies has taken the next step in two-level theory development: the incorporation of a model of domestic politics that accounts for the pattern of *domestic preferences* that shape international bargaining behavior. Odell's comparison of U.S.–Brazil and U.S.–EC bargaining makes a major contribution toward understanding how domestic divisions affect the distribution of gains in international bargaining. Odell finds that successful negotiating by the sender of threats hinges on the degree to which domestic actors are united on the issue in both the sender and the target. Specifically, the more united interests are within the country issuing the threat, and the more divided interests are in the target country, the more likely that the party threatening sanctions will be able to get a favorable agreement.³⁷ For example, U.S. negotiators were able to achieve greater success in negotiations with the EC over feed grains than with Brazil over computers primarily because domestic interest groups in the United States were unified. In the case of Brazil, the credibility of American threats was undermined because virtually no constituents supported a shift to open coercion. Even those actors who

would benefit from pressure tactics were divided in their policy preferences. In the feed grains case, most directly affected groups strongly supported government policies and there was little domestic opposition to implementing the threat. Therefore, even though the United States had a far greater capacity to hurt Brazil, divisions among U.S. interest groups reduced the likelihood that this capacity would be effectively used, thus undermining compliance.

Odell's findings capture an important aspect of the negotiation dynamics by emphasizing how the degree of unity among domestic interests influences threat credibility and effectiveness. Nevertheless, he does not go one step further to develop a more general theory for understanding *when* domestic support for sanctions is more or less likely to be present, a point to which I will return later in this chapter. His analysis thus remains rather ad hoc on domestic interests, unable to tell us when trade sanctions are more likely to obtain the necessary domestic consensus.

In general, Putnam and his associates have used the two-level game concept primarily as a metaphor and have not attempted to generate hypotheses through formalization. As Andrew Moravcsik acknowledges in the introduction to the collaborative project, the case studies in the volume are intended to be "plausibility probes" regarding existing hypotheses about two-level games and an "indispensable first step" in the transition from metaphor to social scientific theory.³⁸ Although subsequent studies have attempted to develop more explicit hypotheses, the concept of two-level games remains underdeveloped theoretically. In particular, the structure of domestic interests and preferences that affects the international game needs to be designated more explicitly, and the mechanisms linking domestic and international politics need to be spelled out more clearly as well.

A number of recent works have attempted to develop a more rigorous and systematic treatment of the domestic game along these lines.³⁹ The most prominent of these studies is Helen Milner's *Interests, Institutions, and Information*. Starting from the assumption that domestic politics is polyarchic, that is, composed of at least two groups with different policy preferences that share power and decision making, Milner contends that the possibility and extent of cooperation among states are vitally affected by these factors: the structure of domestic preferences (i.e., the degree of divided government and the preferences of the executive), the nature of domestic political institutions (specifically, the institutional process of ratification), and the distribution of information internally.⁴⁰

Milner argues that the level of divided government is an important variable affecting prospects for international cooperation. Divided government, she explains, emerges when the policy preferences of the executive and the median legislator differ. Although executives and legislators are rational actors who share a common interest in retaining office, they often hold different policy preferences due to their different constituency concerns. Typically, executives are more concerned with the general performance of the economy, whereas legislators prefer policies that would both enhance the economy and cater to their interest group supporters. In other words, executives focus more on the national constituency, while legislators have more local concerns. These differences between the policy preferences of the executive and the median legislator lead to divided government. The greater the divergence in executive-legislative preferences, the more the government is divided.⁴¹ Divided government can be seen not only in presidential systems; it can, Milner argues, emerge in semi-presidential and parliamentary systems as well. Minority governments in parliamentary systems as well as majority coalition governments can experience divided government. Even when the same party controls both branches, divided government may occur because of the lack of party discipline or divergent policy preferences that derive from different constituency interests.

Divided government, according to Milner, makes international cooperation less likely. Since there is more than one player that can veto a deal, the need for ratification by the hawkish player within a state (i.e., the one whose preferences are further apart from those of the foreign country) places important constraints on the dovish player who is inclined to enter into cooperative arrangements with the foreign country, thus diminishing the prospect for international cooperation. The possibility for cooperation further declines and the likelihood of ratification failure increases as the policy differences between the two actors increase, because the dove is now increasingly forced to accede to terms favored by the hawk. However, if cooperation is possible at all, this should push the terms of the deal closer to the preferences of the hawkish actor, leading to more favorable deals for the country with divided government. The possibility of cooperation also declines when the more hawkish actor holds greater internal decision power. The implications of Milner's findings are pessimistic: domestic politics makes cooperation less likely and changes the terms of the agreement that could be made. Even realists may have overestimated the likelihood that states will cooperate with one another.⁴²

In short, by relaxing the assumption of the state as a unitary actor and laying out clearly the logic behind the hypotheses linking domestic politics to the negotiation and ratification of international agreements, Milner's *Interests, Institutions, and Information* and other studies inspired by it have advanced the research agenda on two-level games. But these works look more at how domestic interests and institutions affect the prospects for international cooperation than at how they affect the effectiveness of threats and the probability of trade wars.⁴³ It is thus both necessary and possible to develop a two-level game approach to understanding threat effectiveness that includes more systematic analysis of domestic interests and institutions and their impact on international negotiations. Such an approach ought to allow us to better understand the interaction between the domestic and international games and to generate new, fruitful observations about the dynamics of international trade bargaining.

Theoretical Framework and Hypotheses

While this study draws on the concept of two-level games to address the two puzzles concerning threat effectiveness and the instances of trade wars, it also improves on the two-level game approach in two ways. First, it develops a model for understanding when threats are likely to be ratified by domestic interest groups. Second, it specifies the conditions under which domestic institutions will be united in support of trade sanctions. It will take a system-level variable—the structure of trade among nations (specifically, whether the parties involved have a complementary or competitive trade relationship)—and show how it systematically affects both the level of unity among domestic interest groups and the level of divided government in the sender of threats.

When two countries have a competitive trade relationship, both domestic interest groups and the government institutions in the sender of threats are more likely to be united in their policy preferences than when trade relations are complementary, enhancing the credibility of threats. Thus the United States will almost always find it more difficult to extract concessions from countries with which it has complementary trade relations than from those with which it has competitive ones. Paradoxically, the same set of variables, by producing stronger pressure for brinkmanship in bilateral trade games, also makes democracies more war prone in their trade relations. While democracies may indeed be more pacific in their security relations, that a fair number of

democratic regimes happen to have highly competitive trade relations shapes their domestic politics in a way that pushes democracies toward less cooperative stances on trade. The contrasting pattern of democratic peace in security relations and the lack of it in trade therefore ought to have important implications for the theory of democratic peace in general.

Defining the Structure of Trade

As summarized previously, Odell's examination of two empirical cases shows that the presence or absence of support for sanctions makes a major difference to negotiation outcomes but that examination does not lead to a more general theory predicting when support for sanctions is likely to be present. The current study fills this gap by hypothesizing that the configuration of domestic interests, which bears importantly on threat effectiveness and the likelihood of trade wars, is affected to a considerable extent by a system-level variable—the structure of trade between the two parties, specifically, whether the trade relationship between the two is complementary or competitive.

Trade complementarity/competitiveness refers to the extent to which two countries engage in the production and export of a similar range of commodities. When two nations' comparative advantages differ, each has an incentive to concentrate on the production of those commodities that best utilize its comparative advantage and produce the highest profit margin and trades them for goods that it cannot produce at a reasonable cost at home. To illustrate this situation, if the United States specializes in the manufacturing of technology-intensive products and exports them to countries such as China in return for imports of labor-intensive products (such as shoes, toys, and textiles) that it no longer produces at home, then the trade structure between the two can be considered complementary. In contrast, when two countries' comparative advantages converge, both will specialize in the same set of products that will allow them to capture the greatest profits. Since their economic structures are similar, each will have home substitutes for imports from the other, and, as a result, trade is more competitive. Trade between the United States and Japan (or Europe) provides an example of a competitive trade structure, as both focus on the export of technology-intensive products.

John Conybeare uses the terms “complementary” and “competitive” in a way very similar to the way I employ the terms here. In his study of bilateral trade wars throughout history, Conybeare finds that

trade complementarity/competitiveness is an important variable affecting the likelihood of bilateral trade wars. He gives the trade pattern in the ancient world as an example of a complementary trade relationship. In ancient times, the structure of trade consisted of complementary exchanges of essential commodities such as food and raw materials. Each country produced only one or a few commodities in which it had a clear comparative advantage and exchanged them for commodities that it was incapable of producing efficiently. He contrasts this pattern of trade with that in the contemporary world, where countries import commodities (such as autos, steel, and televisions) for which they have close substitutes at home. In this case, countries have higher elasticities of demands for imports and hence trade is more competitive.⁴⁴

Conybeare's book looks primarily at the effects of the structure of trade on the likelihood of trade wars, but his insights have implications for understanding threat effectiveness as well. Conybeare considers trade relations in the contemporary world to be generally more competitive than those in the ancient world, but I would argue that there remains in the modern world a fair degree of variation in complementarity. Countries that export a similar set of products face a competitive trade structure, whereas those whose exports concentrate on a different range of commodities have a primarily complementary trade relationship.

To determine whether the United States, for example, has a complementary or competitive trade relationship with a specific country, we can compare the list of commodities that the United States exports with the list of commodities it imports from that trading partner. If there is considerable overlap between the two lists (i.e., if the leading items in U.S. exports to a country are similar to the leading commodities it imports from that trading partner), then the trade relationship is competitive. But if the items on these lists differ considerably (i.e., if the United States imports from its trading partner very different commodities than it exports to that country), then the trade relationship is complementary. An examination of the number of overlaps between the top twenty commodities the United States exports and the top twenty commodities it imports from particular countries reveals a wide range in the degrees of competitiveness in U.S. trade relations with its major trading partners (see table 2.1). Using my earlier definitions of trade competitiveness, we can see that the United States has the most competitive trade relationship with Canada, Japan, and EU member countries but has far more complementary trade relationships with

countries such as China, Brazil, and India. In his study, Conybeare considers trade structure to be a determinant of the strategic game structure of bilateral trade wars. He argues that trade wars are more likely to break out between countries with competitive economies than between those with complementary ones because the costs of disrupting trade with the former are less severe: “Trade complementarity implies low elasticities of demand for each other’s products, and high costs to a trade war. Countries with similar economic structures would have substitutes for each other’s products and a higher elasticity.”⁴⁵ Thus, trade structure is believed to influence outcomes of international

TABLE 2.1. Number of Overlaps between Top Twenty Commodities the United States Exports to and Top Twenty Commodities It Imports from Major U.S. Trading Partners

Country	Total Volume of Trade	
	Ranking	Number of Overlaps
United Kingdom	5	12
Canada	1	11
Germany	6	11
Mexico	3	10
Japan	2	9
Switzerland	21	9
France	10	8
Israel	24	8
Singapore	9	8
Belgium	16	7
Hong Kong	15	7
Netherlands	13	7
Taiwan	7	7
Malaysia	11	6
Philippines	19	6
Australia	22	5
Italy	12	5
South Korea	8	5
Thailand	18	4
Brazil	14	3
China	4	2
India	25	2
Indonesia	23	2
Saudi Arabia	20	2
Venezuela	17	2
Argentina	31	0

Source: U.S. Department of Commerce, *U.S. Foreign Trade Highlights*.

Note: Top twenty commodities in U.S. trade with individual trading partners are sorted by 1996 values and are based on three-digit SITC codes. Total volume of trade ranking is based on 1997 data.

bargaining primarily through the effects it has on the actors' evaluations of their material gains or losses from the disruption of trade. This approach is concerned primarily with factors at the system level and says nothing about domestic politics. It is possible, however, that trade structure can influence international bargaining outcomes by shaping the ways in which domestic forces respond to international structural factors.⁴⁶ In the following sections, we will see how trade structure can impinge on both threat effectiveness and the likelihood of trade wars by influencing the level of divergence of domestic interests as well as the degree of divided government in the sender of threats.

Trade Structure and Domestic Preferences

An important way in which trade structure may influence threat effectiveness is by determining the degree of *divergent preferences* among domestic interest groups. It is interesting to notice that, when trade relations are competitive (i.e., when the two nations compete in the same product lines), the nation issuing the threat will most likely have large export-seeking and import-competing sectors specializing in the production of the same commodities as the target country. In some cases, the firms seeking exports may even be the same as those that are competing with imports in the home market. U.S. efforts to pry open the Japanese construction market in 1987–88 may help to illustrate this point. In the late 1980s, convinced that U.S. construction firms, especially those involved in high-tech services, had been excluded from the Japanese public sector construction market by unfair Japanese practices, the U.S. Trade Representative (USTR) announced that a ban would be imposed on Japanese firms' participation in U.S. public works construction unless Japan modified its government procurement policy.

In this case, the U.S. construction firms pushing for trade sanctions were mainly large international firms that wanted to expand their presence in the Japanese construction market. At the same time there were also many U.S. construction firms that felt threatened by Japan's increasing success in the American construction market. These firms supported sanction threats because they would benefit from the restrictions on Japanese competition in the U.S. building market if sanctions were carried out against Japan.⁴⁷ Given this situation, American threats to impose sanctions unless Japan opened its market presented American industries with a no-lose situation. If sanction threats succeeded in extracting concessions, export-seeking interests (the larger

international firms) won by obtaining greater access to Japan's market. If threats failed, and sanctions had to be imposed, import-competing interests (firms threatened by Japanese competition in the U.S. market) won. Because these firms produced the same things as the target, protectionism promised to provide them with "rents" previously unavailable under free trade. Sanction threats under these conditions consequently enjoyed much more unified support from affected organized interests and were therefore more likely to be effective.

In contrast, in the case of complementary trade relations, domestic interest groups are more likely to be divided, thus reducing the credibility and effectiveness of threats. This hypothesis derives from the observation that when trade relations are complementary the nation making the threat is likely to have both a large export-seeking industry and a virtually nonexistent import-competing sector. Trade relations between the United States and China, two countries with a high degree of trade complementarity, provide an example of this dynamic. Since the United States imports from China commodities that are no longer efficiently produced at home, there is a large import-using sector in the United States comprised of footwear, toy, and apparel manufacturers and distributors that support trade sanctions. At the same time, there are virtually no import-competing interests in the United States that want to see the threat of sanctions carried out against the Chinese. Although, in some cases, export-seeking firms (such as the intellectual property rights industry) support efforts to use trade sanctions to open up the Chinese market, oftentimes they find themselves impeded in this effort by active opposition from import-using industries. Not surprising, these domestic divisions severely reduced the credibility of American threats in the eyes of the Chinese.

Indeed, the logic developed here may help us understand the contrasting results of the two case studies described by Odell. As we have seen earlier, Odell's comparison of U.S.–EC and U.S.–Brazil negotiations illustrates how difficult it is for the United States to carry out a credible threat without strong, unified support from the affected groups. The question Odell did not ask, however, was why American interest groups were more divided in the informatics case involving Brazil than in the EC enlargement case. But if the argument developed previously has any validity, then we will see that one reason why American negotiators faced virtually no domestic opposition in the EC enlargement case was the competitive trade relationship between the United States and Europe. American feed-grain farmers, who wanted the EC to eliminate its subsidies on exports in an effort to expand

American exports, were also the ones competing with EC farm imports. Not surprising, the feed-grain sector was prepared to face the possible consequences of EC counterretaliation. Even those groups targeted by EC counterretaliation (the corn gluten feed farmers) did not press for accommodation because they faced "their own zero [duty] binding in the E.C."⁴⁸ The situation was completely different in the case of Brazil. Since trade relations between the United States and Brazil were complementary (note that Brazil is located near the bottom of the competitiveness index in table 2.1), threats to impose sanctions on Brazil enjoyed backing only from U.S. computer companies. There were no import-competing interests that supported the sanction threats. With this structure of interests, it is no wonder that the credibility of American threats was substantially reduced.

Summarized briefly, the analysis just described suggests that the structure of trade has an important impact on domestic interests in the country issuing the threat: U.S. threats to impose economic sanctions will enjoy more unified domestic support and hence will be more credible when the target has a competitive, rather than complementary, trade relationship with the United States. The domestic pressure generated by trade complementarity tends to be highly contradictory, thereby undermining the effectiveness of threat tactics.

Trade Structure, Divided Government, and Threat Effectiveness

I further hypothesize that, in addition to influencing the pattern of interest group support for sanction threats, trade structure may also affect threat effectiveness by influencing the level of *divided government* in the sender of threats. As mentioned in the previous section, the effects of institutions on agreements to cooperate have been investigated systematically. Milner argues that divided government diminishes the prospects for international cooperation. Because the hawk exercises important veto power over the terms of the deal, the dove will be forced to modify its position and to accede to terms favored by the hawk. As the policy preferences of the two government branches diverge, the dove will have increasing difficulty getting the agreement ratified and will now have to negotiate agreements that lie closer to the hawk's preferences. As a result, divided government poses a major obstacle to international cooperation.

It should be noted at this point that in international negotiations it sometimes takes threats to get a country to move toward a cooperative

deal. But for the threat to be credible, it has to be ratifiable. Typically, even though the executive and legislative branches share a common interest in retaining office, they may have different policy preferences due to their different constituency concerns. These differences in executive-legislative preferences lead to divided government. But since the ratification of threats requires the approval of both the legislative and executive branches, the more dovish actor—the one whose policy preferences are closer to those of the target—now has a veto over whether the threat can be approved. In this case, the logic that Milner describes works in reverse and the credibility of threats will again depend on the level of divided government, or the policy space between the executive and legislative branches. If the policy preferences of the executive happen to be closer to those of the legislature, the target country will perceive that the threat will have a greater possibility of being approved by the executive and of being implemented. Consequently, U.S. threats will be more credible. On the other hand, when the policy preferences of the two branches differ considerably, threats will be less credible in that it will lead the target to believe that there is only a slight chance that threats could be ratified and imposed. In short, greater unity between the two government branches increases the credibility of U.S. threats to impose trade sanctions, whereas divided government reduces threat credibility.

Which factors influence the degree of division between the two institutions? This study further hypothesizes that the structure of trade (i.e., whether trade relations are competitive or complementary) plays an important role in the level of divided government. Studies of American foreign economic policy have shown that the U.S. executive's responses to industries seeking protection will be determined by the combination of ideological considerations and institutional role pressures that a particular type of industry exerts on the executive. Ellis Krauss and Simon Reich argue that the embedded American ideology of free and fair trade implies that state intervention is legitimized only if the industry is perceived as "competitive" and is therefore likely to be able to eventually stand on its own. Noncompetitive industries, on the other hand, are more likely to be allowed to decline and disappear if they are not efficient enough.⁴⁹ Meanwhile, different types of industries tend to invoke different kinds of institutional role pressures. Specifically, since high-tech industries are perceived as crucial to the future well-being of the United States and often also to national security, they tend to invoke the role pressure of state interest on the president. On the other hand, although they may not be perceived as vital to

the well-being of the country as a whole, non-high-tech industries also may induce the executive to act if they can bring to bear enough political pressure.

Using this logic, Krauss and Reich predict that, since high-tech industries such as supercomputers and satellites are both crucial to the future health of the economy and can compete in foreign markets, the American executive is likely to adopt the "fair trade" principle and attempt to open foreign markets for U.S. firms. Industries such as automobiles and machine tools are ones that traditionally have enjoyed a home market advantage and are thus generally perceived as competitive. Even though these are non-high-tech industries that have suffered a certain degree of decline, they are likely to exert sufficient pressure on the executive to act due to their political clout. In such cases, the executive is expected to come up with a moderate response by providing temporary relief for the industry and to adopt informal managed trade agreements that do not institutionalize protectionism.

U.S. industries that do not enjoy a home market advantage, on the other hand, are perceived by the executive to be undeserving of state intervention based on the executive's free trade ideology. The president will be quite reluctant to intervene in certain non-high-tech industries facing long-term structural decline, such as textiles and steel. But, in light of the pressure from organized labor to provide relief and out of practical electoral considerations, the executive would resort to "structural protectionism," adopting a series of measures to maintain the industry's employment level and to minimize the effects of terminal decline on labor. Finally, due to the executive's free trade ideology and the lack of strong political pressure, the executive branch will be least likely to undertake a major initiative on behalf of those high-tech industries (for example, high-definition television and fiber optics) that are unable to compete in foreign markets.⁵⁰

Having posited when and how the American executive is likely to respond to domestic interests threatened with foreign competition, I now argue that, since trade conflicts between countries with competitive trade relations are most likely to occur in sectors in which U.S. firms are competitive (either high-tech sectors or mature/non-high-tech industries that have considerable political clout), the U.S. executive will be more likely to deviate from the free trade ideology to accommodate domestic pressure for protectionism or strategic trade policy when disputes involve these industries. This accommodation should bring the executive position closer to that of the legislature, which tends to be more hawkish in most trade disputes,⁵¹ increasing the pos-

sibility that threats to impose sanctions will be ratified by the more dovish actor.

To be sure, trade conflicts between countries with competitive trade relations have taken place in noncompetitive, non-high-tech industries such as textiles and steel. But even here one would expect the American executive to respond more forcefully to domestic industries seeking relief from competition from a country with which the United States has a competitive trade relationship than to one with which it has a complementary relationship, because the level of threat posed by the former would be perceived to be higher than that by the latter.

Conversely, since trade conflicts between the United States and a country with which it has complementary trade relations are most likely to take place in noncompetitive, permanently declining industries, the U.S. executive is less likely to respond to domestic protectionist pressure, even though the industry under consideration still may hold some political power. Moreover, the interests of the import-using sectors in the continuation of normal trade relations should give the executive an additional incentive to resist the tougher approach. The policy space between the two government institutions will be wider, and there will be a higher possibility that threats may not be approved by the dove. The wider gap between executive and legislative preferences should make U.S. threats of sanctions less credible to the target.

This analysis leads to one of the key hypotheses of this study: the United States will be able to make more effective use of threats to extract concessions from nations with which it has competitive trade relations (such as Japan or Europe) than it will from nations with which it has complementary trade relations (such as China). In the case of competitive trade, not only are domestic interests more likely to be united in favor of trade sanctions, but the degree of division between the two government institutions will also be considerably lower, making the use of threats more effective. In the case of complementary trade, on the other hand, divisions in domestic interests and a more divided government all serve to undermine the credibility of U.S. threats.

Explaining Patterns of Trade War

Having developed a modified two-level game approach to explain the variations in the effectiveness of U.S. coercive diplomacy, we are still left with the question of why there have been many trade wars between

democracies. This study proposes that the same factors that account for the variable degrees of threat credibility can also help us understand the lack of democratic peace in trade. The structure of trade—by influencing the structure of societal preferences, the preferences of the executive, and the degree of divided government—alters the incentives created by the nature of the regime (whether a state is democratic or not) that prevent democracies from going to war with one another in the security realm. Since a good number of democracies happen to be advanced industrial countries whose trade with one another tends to be competitive, strong domestic pressure for sanctions, coupled with an executive more inclined to go along with the tougher approach, will likely push these democracies toward fairly conflictual stances in trade disputes, resulting in high instances of trade wars among democracies.

In the case of competitive trade, domestic interest groups are generally unanimous in support of aggressive trade negotiation strategies, since both exporting and import-competing interests gain from aggressive tactics that promise benefits whether the threat succeeds or fails (and results in sanctions). This should produce strong pressure for brinkmanship in bilateral trade disputes. Meanwhile, for the reasons already enumerated, the executive is also more likely to approve of the need to impose sanctions if he or she perceives that domestic pressure for compensation is strong enough or that an industry vital to the future economic well-being of the nation is genuinely threatened by foreign competition.

When it comes to trade disputes between two countries with complementary trade relations, the structure of domestic interests differs. Divisions between exporting and import-using interests mean that an internal consensus will be harder to obtain. When one group of actors clamors for policies that will restrict the target's access to the home market, chances are that this will be offset by the pressure from another group that has an interest in the continuation of normal trade relations. This should reduce the incentives for defection in bilateral trade. Moreover, the more hawkish legislative branch will find it more difficult to get the executive, whose policy stance will differ even more sharply with that of the legislature, to ratify the decision. Given the difficulty of securing domestic ratification of threats, it is hardly surprising that the United States has rarely imposed sanctions to initiate a trade war with a trading partner with which it has a complementary trade relationship.

As we can see from the analysis in this chapter, the degree to which domestic actors are united over sanction threats plays an important

role in determining the likelihood of trade wars. Having domestic groups opposed to sanction threats not only reduces threat effectiveness but also makes trade wars less likely. Similar to Conybeare's analysis of bilateral trade wars, this study emphasizes the importance of trade structure in affecting the outcomes of international commercial conflicts. But the argument advanced here also differs from that of Conybeare in important ways. For Conybeare, the structure of bilateral trade games is the primary factor determining the outcomes of commercial rivalries. Trade structure is important insofar as it affects the structure of payoffs in bilateral trade wars. Even though he considers the impact of domestic politics in some of his cases, he essentially adopts a game-theoretic approach that treats states as rational, unitary actors. In his framework, the influence of domestic politics is peripheral. The approach adopted here, in contrast, seeks to disaggregate the effects of trade structure at the domestic level by showing how it can affect states' propensity to engage in trade wars by influencing the level of polarization among domestic interest groups and the level of divided government. In doing so, it provides a plausible theoretical mechanism linking domestic and international variables.

In short, even though the theory of democratic peace would have led us to expect fewer democratic trade wars, that most democratic countries happen to have highly competitive trade relations generates societal and institutional forces that make democracies no less war prone with one another in trade than with nondemocracies.⁵² While the theory of democratic peace may have considerable validity when applied to security issues, it does not fully capture the dynamics of international trade conflicts: democracies may be no less inclined to fight trade wars due to forces that can be traced to trade structure. The one strand of the democratic peace theory that is most applicable to trade issues—the theory of “democratic signaling” emphasized by Fearon—obviously has trouble explaining the pattern of trade wars we have observed. In the concluding chapter, I further discuss the implications of this finding for both trade policy-making and for the “democratic peace” literature.

Conclusion

This chapter develops a framework showing how the structure of trade among nations, by influencing the structure of domestic interests and the level of divided government in the sender of threats, affects inter-

national trade negotiation outcomes. It advances explicit hypotheses about the influence of domestic politics on international behavior. This framework will be used to organize the following analysis of America's negotiation record with its major trading partners. We will find that the factors emphasized in this chapter do have the hypothesized effects on threat effectiveness and the probability of trade war. Because of the way in which its domestic topography is shaped by varying trade structure, the United States not only has considerable difficulty imposing its demands on its weaker trading partners but has also been involved in a fairly large number of trade wars with its democratic trading partners, a pattern that clearly is not explicable in terms of the democratic peace theory.