

Conclusion

The previous chapters have examined in detail the conditions under which the United States would find the use of coercive trade negotiation strategies to be effective in securing concessions from the target country and the coalitional politics in the sender of threats that enhances the risks of aggressive escalation to trade war. Both the quantitative analyses and the detailed case studies suggest that competitive versus complementary trade structure shapes patterns of interest group alignment and institutional support in the sender of threats in sharply contrasting ways. These different dynamics at the domestic level in turn lead to substantial variations in the effectiveness of American threats and in the possibility of trade retaliation.

In the following pages, I piece together evidence gleaned from various parts of this book to present a profile of the major groups involved in each of the case studies, their position, and their influence on the resultant pattern of negotiations. As I have demonstrated throughout the case study chapters, the views of export-seeking interests (including both exporters with direct stakes in the negotiations and those who are not directly involved in the dispute and yet would be indirectly affected if trade sanctions were imposed against the target), import-competing groups, and import users differ substantially under different trade structures, affecting both the ability of American negotiators to elicit a positive response from the target country and the possibility of escalation to trade war. Because evidence about interest group involvement is scattered throughout the case study chapters, the section that follows will more systematically synthesize my previous analyses to highlight the differences in the positions of the key actors involved in the policy process and their impact on the policy outcome.

While the preceding analyses confirm my theoretical expectations regarding the centrality of trade structure, they also raise several questions that are not adequately addressed by my initial hypotheses. For

instance, the research has found that non-directly involved exporters can be important players in the anti-sanctions coalition, further buttressing import users' opposition to threats to cut off imports from the target. In a similar vein, cases aimed at greater market access and those intended primarily to bar foreign exports from the home market seem to exhibit somewhat different patterns of interest group mobilization, as the latter seem to elicit greater domestic support for retaliatory measures. These factors are not incorporated into my initial hypotheses but nevertheless are important for understanding the pattern of domestic support for aggressive negotiation tactics. I therefore discuss the relevance of these additional findings for trade negotiations.

After addressing these additional findings, I then proceed to raise several questions encountered during this research that merit further investigation. Two questions that seem particularly worthy of future research relate to the domestic politics of the target country and the impact of the strengthened dispute settlement mechanism of the WTO on America's unilateral pursuit of unilateral market-opening policies. First, since trade disputes involve the dynamic interaction of both parties, how domestic politics in the target country shapes the government's response to sanction threats is a key theoretical question that warrants further exploration. Examination of the domestic politics of the target may yield insights that lend further support to the propositions advanced in this book. I therefore address the need for undertaking careful research of the political economy of the target state and offer some tentative hypotheses about how trade structure influences domestic politics in the target in a way that reinforces the two empirical patterns analyzed in previous chapters.

Second, since the findings of this research are supported primarily with evidence from the 1975–95 period, before the introduction of the new dispute settlement procedures of the WTO, one may wonder to what extent my key hypothesis about trade competitiveness versus complementarity can accommodate these recent changes in the context of American trade policy. To address these concerns, I discuss the relevance of this study for recent U.S. trade actions. Referring in particular to U.S. trade policy toward China, I suggest possible avenues through which American negotiators may better achieve their policy objectives.

In the final section, I place this research within the context of the relevant literature on international relations and revisit the theoretical questions that motivate this research, focusing in particular on the contributions of this study to the two-level game approach and its poten-

tial for improving our understanding of the different strands of the democratic peace theory. I conclude by discussing the implications of my study for the execution and design of American trade policy, emphasizing in particular the ramifications of my findings about the important role of domestic politics for the United States' pursuit of aggressive negotiation tactics in trade policy.

Toward a Systematic Analysis of Domestic Politics

Earlier scholarship on two-level game theory has emphasized the nexus between domestic and international politics. This book contributes to the research program on two-level games by engaging in a systematic investigation of the domestic sources of international behavior and by developing a more complete characterization of the domestic game. Consistent with my initial hypothesis, trade structure affects both the pattern of domestic interest group alignment and the degree of institutional divisions in the sender of threats, with important consequences for the probability of trade war and the level of threat effectiveness. Specifically, a more competitive trade structure produces greater unity in favor of aggressive negotiation tactics, leading to the adoption of tough bargaining strategies by policymakers. Domestic unity not only enhances the credibility of U.S. threats in the eyes of the target country but also increases the risk of aggressive escalation to trade war. Conversely, a complementary trade structure aggravates divisions in domestic support for trade sanctions, resulting in reduced threat credibility and lower risks of trade war.

In each of the cases analyzed in the previous chapters, four major groups of actors have played decisive roles in influencing negotiation outcomes. Specifically, these groups are (1) exporters seeking to improve the access of their specific products to the target market. This group of actors has often turned out to be among the most vocal advocates of sanction threats; (2) firms exporting other goods to the target. The position of these groups depends on the specific negotiation context. They either support sanctions if they expect that sanction threats against a particular product would have spillover effects that could help to improve their own sales to the target (as in most U.S.–Japan trade negotiation cases), or they oppose sanctions if they expect that sanction threats would invite foreign retaliation, reducing exports of their products to the target (as in U.S.–China cases); (3) firms competing with products made in the target country. These import-competing

interests tend to be another major force supporting sanction threats, as they could benefit from the increased prices at which foreign producers have to market their products in the home country; (4) firms that import and use goods from the target. Since sanctions often threaten to either increase the costs or to interrupt the flow of their supplies, the degree to which these importers and users support sanction threats depends on the magnitude of the price increase, shaped in large part by the availability of alternative sources of supply inside the United States. Under competitive trade, these import-using groups ought to be less inclined to resist sanctions because they could obtain the same products from other domestic suppliers at comparable prices.

For example, if we compare U.S.–China trade disputes with U.S.–Japan or U.S.–Europe cases, we can see that in the former set of cases there are few, if any, firms that compete with imports from the target. In the MFN and textile trade disputes, textile producers did mount an attack on textile imports from China. However, they seemed to be unable to compete in the policy process with a fairly large constituency of firms that export to and import from China. Even exporters whose products were not targeted by trade sanctions opposed sanction threats out of fear that sanctions would provoke Chinese retaliation against their own products, thus threatening to reduce American access to the potentially lucrative Chinese market. Such highly polarized positions held by domestic interest groups lessened the credibility of sanction threats and at the same time minimized the chances for dispute escalation.

The dynamics of U.S. negotiations with Japan and Europe contrasts sharply with the pattern just described. The extent to which both export-seeking and import-competing firms share the same pro-sanction policy preferences distinguishes these negotiations from U.S.–China cases. Since trade between the United States and these trading partners is highly competitive, there is a large constituency in the United States competing with European and Japanese imports. This import-competing constituency has virtually no incentive to resist sanction threats because it could benefit from the restrictions placed on foreign imports in the event that sanctions were carried out. With such solid support from both export-seeking and import-competing firms, both the credibility of the U.S. negotiation position and the chances for aggressive dispute escalation are greatly enhanced.

To be sure, as with complementary trade, competitive trade creates its own winners and losers. In particular, competitive trade could generate opposition from downstream firms and from consumers whose

welfare may be negatively affected by the increased prices induced by the new trade barriers. For example, in the U.S.–Japan semiconductor trade conflict, sanction threats met with resistance from semiconductor users, who objected to the increased chip prices. Similarly, in the U.S.–Canada trade dispute over softwood lumber, lumber users and homebuilders raised concerns about increases in lumber prices. However, while competitive trade structure generated domestic opposition as well, these opposing interests were far less organized and coherent as a political force than under complementary trade. When trade is competitive, a large import-competing industry with surplus capacity typically exists in the country issuing the threat. As a result, the price hikes generated by trade sanctions are not nearly as steep as if trade were complementary, nor do they affect as large a segment of U.S. business interests as in the latter case. This explains why import users have exhibited a far lower level of political organization and activism in U.S.–Japan trade negotiations than in U.S.–China cases. In short, the case studies suggest that trade structure is an important factor explaining the pattern of trade war and threat effectiveness. The distributional consequences of competitive versus complementary trade relations matter for international negotiation outcomes.

Qualifications

An important caveat follows from the analysis just described. My case studies reveal that, in addition to the influence of trade structure on my two dependent variables, it also makes a difference whether threats are used to expand overseas export markets or are employed primarily to reduce foreign imports into the home market. Compared to cases related to exports, issues concerning foreign imports on the whole seem to have generated stronger domestic pressure in support of trade retaliation. The U.S.–Canada negotiations over softwood lumber and the U.S.–China trade row over textiles are both examples of disputes in which aggressive trade negotiation strategies have been employed to prevent import penetration. In these cases, sanction threats did not engender exporters' active participation because threats did not directly impinge on exporters' interests except when they faced the likelihood of retaliation. Exporters' inactivity in these situations allowed highly protectionist import-competing interests to define the issue and to exert considerable influence throughout the dispute to obtain trade relief. This partly explains why, although the United States was able to

peacefully settle those disputes with the Chinese where threats were carried out to open the Chinese market (e.g., IPR, market access, and MFN), it had greater difficulty achieving cooperation in the textile dispute, which primarily concerned imports. Thus, the cases remind us that the nature of the trade dispute, in addition to the structure of trade between two states, seems to be another important variable that needs to be taken into consideration to understand the dynamics of foreign trade policy.

Furthermore, in discussing trade relations between complementary trading partners, my original hypothesis focuses primarily on the role of exporters seeking improved market access to the target country and that of import users in the sender of threats, leaving out considerations of the influence of exporters who had no direct stakes in the dispute but who could nevertheless suffer from the possible effects of counterretaliation from the target. Yet in the process of tracing the activities of various domestic groups in the policy-making process, the case studies have exposed the active role of these non-directly involved exporters in opposing sanction threats. The coalition between these export-oriented industries and import users has provided an important counterbalance to the forces pushing for trade sanctions. Exporters' participation in the anti-sanctions coalition reinforced the divisions in American politics, both reducing the coherence of the American negotiation position and allowing complementary trading partners to capitalize on these internal strains in the sender of threats to their own advantage. For example, aware of both American importers' and retailers' reliance on labor-intensive products made in China and of the attraction of the Chinese market to American exporters, trade negotiators of complementary trading states such as China have frequently stated that they had nothing to lose in the event of a trade war, as the American exporting industry would have to forego valuable business opportunities in such an event.

Since the extent to which non-directly involved exporters will mobilize against threats of trade sanctions depends to a considerable extent on the scale of the target market, one may argue that it is possible that sanction threats will be particularly ineffective in gaining concessions in large developing country markets such as China or India but may not be as fruitless in other developing countries with smaller domestic markets such as Thailand or Indonesia. This is a reasonable conjecture. Future studies could more closely examine trade negotiations between the United States and its complementary trading partners with smaller domestic markets to see whether the size of the target mar-

ket makes any substantive difference. However, since my argument about threat effectiveness relates primarily to the role of import-competing versus import-using interests under different trade structures, it may be argued that, as long as there exists an active import lobby in the sender of threats, one would expect the sender of threats to experience difficulties establishing its credibility vis-à-vis the target, the size of the target market notwithstanding. While an active lobby by those exporters indirectly implicated in the dispute could further enhance the powers of the import users and hence the anti-sanctions coalition, it is not the only plausible explanation for the variations in threat effectiveness and the probability of trade war.

Finally, this study defines trade structure at the level of dyadic interactions without identifying industries or sectors with an active import lobby. This is justifiable, as sanction threats are often targeted at groups outside of the sector with protectionist practices and can thus bring additional actors from other industries into the picture. It is possible, though, to extend this analysis to identify industry-specific characteristics that impact on negotiation outcomes. For example, the reason why the United States and Canada have not fought more trade wars may be that the trade overlaps between the two countries involve predominantly automobile trade in which the same three companies (i.e., GM, Ford, and Chrysler) supply the bulk of U.S. and Canadian output. In addition, this trade has long been governed by a bilateral free-trade agreement in automobiles. Specific industry-level characteristics, such as the existence of intrafirm trade, could be taken into consideration in future research to address the question of why trade wars are more likely to take place in one sector than another.

Questions for Future Research

This book raises several issues that merit further research. First, although the logic of my argument ought to be applicable to bilateral trade disputes involving different country dyads over a longer time span, the empirical analysis of trade negotiations in this study is confined to trade disputes between the United States and its top twenty-five trading partners between 1980 and 1995, largely because of the difficulty of obtaining standard trade structure data for dyads of which the United States is not a part. But if the argument developed previously is valid, then it will be possible to test my argument against a larger sample of dyads over a longer period of time, including those

disputes initiated by countries other than the United States. Such a comprehensive empirical investigation, by varying the power asymmetry between the parties involved in the disputes, will allow us to capture better the complexity of international trade bargaining to determine that the empirical patterns established here are not a unique feature of American trade policy or of trade negotiations between great powers.

Second, although the United States has a greater tendency to be involved in trade wars with its competitive trade partners, not all trade conflicts between such pairs have ended up in a trade war. For example, although the United States has threatened economic sanctions against Japan for its unfair trade practices numerous times and has on a few occasions imposed trade sanctions against Japan, none of the trade conflicts between the two countries has flared up into a tit-for-tat trade war. This raises the question of why states with a competitive trade structure are willing to risk trade war in some industries but not in others. As mentioned earlier, inquiring into industry-specific characteristics may generate useful answers to these questions.¹

Third, it may be interesting to compare domestic politics in the sender of threats with the domestic political economy of the receiver of threats. Since domestic politics in the target represents the flip side of the coin, an examination of how competitive versus complementary trade structure affects the coalitional patterns in the targets may yield additional insights that complement the story on the side of the sender and thus provide additional support for my overall argument. Such an analysis may also allow us to see, for example, why, given the greater pressure that competitive trade exerts on import-competing groups in the target to resist concessions, some competitive trading partners are simultaneously more likely to offer concessions *and* more likely to get into trade wars with the United States. In the following section, I present some tentative hypotheses about how trade structure influences domestic politics in the targets in a way that complements my hypotheses about the connection between trade structure and the sender of threats, hypotheses that can form the basis for future research.

Trade Structure and the Political Economy of the Target States: Preliminary Hypotheses

The anecdotal evidence on domestic politics in the receiver of threats uncovered during this research suggests that trade structure reverberates in the target in a way that reinforces the causal logic developed in

this book. When the United States threatens to restrict trade with its partner country because the latter fails to address its unfair trade practices, sanction threats typically create a schism between industries whose protectionist trade practices constitute the source of the trade dispute and those whose exports to the United States would be jeopardized if sanctions were actually carried out. Thus, the degree to which export-oriented interests could overcome resistance from the former group of players for resisting concessions crucially determines the extent to which the target country will concede to the sender's demands.

When trade is complementary, exporters in target countries are less likely to be able to successfully resist forces opposed to concessions than are their counterparts in countries with a complementary trade relationship with the United States. This is because, under complementary trade, protectionist trade practices targeted by U.S. trade actions often involve industries that enjoy strong protection from the state. These industries, many of which are import-substituting ones, will tend to draw on their ties with the state, which has an interest in economic development, to fight against exporters' push for moderation. The strong connections between the state and the import-substituting industries may help to explain why complementary trading partners can simultaneously be less concessionary and more likely to be willing to endure the cost of a trade war.

For example, in U.S.–China negotiations over IPR, Beijing did not meet all U.S. demands on the IPR issue in part because it was confident that the United States, due to its conflicting domestic interests, would not go so far as to actually carry out the threats. But another important reason why Beijing was unable to honor its promises was that many local authorities have come to see pirating as a profitable rather than illegal activity, especially in a context of almost feverish squabbling for wealth among local governments in the 1990s, and consequently have scuttled those provisions of the agreements that called for strict enforcement of existing rules and regulations. That free riding on Western technology could expedite China's drive for economic catch-up made pirating activities less problematic from the point of view of local administrators. As a result, even though some exporters in China, particularly those located in the most dynamic coastal areas of China, had voiced their concerns about the impact of retaliation, it would have been very difficult to break the ties between the pirate entrepreneurs and the state.

As USTR reports pointed out, most pirating activities were taking place in the southern provinces of China, where free-market activities

first flourished following the country's opening up to the outside world. In the fledgling free-market atmosphere in these provinces, many local governments have come to view pirating industries as lucrative businesses that could bring significant economic benefits to their localities. Furthermore, many foreign reports have linked pirate entrepreneurs with officials within both the central and provincial governments. Some news reports pointed out that Chinese military and civilian government agencies and some influential Communist Party officials were involved with at least a few of the twenty-nine factories singled out by the USTR for producing pirated CDs. Some of these officials were even the so-called *princelings*, or offspring of key party and government officials, who were able to draw on a closely knitted web of political connections to refuse to obey the agreements the central governments entered into with foreign countries.²

Consequently, Chinese negotiators have frequently defended themselves in trade negotiations by arguing that they were trying their best to reform China's IPR laws but had little control over enforcement, the responsibility for which resides primarily with provincial governments. However, since the criteria for judging the effectiveness of trade pressure include both the extent to which an agreement is signed and the degree to which the signed agreement is implemented to U.S. satisfaction, the close ties between pirate entrepreneurs and officials at the level of both the central and local governments, which account for why the Chinese have repeatedly exacerbated difficulties on the enforcement front, would have made it difficult to offer a positive evaluation of the effectiveness of U.S. pressure.

The U.S.–China textile dispute provides another example of how the connection between the state and the industry influences the dynamics of the negotiations. When the United States threatened to scale back China's textile quotas for its illegal transshipment of textile products in the 1980s, the Chinese government, which has placed the textile industry at the forefront of the country's drive for export-oriented growth, retaliated against the U.S. quota restrictions by targeting U.S. agricultural exports to China. However, when the United States scaled back Chinese textile quotas in the 1990s, the Chinese government threatened retaliatory moves but did not follow through with its threats, instead urging the U.S. government to remove the quota restrictions. No direct evidence on the rationale of the Chinese action is now available. It is possible that, as the Chinese began to place more emphasis on the more balanced development of various industrial sectors and on the need to switch from an economy characterized by

labor-intensive manufacturing to one led by technology, the incentive for confrontation in the textile dispute was much reduced. Future research could generate more evidence to corroborate this claim.

Similarly, in the informatics dispute between the United States and Brazil documented by Odell and others, the Brazilian government refused to make concessions, even when faced with countervailing pressure from exporters who would lose from the imposition of sanctions. Primarily, this refusal reflected the fact that the informatics program the United States chose to attack formed the basis for an emerging autonomous computer industry and, as a result, enjoyed substantial support from all major actors in the Brazilian policy establishment. Not surprisingly, the U.S. campaign against the informatics law has been considered as a frontal assault on Brazil's national sovereignty in the area of advanced technology and has encountered fierce resistance by the relevant actors in Brazil.³

Politics in target countries with competitive trade ties with the United States presents a different story. Just as a competitive trade relationship solidifies domestic support for coercive action in the United States, it also leads the import-competing groups in the target countries to fiercely resist making concessions that will erode the amount of rents that such groups can accrue through protectionist policies. Indeed, highly asymmetrical interests between import-competing groups on both sides of the dispute often generate highly contentious pressures leading to tit-for-tat retaliation, especially in the early stages of the dispute, when exporters may not have sufficiently mobilized against import-competing groups' resistance to concessions. Since a primary means through which the import-competing interests in America's competitive trading partners can avoid concessions is by issuing threats of counterretaliation, competitive trading partners are in fact more likely to get into a trade war with the United States.

However, it is important to bear in mind that, in such cases, exporters who stand to suffer from the imposition of sanctions would push for moderation. Indeed, in the absence of strong ties between the state and import-competing interests, exporters are sometimes able to resist pressure from the latter for standing fast to foreign pressure, although they may fail to dampen pressure for escalation when the interests of the import-competing groups on both sides of the dispute are so incompatible as to preclude any resolution of the dispute. Therefore, it is possible that the United States may obtain, on average, more concessions from its competitive trading partners and may engage in more trade wars with these countries (in those cases where concessions

are not made). Moreover, the United States may also be able to extract concessions from its competitive trading partners following unilateral trade retaliation or a trade war, as the recent U.S.–EU banana trade dispute illustrates. Indeed, in many trade wars between countries with competitive trade relations, it is not unusual to observe a high degree of tension at the initial stages of the dispute leading to tit-for-tat retaliation, followed by concessions from the target countries in the aftermath of actual retaliation.

For example, in the U.S.–EC enlargement dispute discussed in chapter 7, it was only after the retaliation episodes, when the policy process had brought in a greater number of actors, notably exporters with greater stakes in an agreement, that voices for moderation prevailed in the EC, thus gradually allowing some concessions to be made. At the outset of the dispute, European agricultural interests whose income had undergone a steady decline in the mid-1980s, in particular French producers of maize who competed with American exports in the Spanish maize market, strenuously resisted concessions. For example, after EC negotiators, out of fear of creating an open break among EC member states, concluded an interim agreement with the United States in July 1986, they soon encountered a barrage of criticism from European farm interests. The French Association of Maize Producers (AGPM) and a number of other French farm groups staged vocal demonstrations in Paris on July 4. In the quintessential French style, they dumped two tons of maize onto the streets in protest. Calling the settlement a “veritable Munich,”⁴ they contended that it was unfair for French farmers alone to pay for the costs of enlargement. The EC-wide farm lobby joined AGPM with its own demonstrations and denunciations.

But even though French agricultural interests continued to embrace a hard-line position, dissenting voices began to emerge at this time. European exporters who would suffer from U.S. retaliatory action, most notably cognac and gin producers, in addition to manufacturers of some industrial products, began to press for accommodation through indirect contact with government officials. French cognac producers’ lobbying gained them assurances from the French government that no trade retaliation would take place.⁵ At the same time, “The British, the gin people and so forth, were working frantically to try to head off U.S. retaliation.”⁶ Industrialists were apprehensive of a trade war as well. Indeed, even though they did not face retaliatory threats from the United States, automobile manufacturers such as Volkswagen and producers of whiskey turned out to be most concerned with the long-term repercussions of a large U.S.–EC trade war

on both bilateral trade relations and on the world trading system. Another important objective of industrialists was to prevent French farmers from agreeing to take more industrial imports as substitutes for maize. Thus, exporters' desire to avoid trade sanctions eventually dampened the incentives for escalation, allowing the EC to gradually offer some concessions on the maize issue to prevent the further aggravation of U.S.–EC trade relations.

In short, the few examples cited here are illustrative of how trade structure could possibly influence both the distribution of gains and the possibility of agreement in international trade negotiations via its impact on domestic politics in the target of threats. My hypothesis about the influence of trade structure on domestic politics in the target countries is fully consistent with that developed for the sender of threats and may help to strengthen my argument about the centrality of domestic politics. But since this book focuses primarily on the sender of threats and since the domestic political economy of the target states merits further careful research, I have not provided an extensive treatment of politics in the target of sanction threats. Future research could systematically flesh out and empirically test these tentative hypotheses about how politics in the target shapes the negotiations and, in particular, how coalitional patterns and institutional arrangements in the target influence the decision-making process. Future study could also combine findings about the domestic political economy of both the sender and the target of threats to generate an interactive, more fine-tuned typology of the conditions that facilitate the effective use of threat tactics as well as those that influence the possibility of cooperation or conflict in international trade disputes.

From “Aggressive Unilateralism” to “Aggressive Multilateralism”: The Impact of the Establishment of the World Trade Organization

Since much of the evidence for my central claims derives from cases settled prior to the establishment of the WTO, with its newly innovated dispute settlement mechanism, one may ask to what extent these recent changes in the institutional context of American trade policy may have altered the determinants of Washington's threat and actual use of retaliatory measures. Institutionalists have argued that international regimes may promote international cooperation by reducing states' fears of cheating, improving the transparency of information, length-

ening the shadow of the future, and establishing linkages across issue areas.⁷ A reasonable question to ask, therefore, is whether the establishment of the WTO and the concomitant changes it introduced in the dispute settlement mechanism have constrained the use of retaliatory strategies and reduced the risks of escalation to trade war.

The experience with the WTO so far only provides tentative answers to these questions. First, it seems that, even at a time when states seem to be increasingly resorting to a strategy of “aggressive multilateralism” by taking advantage of the innovations of the WTO dispute settlement procedures, the creation of the WTO has by no means sounded the death knell for unilateral market-opening tactics. While the new WTO dispute settlement procedure does affect the operation of the “aggressively unilateral” American trade policy under Section 301 by making it more difficult for the United States to retaliate in those cases in which the WTO has not ruled in favor of the United States, Washington has not abandoned aggressively unilateral trade policies. Indeed, the United States has continued to use unilateral market-opening strategies in conjunction with the aggressive persecution of trade disputes under both multilateral and bilateral forums. The pursuit of aggressively unilateral trade strategy under Section 301 has retained its utility as the U.S. domestic authority against practices of nonmember countries of the WTO (such as China, Russia, Taiwan, and Vietnam) and against foreign policies in areas not yet covered or comprehensively regulated by the WTO (such as competition rules, labor standards, and intellectual property protection). The frequency of Section 301 initiation is comparable to, and indeed even slightly higher than, that in the GATT era.⁸ It is reasonable to expect that trade structure will continue to be an important determinant of the success of both bilateral and unilateral policy measures undertaken outside of the WTO framework or parallel with WTO decisions.

Second, it may be argued that, although the experience to date with the WTO seems to pose certain challenges to my previous analyses, it does not yet constitute disconfirming evidence. For instance, one may point to the substantial market access concessions that China offered to the United States during the negotiations leading up to the country’s entry into the WTO as evidence of the success of a multilateral strategy in opening markets in complementary trading partners. However, although Beijing’s willingness to offer market-access concessions during the WTO accession negotiations does offer a stark contrast with its reluctance to respond to American pressure during the period when the United States threatened unilateral trade sanctions, this change in Chi-

nese behavior may at least in part be explained by the leadership's interest in using the opportunities provided by international integration to advance its domestic reform agenda.⁹ Moreover, since the United States did not employ a coercive bargaining strategy by threatening to restrict Chinese exports to the United States, importers and retailers of Chinese products, who had in the past sought to block attempts by the administration to cut imports from China in order to punish that country's restrictive domestic practices, seem to have remained remarkably reticent in the policy process, broadly endorsing exporters' push for free trade. American importers of textile and apparel, represented by the U.S. Association of Importers of Textiles and Apparel, even welcomed the agreement, which among other things promised the elimination of textile and apparel quotas by the year 2005.¹⁰ For these reasons, the significant market liberalization concessions that the United States obtained from China during the WTO negotiations do not refute my argument about how trade complementarity may undercut the effectiveness of the U.S. negotiation strategy. How the United States and China settle disputes under the WTO—in particular, the distributive dimension of these dispute settlements—may constitute the more interesting and direct test of the relevance of my argument to the post-GATT era.

Similarly, judgment about the effectiveness of Washington's negotiation strategy under the new dispute settlement procedures of the WTO may be premature. While the United States seems to have encountered a lot of difficulties in achieving its core objectives in some individual fights with its competitive trading partners (such as the one with Japan over auto parts), it should be noted that the application of unilateral market-opening pressure in the past has not produced uniformly positive results *vis-à-vis* America's competitive trading partners. Even in the pre-1995 period, a fair amount of variation existed in the degree to which the United States successfully pursued its objectives even in bargaining with a single nation. Thus, a more comprehensive assessment of whether trade structure is a significant determinant of U.S. trade strategy in light of the recent changes in the WTO dispute settlement mechanism can be made with the assistance of a larger sample of disputes settled under the world trade body.

Third, even within the framework of the WTO, where institutional rules and regulations may have exerted a significant impact on state behavior, it may be argued that trade structure determines the basic structure of domestic interests underlying the negotiations, some of which may not be entirely amenable to institutional solutions. For

example, given the importance of trade structure and its domestic consequences, we may better understand the two U.S.–EU trade disputes over bananas and beef hormones that almost flared up into trade wars in 1999. Because of American and European farmers' competition for agricultural markets and because of the absence of any countervailing domestic forces, it is not surprising that these two trading partners had so much difficulty containing the escalation of these disputes, even with their close alliance relationship and the constraints of the WTO.

Indeed, while the WTO embodies and institutionalizes democratic norms of peaceful conflict resolution, its dispute settlement mechanisms nevertheless leave open the possibility of high-intensity trade conflict involving mutual retaliation. For example, Reinhardt and Busch have explained patterns of WTO dispute initiation and settlement outcome (i.e., whether the defendant has conceded to some or all of the complainants' demands for trade liberalization) in terms of the pressure for protection from domestic interest groups.¹¹ Rosendorff and Milner have explored how the institutionalization of uncertainty allows international institutions such as the GATT/WTO to foster sustained international cooperation. Specifically, they argue that, by incorporating escape clauses, the GATT/WTO permits countries confronted with intense, unexpected political pressure to shy away from their obligations on a short-term basis, in the process encouraging cooperation without increasing the risks of systemic breakdown.¹² In other words, even under the institutional framework of the GATT/WTO, states can find recourse to retaliatory measures under conditions of intense and highly asymmetric domestic political pressure. While offering the possibility of dispute settlement via adjudication, the WTO can still be an arena for conflict, allowing states with competitive trade structures to engage in trade wars under specified conditions.

Implications

Implications for Dependency Theory and for the Literature on the Trade-Conflict Nexus

When will the United States find the use of aggressive bargaining tactics most successful in opening foreign markets? Under what conditions will tit-for-tat trade retaliation most likely occur in international

trade negotiations? With respect to the first question, this book posits that the United States is unlikely to obtain the same concessions from countries such as China, Brazil, and India as from countries such as Japan, the EU, and Canada. Because the first group of countries produces commodities that are no longer manufactured on a large scale in the United States, American sanction threats against these states almost always will encounter strong opposition from domestic interest groups and hence will be less credible and effective.

This finding about the bargaining power of America's complementary trading partners, many of which are third world countries engaged primarily in labor-intensive production, poses a challenge to the realist and dependency theories that are highly pessimistic about the possibility of less-developed countries negotiating favorable dispute settlement deals with their partners in the industrialized world. The realist theory views international bargaining outcomes mainly as reflecting the underlying power balances of the parties involved in the dispute. The dependency theory shares with the realist theory an emphasis on the distribution of capabilities in the international economic system, arguing that the organization of the world economy systematically puts at a disadvantage countries in the periphery of the world economic order by preventing them from making a leap from producers of raw materials and primary products to manufacturers of industrial products. Given such a subordinate position within the international division of labor, it is not surprising that many developing countries have found it difficult to resist the demands of the more powerful countries in the advanced industrialized world.

However, if the analysis in the preceding chapters has any validity, we can see that, as labor-intensive industries in industrialized countries experience a steady decline or are eventually phased out, industrialized countries have come to develop a significant degree of dependence on the supply of raw materials and other labor-intensive products manufactured in the developing world. As importers and retailers in developed countries join the fray against the sanctions strategy, the credibility and effectiveness of sanction threats are substantially reduced. Viewed from the perspective of the target state, the sender's dependence on their products is a bargaining chip that can be used effectively in negotiations with the sender of threats. In other words, trade complementarity provides developing countries with considerable leverage in international negotiations, frequently allowing them to stave off trade pressure from their powerful negotiation partner. As such, an

important aspect of third world bargaining power that has not received adequate attention by the realist and dependency theories is revealed.

By extension, this finding may have implications for the literature on the relationship between economic interdependence and conflict. Among the various arguments it offers to explain why interdependence fosters peace, economic liberalism emphasizes that complex interdependence involving “mutual dependence” or “vulnerability” creates incentives for peace and cooperation among nations because interdependence increases the costs of disruption of commercial ties by military action.¹³ It is assumed that by engaging in trade in goods in which they have a comparative advantage, states have incentives to avoid conflict that promises to jeopardize the gains they could otherwise reap from trade. In particular, trade in goods with few substitutes is likely to facilitate cooperation.¹⁴ Realists challenge the liberal conception of interdependence as mutual and symmetrical interactions, asserting instead that interdependence entails elements of both dependence and independence and that power relations embedded in asymmetrical economic relations are highly consequential to the onset of international conflict.¹⁵ It has been also argued that trade generates negative security externalities and causes nations to maximize their relative trade gains, thereby creating conflict.¹⁶ In particular, when it comes to trade involving strategic goods, or goods for which a country has no ready domestic substitutes, states will be prone to conflict due to their desire to minimize their vulnerability.¹⁷

Existing empirical studies of the relationship between trade and conflict typically focus on aggregate trade levels and conceive of the state as a unitary actor, although some scholars have argued for the need to modify the unitary actor assumption to explore the possibility that trade in different types of goods may differently shape levels of conflict.¹⁸ It may be further argued that, besides studying the effect of different types of goods on conflict behavior, one may also wish to examine the impact of different facets of economic interdependence, of which trade structure may be an example, to tease out those specific characteristics of interdependence that are more or less likely to restrain belligerent behavior.¹⁹ The two-level game approach, with its emphasis on the interaction between domestic and international political forces, may prove useful to this endeavor. If it can be shown that certain types of trade are more likely to create a domestic coalition against trade disruptions, then we will have made an important theoretical advance in sorting out the relationship between interdependence and conflict.

Implications for the “Democratic Peace” Thesis

In addition to shedding light on the debated relationship between interdependence and trade, this research addresses the literature on democratic peace by examining democracies’ proclivity to become involved in aggressive escalation in trade conflicts. As explained in chapter 1, while scholars of international security have rather extensively explored the relationship between regime type and the possibility of military wars, researchers are now only beginning to try to sort out the connection between regime type and the probability of trade conflicts. My empirical analysis takes up the latter question, suggesting that even though a cursory examination of the pattern of trade conflict might reveal a positive association between regime type and the likelihood of trade war, this pattern is really a statistical artifact generated by the competitive trade relations between many democratic pairs. In other words, a competitive trade structure and other factors pertaining to the specific trade relations (such as the volume of trade), rather than democratic institutions, are the more proximate causes of trade wars. Because of the way in which competitive trade relations between many democratic dyads shape their domestic politics, democracies seem to experience more intense trade confrontation leading to heightened risks of tit-for-tat retaliation than do mixed pairs. In underscoring the importance of competitive versus complementary trade structure, this project reveals an important countervailing force in trade disputes and challenges the assumption, as espoused by recent writings on democracy and trade, that institutional features of democracies such as greater voter control or the need for legislative ratification facilitate democratic cooperation on trade issues. Indeed, my quantitative analysis of trade conflicts involving the United States reveals that regime type has no significant bearing on the probability of trade war in either a positive or a negative direction. The case studies bear out this finding, suggesting that, even though democratic norms of peaceful conflict resolution and the existence of multiple veto points via mechanisms such as “separation of powers” seem to act as a brake on the tendency for aggressive escalation in trade disputes, other aspects of democracy, in particular democracies’ susceptibility to producer interests, frequently make democracies more prone to trade conflict. These countervailing pressures inherent in a democratic polity thus render the association between regime type and patterns of trade dispute escalation anything but a foregone conclusion.

Besides addressing the growing body of literature on democracy and

trade conflicts,²⁰ this research provides us with a basis for evaluating the different strands of theories developed to explain the democratic peace in security. As explained in chapter 1, proponents of both the normative and the structure-based explanations for the democratic peace have grounded their respective arguments in empirical studies of military wars. The pattern of democratic peace that both have found in security affairs consequently leaves open the question as to what is the real causal mechanism for democracies' less belligerent behavior in international conflicts. The preceding analysis, by showing that democracies are not necessarily more "pacific" in trade disputes despite their superior signaling capacities and structural advantages, points at the norms-based argument as the more direct explanation for the pattern of democratic peace in security affairs.

Summarized briefly, the "audience cost" rendition of the democratic peace theory stresses how the information transmission properties of democratic institutions strengthen democracies' ability to send credible signals about their true intentions. In this view, threats of war made by a democracy better convey the state's actual willingness to fight because of the high domestic audience costs involved. The other side, knowing that its opponent means business and fearing the costs of war, will be more likely to refrain from further escalatory steps that will bring the two parties to war. In other words, from the point of view of the signaling literature, democratic institutions provide the key mechanism for the peaceful resolution of international conflicts and this mechanism ought to apply to both trade *and* security issues.

Yet, the finding that democratic regimes have found it difficult to take advantage of their superior signaling capacities to arrive at negotiated settlements challenges the institutional argument. Instead, the alternative causal mechanism proposed by this study, the structure of trade, produces such significant domestic repercussions that it overwhelms democratic institutions' capacity of information provision and conflict aversion, in spite of the fact that many democracies are superior information providers and that many of them are members of trade organizations such as the GATT/WTO, which place them in a better position to avail of the judicial dispute resolution proceedings of international trade institutions to reach negotiated solutions.

To put it another way, this book reveals that, at least as far as trade is concerned, the informational properties of democratic institutions have failed to prevent democracies from escalating trade disputes to the level of a "war." Given the assumption that security and trade issues share the same underlying strategic structure, as explicated by

Fearon,²¹ this finding casts doubt on the ability of democratic institutions to dampen the incentives for democratic pairs to escalate their conflicts, leaving the other pillar of the democratic peace theory, the norms-based explanation, as the more plausible explanation of the pattern of democratic peace that many analysts have observed in security affairs. This result reinforces the importance of democratic norms as a powerful constraint on the use of force among democracies, suggesting that liberal norms such as “live and let live” and the principle of peaceful settlement of conflicts may have served as the more powerful restraint on belligerent behavior among democracies. If this is the case, then the message this study conveys to American policymakers is that the construction of international peace depends not simply on the introduction of democratic institutions but on the development of attitudinal traits and behavioral norms that buttress the institutional structures of democratic polities. Thus, in their attempt to prevent violence in many conflict zones in the Third World, policymakers not only should devote their attention to instituting democratic regimes in many formerly authoritarian states but should also take care to promote democratic ideals, habits, and principles that not only would serve as a safeguard of budding democratic institutions but would also pave the way for peace among states.

Implications for Public Policy

The findings of this study may help us to understand the patterns of emerging trade conflicts between developing and advanced industrialized countries. For example, China’s remarkable export growth not only has created opportunities for trade conflict with the United States but also has more recently begun to engender heated trade confrontation with other developed countries such as Japan. In early 2001, China and Japan became embroiled in a trade dispute when Japan moved to impose import tariffs on three agricultural products from China to protect domestic farmers from cheap Chinese imports. In addition, as the surge in Chinese imports has increasingly prompted calls for safeguards, antidumping measures, and other import restrictions in Japan, there have already emerged voices for settling the dispute with China without resorting to retaliatory measures. The rationale behind such calls for moderation is that trade restrictions would impose an enormous burden on both Japanese consumers and the Japanese industry. In particular, it would prevent Japan from capitalizing on the trade complementarity between the two economies to

build an international division of labor that would allow Japan to achieve industrial upgrading as well as other related economic objectives of the structural reform program that currently constitutes one of the government's key policy planks.²² Thus, since reports about trade frictions between rapidly growing economies and advanced industrialized states such as the emerging U.S.–China trade conflicts will likely appear with greater frequency in newspaper headlines, the conclusions of this book ought to offer lessons for industrialized country governments in dealing with such trade disputes as well as a potentially useful framework for analyzing and predicting the patterns of these new issues in international trade relations.

Furthermore, my argument about how trade competitiveness versus complementarity affects the degree to which the United States is successful in extracting concessions has important implications for Washington's pursuit of unilateral market-opening strategies. In particular, given the difficulties the United States faces in garnering domestic support for aggressive bargaining tactics in dealing with complementary trading partners such as China, it seems that American negotiators may want to be more selective about the kinds of threats they make vis-à-vis such countries and to avoid making demands that lack domestic support. In cases where threats would have to be invoked, it is essential that American negotiators be aware of dissenting voices at home and effectively address these internal differences in order to present a more unified negotiation position vis-à-vis their foreign counterparts.

Offering side payments to the main domestic groups that would have been adversely affected by the sanctions and that are therefore opposed to the sanctions strategy may help to ameliorate the difficulties faced by American negotiators in marshaling support for threat tactics. By promising to address import users' demands in other issue areas or to provide government support in helping import users to adjust to the possible disruption of trade with the target, American negotiators may be able to convert formerly staunch opponents to the trade sanction strategy to their potential allies. Toward this objective, American negotiators may want to involve the relevant actors in close consultations in the early stages of the dispute. In particular, they may want to work closely with industry groups that may have the most reason to be upset about the pressure tactics in an attempt to come up with feasible plans for addressing the latter's concerns. This proposition is consistent with Putnam's argument that chief negotiators ought to seek to maximize the cost-effectiveness of their own threats and demands by paying close attention to the domestic repercussions of

their initiatives.²³ It also requires chief negotiators to expend more time and energy to identify and to work with industry groups at home to minimize domestic opposition and to forge a broad coalition behind the sanctions strategy.

Replacing “unilaterally aggressive” negotiation tactics with bilateral talks targeted more specifically at the issues of interest to the United States without making specific threats may provide another partial solution to the credibility problem. While it may be difficult for American negotiators to give up making threats, the futility of unilateral market-opening measures against complementary trading partners that I have documented throughout this book suggests that the United States may indeed have a better chance of achieving its objectives by opting for persuasion and other diplomatic routes of dispute settlement.

Alternatively, U.S. negotiators may want to more firmly embrace the multilateral negotiation strategy, bargaining hard for American interests under the aegis of such organizations as the WTO or APEC. Even though the structure of domestic interests still influences the perception of the target state and even though evidence on the efficacy of the WTO in settling trade disputes is still inconclusive, hopefully the United States will be better able to achieve its policy objectives by adding international opprobrium to the alleged unfair trade practices and by taking advantage of the judicial route to dispute settlement. Moreover, since both the United States and the target countries may be required to adjust their policies in such cases, the possibility that the target country will make concessions in one issue area in exchange for U.S. concessions in another area will be enhanced, thereby alleviating the difficulties the United States would have faced in establishing credibility had it chosen to pursue the dispute unilaterally.

While these recommendations do not guarantee success, they nevertheless point at potentially fruitful courses of actions for the United States. If the findings of this research are of any validity, then an important message it conveys to practitioners is that one should not only “know thy enemies” but also be aware of those impediments to effective policy implementation that can be found at home. As an ancient Chinese military strategist, Sun Zi, once said: “If you know the enemy and know yourself, you need not fear the result of a hundred battles. . . . If you know neither the enemy nor yourself, you will succumb in every battle.”²⁴