Trading Blocs
Michigan Studies in International Political Economy

SERIES EDITORS: Edward Mansfield and Lisa Martin

Michael J. Gilligan
Empowering Exporters: Reciprocity, Delegation, and Collective Action in American Trade Policy

Barry Eichengreen and Jeffry Frieden, Editors
Forging an Integrated Europe

Thomas H. Oatley
Monetary Politics: Exchange Rate Cooperation in the European Union

Robert Pahre
Leading Questions: How Hegemony Affects the International Political Economy

Andrew C. Sobel
State Institutions, Private Incentives, Global Capital

Roland Stephen
Vehicle of Influence: Building a European Car Market

William Bernhard
Banking on Reform: Political Parties and Central Bank Independence in the Industrial Democracies

William Roberts Clark
Capitalism, Not Globalism: Capital Mobility, Central Bank Independence, and the Political Control of the Economy

Edward D. Mansfield and Brian M. Pollins, Editors
Economic Interdependence and International Conflict: New Perspectives on an Enduring Debate

Kerry A. Chase
Trading Blocs: States, Firms, and Regions in the World Economy
Trading Blocs

States, Firms, and Regions in the World Economy

Kerry A. Chase

The University of Michigan Press
Ann Arbor
For Steph and Ella
I have many people to thank and debts to acknowledge in the writing of this book. Above all I must single out Jeff Frieden for being an exceptional scholar, generous adviser, and true friend. Jeff has served as an indispensable source of sage guidance and unwavering encouragement from the day he agreed to chair my Ph.D. dissertation committee. It has been my great fortune since I came to Tufts to have Jeff so close by, and I look forward to many future conversations with him about political economy, scholarship, and the New York Yankees.

I am grateful to all of my colleagues in the political science department at Tufts University for creating an environment of professionalism, community, and good humor. My department chairs, Jim Glaser and Vickie Sullivan, have been extremely supportive. Tony Smith read an early draft of the manuscript and offered excellent advice on how to present key points more effectively. Elizabeth Remick has been a terrific colleague and friend.

At UCLA, I learned much more from Ron Rogowski and Dick Rosecrance than I could ever communicate. Thanks also to Ben Bishin, Paul Frymer, Alan Kessler, and Chris Layne for giving me insights about political science (as well as diversions from it) over the years.

The German Marshall Fund of the United States provided funding for the project. This made it possible for me to write an initial draft of the manuscript as a visiting scholar at the Weatherhead Center for International Affairs at Harvard University. I would like to thank both organizations and the members of their staff who made this assistance possible.

Parts of chapters 2 and 6 draw from my article “Economic Interests and Regional Trading Arrangements: The Case of NAFTA,” International Organization 57 (winter 2003): 137–74. I am grateful to International Organization and Cambridge University Press for their permission to use this article. Thanks also to Robert Feenstra and Deborah Swenson for sharing with me the offshore assembly trade data that I use in chapter 6.
Jim Reische guided the manuscript through the review process at the University of Michigan Press. I am grateful to him and to Lisa Martin and Edward Mansfield, the Michigan Studies in International Political Economy series editors, for having confidence in the manuscript and being diligent in securing external reviews. Two anonymous reviewers won my appreciation for taking the time and effort to read the manuscript carefully and present their suggestions constructively. I thank them for giving me valuable advice on how to improve the argument, evidence, and presentation.

My parents, Lori and Steve Chase, instilled in me an appreciation for scholarship, and they have encouraged and supported me in education, career, and life. My beautiful wife Stephanie has provided constant love and emotional support throughout. Since she's had to live with this manuscript for as long as we've been together, I'm sure she will be as happy as me to see it finally in print. And my adorable daughter Ella has spent many of her first days at my side, bouncing, swinging, kicking, and (on rare occasions) napping while waiting for daddy to finish working so he could play.
Contents

List of Tables xi
List of Figures xiii
Acronyms xv

CHAPTER 1 Introduction: A World of Trading Blocs 1

CHAPTER 2 The Argument: Domestic Groups and Regional Arrangements 15

CHAPTER 3 Interwar Trading Blocs: Japan, Britain, and Germany, 1919–39 51

CHAPTER 4 The United States and Multilateral Trade Liberalization, 1922–67 105

CHAPTER 5 The EU: Fortress or Beachhead? 143

CHAPTER 6 NAFTA: The Politics in the United States 181

CHAPTER 7 Reluctant Regionalism: Japan and Asia 222

CHAPTER 8 Multinationals and the New Regionalism 255

Appendix 271
References 273
Index 299
### Tables

1. Typology of dependent variables
2. Industry preferences in the standard trade model
3. Economies of scale and preferences for trading blocs
4. Variables and methods of measurement
5. Scale of production in Japan, 1931
6. MES production and the Japanese market
7. OLS regression results for Japanese tariffs in 1935
8. Scale of production in Britain, 1930
9. MES production and the British market
10. OLS regression results for British tariffs in 1936
11. Scale of production in Germany, 1929
12. MES production and the German market
13. Scale of production in the United States, 1929
14. Relative size of the U.S. market
15. Trade lobbying in large-scale U.S. industries, 1922–45
16. Trade lobbying in small-scale U.S. industries, 1922–45
17. Scale of production in the United States, 1958
18. Trade lobbying in large-scale U.S. industries, 1947–62
20. OLS regression results for U.S. tariffs
21. Marginal effects of scale and returns to scale on U.S. tariffs
22. MES production and the EC market, 1984
23. Scale of production in the EC, 1980–89
24. Import competition in the EC
25. Scale of EC automobile production and trade lobbying
26. Tobit results for EC nontariff barriers
27. Returns to scale and market size in the United States, 1987
28. FDI in industries with economies of scale, 1989 194
29. Intrafirm trade and offshore assembly, 1987 197
30. Import competition from Canada and Mexico 200
31. Ordered probit estimates for NAFTA and CUSFTA lobbying 203
32. Predicted probabilities of NAFTA and CUSFTA support 204
33. Economic and political characteristics of lobby groups 216
34. OLS regression results for U.S. tariffs 219
35. Japanese intrafirm trade 231
36. Reverse imports and overseas production ratios in Japan 231
37. Sales of Japan’s East Asian affiliates, 2002 233
38. Intrafirm trade of Japan’s East Asian affiliates, 2002 233
39. Intrafirm trade balances of Japan’s East Asian affiliates, 2002 234
40. Export dependence of electronic and photographic equipment companies 238
41. Export dependence of automotive companies 241
42. Automotive policies in Southeast Asia 242
43. AICO and Japanese companies 245
Figures

1. The proliferation of regional trade agreements, 1948–2004 4
2. Average cost with economies of scale 26
Acronyms

ACEA Association of European Automobile Constructors
AFL-CIO American Federation of Labor and Congress of Industrial Organizations
AFTA ASEAN Free Trade Area
AICO ASEAN Industrial Cooperation
AISI American Iron and Steel Institute
AMA Automobile Manufacturers Association
APTA Automotive Products Trade Agreement
ASEAN Association of Southeast Asian Nations
ATC Agreement on Textiles and Clothing
ATMI American Textile Manufacturers Institute
BBC Brand-to-Brand Complementation
CCMC Committee of Common Market Motor Vehicle Constructors
CECOM Committee of European Copier Manufacturers
CEFIC Conseil Européen des Fédérations de l'Industrie Chimique (European Chemical Industry Council)
CUSFTA Canada–United States Free Trade Agreement
EACEM European Association of Consumer Electronics Manufacturers
EC European Community
EECA European Electronic Component Manufacturers Association
EIA Electronic Industries Association
ERT European Roundtable
EU European Union
EUROFER European Confederation of Iron and Steel Industries
FBI Federation of British Industries
FDI Foreign direct investment
FIRA Foreign Investment Review Agency
GATT  General Agreement on Tariffs and Trade
GDP   Gross domestic product
GSP   Generalized System of Preferences
HDTV  High-definition television
IDAC  Import Duties Advisory Committee
IT    Information technology
JAMA  Japanese Automobile Manufacturers Association
JETRO Japan External Trade Organization
JSEPA Japan-Singapore Economic Partnership Agreement
LDP   Liberal Democratic Party
MCA   Manufacturing Chemists Association
MES   Minimum efficient scale
METI  Ministry of Economy, Trade, and Industry
MFA   Multifiber Arrangement
MFN   Most favored nation
MVMA  Motor Vehicle Manufacturers Association
NACE  Nomenclature Générale des Activités Economiques (Statistical Classification of Economic Activities)
NAFTA North American Free Trade Agreement
NFISM National Federation of Iron and Steel Manufacturers
NIE   Newly industrialized economy
OAP   Offshore Assembly Program
OECD  Organization for Economic Cooperation and Development
OLS   Ordinary least squares
R&D   Research and development
RDI   Reichsverband der Deutschen Industrie (Federation of German Industry)
RTAA  Reciprocal Trade Agreements Act
SIC   Standard Industry Classification
SOCMA Synthetic Organic Chemical Manufacturers Association
TRIM  Trade-related investment measure
UAW   United Automobile Workers
UNCTAD United Nations Conference on Trade and Development
UNCTC United Nations Center on Transnational Corporations
USITC  U.S. International Trade Commission
USTC  U.S. Tariff Commission
USTR  United States Trade Representative
VER   Voluntary Export Restraint
WTO   World Trade Organization