

CHAPTER 1

Introduction

Increasing international interdependence has been accompanied by heightened commercial rivalry among nations. In the past two decades, trade conflicts between advanced industrial countries have intensified as these states have competed to maintain a vibrant domestic production base. Confronted with the possibility of eroding economic competitiveness and challenged by other developed nations, the United States has engaged in a never-ending series of trade conflicts with its European and Japanese competitors, particularly in those high-technology industries such as semiconductors and aircraft that directly affect the national economic and security interests. Some of these conflicts even led to trade wars.

As the United States was forced to adopt an increasingly aggressive trade strategy in dealing with its competitors in the industrialized world, it also had to cope with growing trade challenges from developing countries whose pursuit of mercantilist and protectionist policies for rapid economic catch-up put them on a collision course with the Americans. In the late 1970s and early 1980s, the United States increasingly began threatening trade sanctions to liberalize markets in newly industrializing countries such as Taiwan, South Korea, and Brazil.

More recently, China's remarkable economic growth has begun to pose another major challenge to American trade policy. Although total trade between the two nations grew from \$4.8 billion in 1980 to \$121.5 billion in 2001, making China the fourth largest U.S. trading partner, the U.S. trade deficit with the Chinese is also on the rise, reaching \$83.8 billion in 2000 and \$83.0 billion in 2001 (see fig. 1.1).¹ In 2000 China for the first time surpassed Japan as the country with the largest trade surplus with the United States.

It is not surprising that Washington and Beijing have found themselves embroiled in a wide range of trade conflicts over the past two

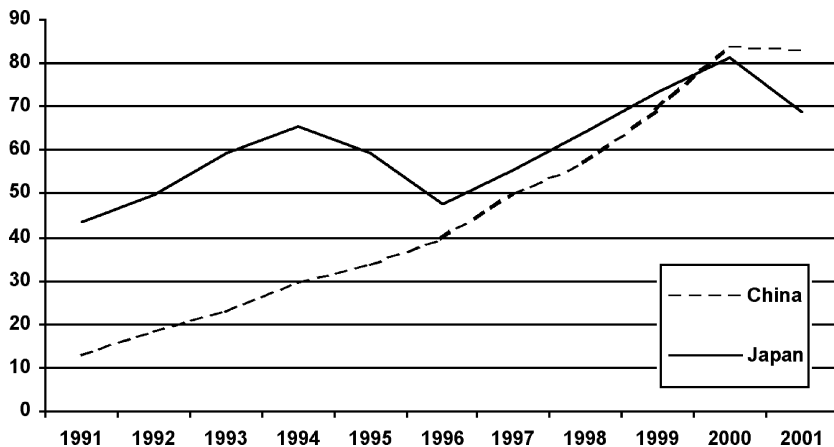


FIGURE 1.1. U.S. trade deficits with Japan and China, 1991–2001 (in billions of dollars). (Data from U.S. Department of Commerce, International Trade Administration, *U.S. Foreign Trade Highlights*, various years.)

decades in such areas as intellectual property rights (IPR), textiles, market access, and China's Most-Favored-Nation (MFN) status. What is most surprising, in view of the disparity in bargaining power and resources between the two countries, is that America's sanction threats against China have succeeded in winning unilateral concessions in few of these conflicts. Prior to the 1999 U.S.–China agreement on terms of China's entry into the World Trade Organization (WTO), the Clinton administration encountered considerable difficulties in its effort to open up the Chinese market because the Chinese government, preoccupied with problems associated with its efforts to further reform the economy, demonstrated little willingness to dismantle trade barriers. Although recent moves by the United States to integrate China into the world trade body appear to have produced some genuine market-opening outcomes, Washington's attempt during most of the last decade to threaten China with trade sanctions for unilateral trade gains has by and large failed to induce Chinese concessions. It could be said that, for American trade dispute diplomacy, China has become the most challenging state, on a par with Japan in the 1990s.

The record of these commercial rivalries presents us with two puzzles. First, even though the United States has always been the country with greater aggregate power and bargaining resources in bilateral trade disputes, it has had uneven success in extracting concessions

from its trading partners through the use of coercive strategies. As my survey in chapter 3 of Washington's attempt to unilaterally open foreign markets under Section 301 of U.S. trade law indicates, the degree to which the target countries yield to American demands often varies in ways that cannot be neatly explained by their dependence on the American export market. For instance, although Japan is less dependent on the American market for exports than many U.S. trading partners, it has given in most frequently to U.S. pressure.² Interestingly, countries that are more heavily dependent on the U.S. export market (such as China, Brazil, and India) have turned out to be more resistant to American demands.³ Despite having fewer power resources, they have frequently been able to negotiate better dispute settlements than gross measures of power would predict. Clearly, traditional realist theory, with its emphasis on nations' underlying raw power balances, cannot explain why, on average, American coercive diplomacy works less well with countries whose raw material power should have put them in a more disadvantaged position vis-à-vis the United States. It seems necessary for us to look at factors other than raw power to understand the variations in the effectiveness of America's pressure tactics.

The second puzzle motivating this study is that the pattern of democratic peace that has been found to be a distinctive characteristic of international security conflicts does not seem to apply to trade conflicts. The empirical evidence presented in chapter 3 on the pattern of state involvement in the aggressive escalation of trade disputes leading to mutual retaliation suggests that trade conflicts between pairs that match democratic and authoritarian states have not more frequently escalated into trade wars than have conflicts between democratic trading partners. Indeed, statistical analyses of the determinants of trade retaliation indicate that states' regime type has no significant bearing, in either a positive or a negative direction, on the probability of aggressive escalation of trade disputes.

In a nutshell, the theory of democratic peace posits that democracies are significantly less likely to go to war with one another.⁴ With a few exceptions, most of the recent democratic peace literature has focused on the effect of regime type on the probability of military wars. Relatively little effort has been made to assess the relationship between regime type and the likelihood of trade wars.⁵ Nevertheless, as this chapter will later explain, the insights of the democratic peace theory should be applicable not only to analyses of military wars but also to analyses of trade wars. In particular, one version of the democratic peace theory, the theory of "democratic signaling" put forward by

James Fearon, provides a logic that suggests that democracies should be less likely to engage in trade wars with one another.⁶

However, as the empirical evidence presented in this study reveals, democracies are *not* less inclined to be involved in trade wars with one another than with authoritarian states. The record of America's involvement in trade conflicts under both Section 301 of U.S. trade law and the dispute settlement procedures of the General Agreement on Trade and Tariffs (GATT)/WTO suggests that, even if we take into consideration alternative explanations, the United States still has been involved in a large number of trade wars with its democratic trading partners, such as Japan and Europe, a pattern that clearly does not accord with the theory of democratic peace. These empirical irregularities raise an important research question: Is democracy indeed associated with an enhanced propensity to be involved in high-intensity conflict in trade, or is trade war driven by some more fundamental causal mechanism than regime type? Furthermore, if regime type has no association with the probability of trade war, what can we deduce about the "audience cost" rendition of the democratic peace in explaining the pattern of military wars? By studying trade conflicts, light is cast on this important theoretical question of whether democracies do indeed resolve disputes efficaciously, a question that continues to grapple scholars of international relations today.

In approaching the two puzzles described, I draw on the notion of "two-level games" to show how domestic and international politics interact to affect negotiation outcomes. The two-level game approach, which has gained prominence in recent years, argues that political leaders must play their hands in the domestic and international arenas simultaneously. Their behavior cannot be understood without taking into consideration the constraints and pressure they face in both arenas. The metaphor, by adding a new level of analysis to international relations, allows us to go beyond the unitary actor assumption to view central decision makers, legislatures, and domestic groups as independent actors in international politics.

However, although the two-level game concept provides a good starting point for organizing empirical studies, most of the literature inspired by it has fallen short of generating explicit hypotheses about the interaction between domestic and international politics. Moreover, the two-level game approach remains underdeveloped theoretically. Although a number of recent works address this problem by developing more rigorous treatment of the domestic game, and some even systematically investigate the possibility of democratic cooperation on

trade,⁷ few have explicitly utilized the two-level game concept to explain variations in threat effectiveness and the outbreak of trade wars. This study fills this gap in the literature by developing a systematic analysis of domestic interests and institutions and of their impact on international negotiations. It argues that a system-level variable, the *structure of trade* among nations (specifically, whether the bilateral trade relationship is complementary or competitive), affects threat effectiveness by influencing both the level of unity among domestic interest groups and the degree of divided government. The same factor also affects the propensity of trade conflicts to escalate into trade wars.

The structure of trade, as will be explained in more detail in the next chapter, refers to the degree to which two countries engage in the export of a similar range of products. If two countries produce a similar set of commodities and can easily replace imported commodities with similar products produced at home, then they have a primarily *competitive* trade structure. But if each of them specializes in a different set of products in which it has a comparative advantage, and trades them for commodities that it is incapable of producing at a reasonable cost, then they have a *complementary* trade relationship. To put it in another way, trade complementarity involves the mutually beneficial exchange of goods in areas where each is deficient. By looking into the structure of trade among nations and its impact on domestic politics and international negotiating outcomes, this work offers a plausible explanation for the two empirical puzzles previously summarized, and, in doing so, it aims to capture an important aspect of the dynamics of international trade negotiations.

Variations in Threat Effectiveness

The first puzzle of this study concerns variations in the degree to which U.S. economic coercion succeeds in achieving its intended objectives. Following the realist insight that bargaining outcomes reflect states' underlying power balance, one would expect the United States, which holds greater aggregate power vis-à-vis all of its trading partners, to be most successful in extracting concessions from its least powerful trading partners. Unfortunately, however, this theoretical expectation has insufficient empirical support. Previous studies of asymmetrical trade negotiations have uncovered many cases where powerful states failed to impose their demands on weaker ones.⁸ Moreover, if we look at the record of all Section 301 cases concluded by 1995, we can see that the

degree to which the United States has achieved its negotiation objectives varies in ways that cannot be readily explained by the realist theory.

For instance, although the European Union (EU) has the lowest ratio of asymmetrical export dependence on the United States (EU's export dependence on the United States, measured by EU's exports to the United States as a percentage of EU's GNP, averages only 0.96 times the U.S. export dependence on the EU between 1975 and 1995), it is among the U.S. trading partners that are more responsive to American pressure.⁹ Similarly, although on average Japan is only 4.63 times more dependent on the American market than vice versa during the same period, it has yielded more often to American demands than nations that are much more dependent on U.S. export markets, such as China. In U.S. negotiations with Japan under Section 301 of the U.S. trade law, American pressure proved to be largely successful in achieving market-opening results in four out of a total of twelve cases, produced partial success four times, and resulted in nominal success in the remaining four cases.¹⁰

In contrast, the United States has had greater difficulty imposing its demands on nations whose raw material power should have put them in a relatively weak position vis-à-vis U.S. demands.¹¹ For example, China, which was on average 29.6 times more dependent on the American export market than the U.S. was on the Chinese market between 1975 and 1995, has yielded far less frequently than America's other trading partners. In recent trade negotiations with China, the United States has had considerable difficulty convincing the Chinese to conform to its demands. In the two Section 301 cases involving China in the early 1990s (IPR protection and market access), the United States was able to achieve only nominal success.¹² In these cases, although the United States managed to secure China's written consent, it rarely received substantial compliance with the terms of the agreement. When the Chinese government did agree to change its policies, it did not implement and enforce these policies completely either because of the lack of political will or because of domestic intransigence. If we apply the same criteria Bayard and Elliott used to evaluate the degree of negotiation success in two other major U.S.–China trade disputes (textiles and MFN) conducted outside of the framework of Section 301 of U.S. trade law, we can see that American pressure has been similarly ineffective. The Americans were only nominally successful in the textile case since the bilateral textile agreements were not implemented to U.S. satisfaction: Chinese sales of textiles to the U.S. market skyrocketed despite the quota restrictions mandated by the agreement; Chi-

nese textile and garment producers also found ways to circumvent the quota restrictions by transshipping Chinese textiles to the United States via third countries.

The United States fared even worse in efforts to change China's trade and other domestic practices through threats to revoke China's MFN status. The Chinese side completely rejected most American demands and made few, if any, changes in its domestic policies. The MFN case thus represents almost a complete failure for American negotiating objectives. On the whole, it seems fair to say that U.S. coercive strategy has produced rather limited results in China: Beijing did not offer even minimal concessions to the United States in some cases. In those cases where Beijing did commit itself to written agreements, it was either unwilling or unable to implement the promised policies.

China's ability to resist American pressure is particularly puzzling in view of the fact that other similarly trade-dependent countries in Asia such as Japan, South Korea, and Taiwan have tended to be much quicker to offer concessions. This contrast suggests that raw power per se is inadequate to explain the variations in the outcomes of international trade negotiations. Factors other than raw material power need to be taken into consideration for us to better understand the dynamics of international bargaining.

Democracy and Trade War

There is another puzzling aspect of international trade conflicts: inconsistent with the predictions of democratic peace, it cannot be established that, in trade, democracies are less war prone with one another than with authoritarian states. Simply stated, the democratic peace thesis contends that, while democratic states are as war prone as other regimes, pairs of democracies are less likely to fight wars against each other.¹³ Three strands of arguments have been offered to explain why democracies are less war prone in their relations with fellow democracies. The norms-based explanation, which focuses on the constraining effects of democratic norms and principles on democracies' external behavior,¹⁴ is based on a logic that seems to be most relevant to international security conflicts—the only area in which empirical evidence has been marshalled to support the contention that there *is* a democratic peace. However, institutional explanations of the democratic peace and, most importantly, the audience cost argument, which extends the institutional explanation to highlight the role of domestic audience costs in

constraining democracies' propensity to escalate their conflicts to the level of a "war," emphasize a causal mechanism that should logically yield solutions to both security *and* trade conflicts among democracies.

Norms-based explanations of democratic security peace regard the norms of self-determination, regulated political competition, compromise solutions to political conflicts, and peaceful transfer of power as powerful restraints on violence between democratic systems. According to Russett, "If people in a democracy perceive themselves as autonomous, self-governing people who share norms of live-and-let-live," they are likely to extend these norms to other national actors who are "also perceived as self-governing and therefore not easily led into aggressive external behavior by a self-serving elite."¹⁵ In other words, democracies are constrained and perceive other democracies as constrained by the same set of structures and behaviors that limit aggression. The externalization of democratic rights and principles, it is argued, mitigates democracies' fears of being dominated by one another, thus preventing conflicts between democracies from escalating to the use of military force. But when a democracy comes into conflict with a nondemocracy, it will not expect the nondemocratic state, which does not abide by the norms of peaceful resolution of conflicts in its internal politics, to refrain from the use of force in its foreign relations. Out of fear that its moderation may be taken advantage of by the nondemocratic state, a democracy may resort to more forceful conduct to obtain a decisive outcome. In short, democratic principles and practices that denounce the threat or use of violence allow democracies to be more "dovish" in their foreign relations, fostering a "zone of peace" among democratic states.¹⁶

The norms-based explanation has been frequently invoked to explain the democratic peace in the realm of international security. The second explanation of the democratic security peace focuses on the role of structural and institutional constraints on the use of violence. While this explanation can most readily be applied to security issues, it has potential implications for understanding trade conflicts as well. From the institutional perspective, democracies are inhibited from going to war by the need to ensure broad popular support. The complexity and lengthiness of the mobilization process mean that leaders will be reluctant to take the country to war unless they can convince the public that victory can be achieved at a reasonable cost. Structural delays in the process of mobilization for war on both sides of the conflict should also provide greater scope for negotiation and other means of peaceful conflict resolution. By contrast, since leaders of nondemocracies are

not as constrained as leaders of democracies, they can more easily and rapidly initiate the use of force. In short, “the constraints of checks and balances, division of power, and need for public debate to enlist widespread support” in democracies will slow decisions to use force and reduce the likelihood of war among democracies.¹⁷

Building on the structure-based account, the third theory developed to explain democratic peace, the audience cost argument, emphasizes how democratic states are better able to learn about an adversary’s resolve in a crisis situation and is based on a logic that seems more likely to apply to economic as well as security conflicts. For example, Bueno de Mesquita and Lalman’s work dealing with the informational properties of political institutions argues that, due to the presence of active domestic opposition, democratic leaders face generally higher costs in the event that they fight a losing or costly war. In other words, democratic institutions help to signal a state’s true preferences by revealing that the government faces relatively high costs for using force, regardless of whether that government is making a conscious effort to signal its intentions.¹⁸

James Fearon builds on Bueno de Mesquita and Lalman’s model and contends that democracies should be able to cope better with the security dilemma because they can signal their resolve to other states more credibly and clearly than can authoritarian states. According to his formal model, domestic audience costs, which refer to the reaction of domestic political audiences interested in the leadership’s handling of foreign policy issues, allow states to learn about an opponent’s willingness to use force in a dispute. Since democratically elected leaders face higher domestic audience costs for escalating and then backing down, they are less inclined to bluff than are leaders of nondemocracies. To the extent that a democratic leader does threaten war, the threat is rendered credible because the leader is able to generate *costly signals* by incurring audience costs that would be suffered if he or she backed away from the threat. These believable signals between democracies allow them to learn exactly where their bottom lines are in a dispute. Given the high costs entailed if war actually breaks out, two democracies then have the incentive to use this information to reach a mutually acceptable settlement. The signaling and committing value of a stronger domestic audience makes democratic pairs less likely to begin or to escalate conflicts, thus ameliorating the security dilemma between such states.¹⁹

Kenneth Schultz takes Fearon’s argument and develops a more elaborate framework showing how domestic political competition can

help democratic states overcome the problems associated with asymmetric information. In this view, a strategic opposition party enables democracies to send more informative signals about their true preferences by creating a second source of information. An opposition party can enhance the ability of the government to make threats by publicly supporting those threats in a crisis, or it can undermine the credibility of threats by publicly opposing them. In the latter case, the presence of a domestic competitor with political incentives to reveal its aversion to war makes it more likely that the rival state will resist the threat, leaving the home government with less opportunity to bluff or to misrepresent its preferences. Hence, institutions associated with democracy, by providing more credible information about a state's resolve, give democracies an enhanced capacity to resolve their disputes peacefully relative to states that do not permit open competition.²⁰

The "democratic signaling" argument, although applied thus far only to the absence of security conflicts between democracies, is based on a logic that ought to extend to trade conflicts as well. In trade conflicts, as in security conflicts, democratic leaders face high domestic audience costs that enable them to reveal their true willingness to fight over the interests involved in the dispute. Thus, threats to impose economic sanctions should strengthen the target's belief that the threats actually will be carried out and provide the opponents with greater incentives to avoid trade wars and to arrive at negotiated settlements. Trade wars, like security conflicts, also impose high costs on nations that fail to come to negotiated settlements and allow disputes to escalate. For example, it is estimated that the trade war over agricultural subsidies in third markets between the United States and the European Community (EC) cost the two sides approximately \$2.5 billion over three years. Therefore, democratic dyads should have as strong an incentive to use the information generated by their enhanced signaling capacity to avoid trade wars as to avoid military wars.

The argument that this democratic peace theory should apply to trade wars as well as to security conflicts is strengthened by Fearon's own claims that the two issue areas share a common "strategic structure." Fearon argues that "diverse international issue domains can be productively viewed as having a common strategic structure."²¹ He contends that earlier cooperation theories that treat states as facing different strategic structures in different international issue domains are misleading. He believes that characterizing the strategic structures facing states as either coordination or collaboration games not only creates difficulties in assigning state preferences but also leads to the

neglect of bargaining problems that are not captured by these simple game structures. Regardless of whether the issue involves arms control, trade talks, exchange rate coordination, or environmental regulation, he argues, states are invariably confronted with problems of dividing up new or potential benefits of agreements and of monitoring and enforcing cooperative agreements. In this sense, he writes, trade bargaining has essentially the same strategic structure as “international crisis bargaining in which one state threatens military action and war.”²² If different international issue domains share a common strategic structure, as Fearon posits, then the same theoretical mechanism that helps explain the observation that crises between democracies are less likely to escalate into wars in the security realm should apply to trade disputes as well.

Indeed, some recent studies have devoted greater attention to the relationship between states’ regime type and their propensity to cooperate on trade issues. Based on a variety of theoretical premises, most of these studies conclude that democracies, whether alone or in pairs, should be less confrontational over trade issues. For example, Daniel Verdier concludes that democracies are more likely to pursue free trade policies because democratic elections enhance the power of voters with free trade inclinations vis-à-vis particularistic business interests with a protectionist slant.²³ Dixon and Moon focus on the effects of regime similarity on the likelihood of international cooperation. They assert that, since states with similar regime types ought to be more familiar with each other’s business practices, they should experience less political conflict in bilateral economic exchanges and consequently have freer trade than mixed dyads.²⁴

Mansfield, Milner, and Rosendorff contend that democratic pairs are more likely to conclude free trade agreements either because of the executive’s need to obtain ratification from the legislature or because of the need to retain the political support of both voters and interest groups.²⁵ Leeds offers a similar hypothesis, arguing that democratic dyads should cooperate more with each other than should two states with dissimilar regimes because democracies face higher domestic audience costs for breaching international commitments.²⁶ Still another explanation for democracies’ superior ability to settle trade conflicts cooperatively is offered by Dixon and Raymond, who emphasize the importance of democratic norms and principles in constraining democracies’ tendency to conflict over trade. From this perspective, democratic principles such as “bounded competition” and the rule of law extend to both security and trade relations between democratic

pairs. Despite the diversity of interests that characterizes democratic regimes, democracies should more frequently invoke these principles in their trade relations and bring their disputes to adjudication under international institutions governing trade such as the GATT/WTO. As a result, democracies are more likely to resolve their disputes more cooperatively.²⁷

Of course, not all of this literature emphasizes properties of democracies that diminish the chances of trade conflicts. Some scholars also highlight those aspects of democratic regimes that enhance their risks to trade confrontation. For example, Verdier contends that trade type (i.e., whether trade is intra-industry or propelled by scale economies), rather than regime type, is a necessary condition for trade conflicts. According to Verdier, even if a democracy alone were more likely to be engaged in free trade than an autocracy, democratic pairs are more likely to experience an increase in protection because similar regimes tend to enhance the political power of the same class of producers.²⁸ Reinhardt, based on an empirical study of the determinants of GATT/WTO trade dispute initiation, asserts that democracies are involved in a greater number of trade disputes. He reasons that, since democracies empower producers over consumers, democratic regimes are particularly susceptible to the demands of both import-competing and export-dependent producers to initiate trade disputes against foreign protectionist measures in order to obtain a “fair” trade outcome. Democracies’ vulnerability to producer interests also lessens their ability to compromise and to settle disputes cooperatively.²⁹ For similar reasons, Sherman finds that democracies are more likely both to participate in GATT disputes and to be targeted under Section 301 of U.S. trade law.³⁰

On the whole, these existing empirical studies have not yielded definitive conclusions about the effect of regime type on the likelihood of cooperation over trade issues. While some researchers find that democratic regimes cooperate more on economic issues, others disconfirm this view with contrary evidence.³¹ The current literature on democracies’ behavior in trade conflicts thus begs the question of whether the relationship between democracy and trade conflict is real. If the answer to this question is negative, then what might be the more fundamental causal process that drives state involvement in trade conflicts? What implications will these findings have for the debate over the relationship between regime type and trade cooperation, a debate that has only very recently unfolded? What can we infer from such a study of trade conflicts about the theoretical foundations of the democratic security peace?

This book provides a plausible answer to these questions by assessing the influence of regime type, among many other factors, on the probability that states will escalate their trade disputes to trade wars. An important objective of such an empirical analysis is to assess the conflict-prevention properties of democratic institutions as emphasized by scholars such as Fearon, Mansfield, Milner, and Rosendorff. As explained earlier, the audience cost argument proposed by Fearon posits that democratic institutions bestow democracies with superior signaling capacity that renders them less conflict prone than mixed pairs. Mansfield, Milner, and Rosendorff and Milner and Kubota share an optimism about democracies' ability to cooperate on trade issues, finding that democracies are more likely to undertake unilateral tariff reductions or to enter into preferential trade agreement due to greater voter control or the larger size of the winning coalition in democratic regimes.³² These arguments highlighting the greater degree of institutional constraints in democracies ought to lead us to expect fewer trade wars between democracies than between mixed pairs. However, if the empirical evidence does not support this hypothesis, then we may need to explore alternative explanations for the pattern of aggressive escalation in trade conflicts and would consequently have reason to be skeptical of democratic institutions as the key to democracies' enhanced ability to cooperate on trade issues.

Before proceeding, it is necessary to define one of my key dependent variables: trade war. For purposes of clarity, I will follow Conybeare's definition and consider trade wars as sustained, protracted, and high-intensity international conflicts "where states interact, bargain, and retaliate primarily over economic objectives directly related to the traded goods or service sectors of their economies, and where the means used are restrictions on the free flow of goods and services."³³

This definition allows us to distinguish trade wars from two other kinds of commercial conflicts: politically motivated trade sanctions and low-intensity trade conflicts with minor consequences. First, since trade wars mainly involve the use of economic means in the pursuit of economic objectives, they are distinct from other types of conflicts (such as trade embargoes imposed by countries involved in a military war) where economic means are used for political purposes. The following analysis will thus consider trade restrictions that have predominantly economic objectives. But it should also be noted that empirically "very few trade wars are sufficiently pure to be devoid of any political goals."³⁴ Many trade conflicts involve the pursuit of both political and economic goals. In the dispute over China's MFN status, for example, the United States sought to use the threat of MFN with-

drawal to induce the Chinese to concede on human rights issues, in addition to the economic objective of forcing changes in China's trade policies. In such cases, political factors are treated as a form of the "linkage" policy; their inclusion into the analysis, where necessary, will be justified.

Second, a trade conflict needs to reach a sufficiently high level of intensity to be called a trade war. According to authors such as Conybeare, routine customs decisions on tariffs involve fairly low-intensity conflicts. But if a conflict moves out of the bureaucracy and reaches the executive level of government, it can lead to high-intensity conflict. An "escape clause" petition in the United States would be an example of such high-intensity conflict. Furthermore, trade wars should involve the active participation of both sides. This means that the actor targeted for economic sanctions will engage in at least one round of retaliation for a trade war to exist. Thus, the imposition of antidumping duties or other forms of trade sanctions constitute a trade war only if the target country retaliates. An element of tit-for-tat is essential to this definition of trade war.³⁵

Judging from these criteria, trade wars, as far as those involving the United States are concerned, have taken place primarily between democratic trading partners. As the case summary in chapter 3 and the case studies in chapters 6 and 7 illustrate, the United States has been engaged in a series of trade battles with the EC over agricultural products, including the Chicken War in the 1960s, the Turkey War in the 1970s, the war in the early 1980s over agricultural export subsidies in third markets, the U.S. imposition of penalty duties on EC pasta in 1985 in retaliation for EC tariff preferences in favor of Mediterranean citrus fruits, and the EC enlargement case in the mid-1980s. In 1983, the United States imposed tariffs and quotas on specialty steel from the European Economic Community (EEC), prompting EEC counterretaliation against imports from the United States. In 1989, when the EC implemented its ban on beef from cattle treated with growth hormones, the United States responded with retaliatory tariffs on \$100 million of EC products. Trade wars also took place between the United States and Canada regarding lumber products and over Canadian provincial restrictions on imports of U.S. beer.

In comparison with this long list of democratic trade wars, trade conflicts between democracies and nondemocratic regimes have not more often escalated into tit-for-tat retaliation. For example, the United States has threatened to impose economic sanctions against China numerous times but rarely has carried out its promised threat,

instead reaching agreement with the Chinese on most issues. The only exception occurred in 1983, when the United States imposed a unilateral agreement on China restricting Chinese textile exports to the American market in response to pressure from the textile industry, after which China retaliated by suspending imports of American agricultural products. The United States also imposed sanctions on China in the aftermath of Tiananmen, but these sanctions were a unilateral reaction to a crisis situation whereby the U.S. government suspended investment and development programs in China. Since the United States was not trying to use sanction threats in negotiations to compel or deter Chinese actions, the Tiananmen sanctions were clearly quite different from normal bilateral trade disputes whereby the United States threatened to close its markets to Chinese exports should the latter fail to comply with its demands. All other Sino-American trade conflicts in the 1990s ended up with both sides making concessions and backing down from escalation. A near absence of trade wars has come to characterize U.S.–China trade relations. Since the literature on crisis bargaining predicts that misunderstandings leading to escalation are especially likely when the disputes involve at least one party that is nondemocratic, the contrasting pattern just described is particularly puzzling and will be a major focus of the following empirical analysis.

To reiterate, this study is interested in addressing two empirical puzzles associated with international trade conflicts. First, why has U.S. economic coercion been more successful in extracting concessions from some countries than from others? What explains the variations in American threat effectiveness? Second, why hasn't the United States engaged in more trade wars with authoritarian regimes than with its democratic trading partners? Through an exploration of these questions illustrated by specific cases of U.S. negotiations with its trading partners, this study aims to offer a better understanding of the conditions that limit or enhance the effectiveness of coercive diplomacy as well as those that facilitate or hinder the prospect for the peaceful settlement of international trade disputes.

The Argument in Brief

As mentioned earlier, the following analysis will draw on the concept of two-level games as the starting point of its analysis. But, in doing so, it also improves on the two-level game approach by laying out more clearly and systematically the linkages between the structure of domes-

tic interests and preferences and international trade negotiations. In the first place, it develops a specific model for understanding when threats are likely to be supported by domestic interest groups. Second, it advances explicit propositions about the conditions under which domestic institutions will be more favorably disposed toward the use of coercive strategies.

Specifically, it will be argued that the structure of trade among nations (i.e., whether bilateral trade relations are competitive or complementary)³⁶ affects threat effectiveness by influencing both the level of unity among domestic interest groups and the level of divided government. The United States will 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 due to the greater degree of domestic division in the former. This is because when trade is competitive, sanction threats will likely enjoy support from both export-seeking and import-competing interests in the nation issuing the threat as both groups gain from aggressive tactics that promise benefits whether the threat succeeds or fails. For instance, in the U.S.–Japan semiconductor trade dispute in the mid-1980s, American threats to impose sanctions on Japanese computers, television sets, and other electronics products unless Japan opened up its market to American semiconductor products enjoyed support not only from semiconductor manufacturers who were seeking expanded access to the Japanese market but also from industries targeted for trade sanctions (such as computer and electronics manufacturers) that faced stiff competition from Japanese imports themselves and hence would benefit from limitations on Japanese exports to the American market.

In contrast, when trade relations are complementary, domestic interests in the country issuing the threat will be divided in their policy preferences because of the division between export-seeking and import-using industries. Sanction threats in these cases will enjoy backing only from the export-seeking sectors, who only gain if the sanction threat succeeds. They will not enjoy support from the import-competing sector since such a sector will not exist in cases involving complementary trade relations. Instead, threats will encounter opposition from a large domestic constituency that makes use of imports from the target country. These divisions in domestic interests in the United States ought to substantially reduce American threat credibility. Trade between the United States and China, two countries with a highly complementary trade relationship, is a case in point. In U.S.–China trade disputes, active opposition from a large import-using constituency that

has developed a considerable dependence on the labor-intensive products made in China (such as apparel, textiles, and toys), coupled with a virtually nonexistent import-competing sector in the United States, has rendered America's threat of trade retaliation far less credible and effective vis-à-vis the Chinese.

American threat credibility is further undermined by the greater degree of divided government in such cases. Since trade conflicts between countries with complementary trade relations will most likely involve noncompetitive, declining industries, the U.S. executive will be less inclined to respond to domestic protectionist pressure and to go along with the tougher approach advocated by the more hawkish legislature. Divisions in domestic interests and the wider gap between executive and legislative preferences should make U.S. threats of sanctions far less credible to the target.

It will be further argued that the same set of factors that account for the variable degree of threat credibility can also help us understand the lack of democratic peace in trade. This is because countries with highly competitive trade relations ought to face stronger pressure for brinkmanship in bilateral trade disputes due to the greater degree of unity among domestic interest groups. At the same time, the executive in the sender of threat should be more likely to approve of the need to impose sanctions in these cases 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. These factors tend to push countries with competitive trade ties toward more aggressive tactics with a heightened risk of escalation to trade war. Since the majority of democracies also happen to be advanced industrial countries with highly competitive trade, this explains why democracies are not necessarily less conflict prone in their trade relations. In other words, trade structure, rather than regime type, provides the more proximate explanation for the many trade wars we have observed between democracies.

Method

Two methodological approaches will be adopted to carry out the research. First, I will draw on the database of Section 301 cases and other data on international trade conflicts (primarily those taking place after 1980) to see whether the structure of trade is associated, as predicted, with threat effectiveness and the instances of trade wars. If it

can be shown that a correlation exists between trade structure and the two dependent variables, we will then have increased confidence in the predictive value of the explanatory variable.

While such quantitative analyses may produce valuable results that shed light on my central theoretical questions, they may not provide all the necessary information that will allow us to draw valid causal inferences. Thus, to gather more evidence relevant to my causal inference, I conduct detailed case studies of U.S. trade disputes with China, Brazil, Japan, and Europe. By combining abstract quantitative models with qualitative research carried out on the basis of established rules of inquiry, I hope to generate valid and accurate descriptions of the underlying causal factors shaping states' interactions in international trade conflicts.

To produce well-formulated case studies, I undertake "structured-focused comparisons" as recommended by George and McKeown, supplemented by the "process-tracing" procedure intended to examine and trace "the decision process by which various initial conditions are translated into outcomes."³⁷ Structured-focused comparisons, which require collecting data on the same variables across units, ought to allow me to formulate "theoretically relevant general questions to guide the examination of each case."³⁸ The process-tracing procedure in turn places the process leading to the final outcomes at the center of the investigation and seeks to identify the factors that shape the actors' behavior and responses, including the effect of systemic, institutional, and societal factors on processes and outcomes. This strategy, by focusing on the motivations and perceptions of the actors involved in the decision-making process, allows us to account for the complicated bargaining process and to test whether the explanatory variable affects bargaining outcomes in the way predicted by the theory. In the context of this study, this strategy also enables us to see whether the structure of trade affects threat effectiveness and the instances of trade wars through the hypothesized mechanism, that is, by influencing the alignment of domestic interests and the level of divided government in the sender of threats.

To draw valid inferences from my focused comparative case studies, I select cases that could potentially yield new and interesting insights. In particular, I draw on standard criteria of case selection such as maximizing variation on the explanatory variable and controlling for alternative hypotheses. Selecting on the key causal explanatory variable does not introduce a bias into the research design, as the selection procedure has not ruled out any possible variation in the dependent vari-

able.³⁹ Thus, in testing my hypotheses about the connection between trade structure and threat effectiveness, I concentrate on comparisons of negotiations between the United States and Japan, one of America's most competitive trading partners, with U.S. negotiations with China, a trading partner with one of the most complementary trade relations with the United States, to ascertain if divergent trade structure generates substantially different domestic dynamics. The expectation is that such contrasting trade structures ought to produce rather different patterns of interest group alignment and institutional support in the country issuing the threat, which, in turn, affect the degree of threat effectiveness. A similar procedure is followed in analyzing the sources of trade wars.

In addition to maximizing variations on the explanatory variable, I also take into consideration alternative explanations in choosing my cases. For example, in analyzing U.S.–Japan trade negotiations, I include both cases in which strategic trade concerns play an important role (such as semiconductors, supercomputers, and satellites) and those in which such concerns are absent (such as wood products) to control for the possibility that strategic trade considerations alone could have explained the success of U.S. pressure tactics against Japan. In a similar vein, in discussing how trade complementarity affects U.S.–China negotiations, I have supplemented the debate over China's MFN status with bilateral negotiations over market access to take account of the potential influence of geopolitics in the former case.

Using primarily the Sino-American trade relationship as an example of complementary trade, the empirical study will compare recent U.S.–China trade negotiations with American trade negotiations with Japan and the EU—two actors having highly competitive trade relations with the United States—to see how well its main arguments and hypotheses describe reality. In the first place, several episodes in U.S. trade negotiations with China and Japan will be detailed in order to explain the variations in U.S. threat effectiveness. These two trade relationships provide a good point for comparison not only because both are major Asian-Pacific trading states that have become the focus of American trade policy but also because the structure of trade between the United States and China differs significantly from that between the United States and Japan: the United States has a far more competitive trade relationship with Japan than with China. As mentioned earlier, this difference permits considerable variations in the explanatory variable and allows us to see whether trade structure does have the hypothesized effect on threat credibility.

Trade disputes between the United States and China over MFN status and market access will be compared with U.S.–Japan trade conflicts over semiconductors and the Super 301 investigations over satellites, supercomputers, and wood products. These cases are among the high-profile ones in the two bilateral trade relationships. Because of their high intensity, the forces pushing for or against trade sanctions in the United States are fairly transparent, better enabling the process-tracing procedure to identify the factors that shape negotiation outcomes. If the structure of trade does shape the domestic landscape in the United States in different ways, and if these differences, in turn, influence the degree of threat credibility, then we would have uncovered a crucial mechanism linking international and domestic politics.

In the MFN case, U.S. efforts to make the annual renewal of China's MFN status contingent on China's performance in the areas of trade, human rights, and nonproliferation have repeatedly been resisted by the Chinese. Any concessions by Beijing to the United States were merely token or symbolic. After three years of threatening to withdraw China's MFN status, most policymakers came to realize that the process had produced no tangible results for the United States. Recognizing the futility of using MFN as a weapon to influence Chinese behavior, President Clinton gave up the attempt in 1994. It is not an exaggeration to say that the MFN dispute represented a complete failure of U.S. negotiating objectives. A similar pattern existed in negotiations over market access. Although China signed a Memorandum of Understanding (MOU) with the United States promising to dismantle trade barriers, subsequent Chinese actions belied American expectations as American negotiators found that substantial nonimplementation of the agreement still existed. Washington again threatened sanctions against China just a few months after the agreement was signed. Thus both the MFN and market access negotiations highlight the difficulties the United States confronted in prying open the Chinese market.

Before proceeding, a few words about the selection of the MFN case are in order. It needs to be pointed out that, in contrast to the other cases examined in this book, the MFN negotiations were intended to address political (most notably human rights) concerns, in addition to trade barriers in China. But although this case is not purely about trade, it still can provide a suitable testing ground for my hypotheses for a number of reasons. First, critics may argue that America's demands on the human rights issues are more likely to touch upon Chinese sensitivities about their national sovereignty and, as a result, are

more likely to encounter resistance from the Chinese than purely economic demands. However, precisely because human rights issues held such substantive meaning for the Chinese government, it is reasonable to expect Beijing to have been more willing to give in to the trade demands the United States made under the MFN threat to ameliorate the pressure on the human rights front. That linkage policy did not work to America's advantage and that the Chinese authorities did not cave in to trade demands even when they ought to have strong incentives to take the heat off the human rights issue suggest that there may exist other potential explanations for Beijing's unaccommodating behavior.

Second, since the objectives the United States sought to achieve under MFN pertained to both human rights and trade issues (such as market access and IPR), the MFN sanction threat did win the support of American exporters interested in gaining greater access to the Chinese market. In other words, besides human rights advocates, exporters faced with market impediments in China did enter into the debate in favor of the MFN threat, very much like what they did in other cases involving purely economic issues. Third, although the denial of MFN status would have produced far more extreme consequences than trade retaliation under Section 301, it was a step that was seriously considered by Congress and had caused much anxiety and nervousness for the Chinese government each year. Given the intense domestic pressure in favor of trade sanctions immediately following Tiananmen, the withdrawal of MFN status from the Chinese was a real possibility that could not be easily ruled out at the outset. In short, even though the MFN case involved the pursuit of both political and economic objectives, as distinct from other cases covered in this book, the existence of linkage and the presence of trade objectives on the negotiation agenda ought to ensure an appropriate test of my key hypothesis regarding the influence of trade structure.

To show that the coalitional consequences of complementary trade are not unique to a country such as China, which is both large in size and used to maintain tight restrictions on economic activities but rather can be generalized to other contexts, I supplement the China cases with a dispute between the United States and Brazil over informatics policy. In the U.S.–Brazil informatics dispute, persistent pressure from the United States was unable to get the Brazilians to alter their market access reserve policy that discriminated against American firms.

The ineffectiveness of U.S. pressure in changing Chinese and Brazil-

ian policies contrasts sharply with the greater degree of success the United States had achieved in its trade negotiations with Japan, a country with a highly competitive trade relationship with the United States. While variations certainly existed in the degree to which the United States was successful in imposing its demands on Japan, it can be argued that, on the whole, American pressure has produced more significant market opening with Japan than with China. This study will look at the U.S.–Japan semiconductor trade conflict in the mid-1980s as well as U.S. Super 301 investigations to identify the factors that contributed to the higher level of American success with Japan. In all of these cases, American negotiators were generally successful in achieving their negotiation objectives of gaining increased access to the Japanese market, but the degree to which they were able to do so varied.⁴⁰ Focusing on these cases allows us to see why, on average, American negotiators had greater success extracting concessions from the Japanese, even though Japan yielded more in some cases than in others.

Through an exploration of these cases involving U.S. trade bargaining with Japan and China (and, to some extent, Brazil), this study hopes to shed light on the factors conditioning the effectiveness of U.S. coercive diplomacy. It will then proceed to compare trade conflicts between the United States and China, a democracy and an authoritarian state, with those between the United States and Europe, both of which are democracies. It will show that, in contrast to what the democratic peace theorists would predict, there have been many trade wars between democracies. It will be further argued that this pattern can best be accounted for by the competitive trade structure between many democratic regimes, which generates potent prosanction forces at home that constrain the “pacifying” effects of democratic institutions and processes.

As mentioned earlier, trade relations between the United States and China since the early 1980s are largely characterized by the absence of trade wars. In almost all issue areas, the United States threatened to impose economic sanctions against China, only to refrain from doing so in the end. In the negotiations over IPR that will be discussed in detail, Washington several times threatened to slap punitive tariffs on Chinese products unless China took concrete measures to police property rights infringements. In the end, however, the two sides have always managed to reach an eleventh-hour agreement, thereby avoiding a costly trade battle. In addition to looking at the intellectual property issue, this study will look at trade in textiles to further substantiate its argument. Although the record of the textile dispute conforms to

the overall pattern of trade peace, the United States did impose quota restrictions on Chinese textile exports to the United States in the early 1980s, prompting Chinese retaliation in the form of a suspension of grain imports. The detailed case study will explain the general pattern of trade peace between the United States and China, as well as the anomaly involving textiles in the early 1980s.

While trade disputes between the United States and China were generally resolved peacefully, those between the United States and Europe have more often escalated into trade wars. The trade conflict between the United States and the EC over enlargement in the mid-1980s and the U.S.–Canada trade conflict over timber products will be examined closely to show why democracies have a greater tendency to engage in trade wars. Of course, not every trade conflict between democracies ended in a trade war. I did not choose to examine these low-intensity trade conflicts because it was only through an examination of cases where the dog did bark that one could possibly find out the mechanisms or stimuli that triggered the outbreak of trade wars. The factors I emphasize ought to be necessary, though not necessarily sufficient, conditions for trade wars to take place.

Contributions to the Literature

Theoretically and empirically, this work adds to the existing literature on the intersection of domestic and international politics and addresses a number of debated relationships in the study of international relations. First, by systematically relating the domestic coalitional consequences of trade structure to my two dependent variables, this study contributes to the two-level game approach. Domestic-level explanations of international politics have sometimes been criticized for their ad hoc nature and their inability to generate hypotheses that could be tested empirically. More recent works that formally model the domestic-international interaction tend to concentrate on the role of the legislature, instead of societal actors, in shaping foreign economic policy.⁴¹ This study presents a more sophisticated treatment of domestic interests and generates more explicit, testable hypotheses of the two-level interaction. As scholars of international negotiations and of international political economy have not yet fully untangled the nexus between domestic and international politics, this research promises to enrich this research agenda.

Second, by revisiting the determinants of “aggressively unilateral”

U.S. trade actions, this book sheds light on the factors conditioning the effectiveness of unilateral market-opening pressure and, as a result, improves our understanding of the use of trade sanctions as an instrument of foreign economic policy. At a time when the United States is confronted with continued difficulties in its attempts to pry open foreign markets, this analysis provides a useful reminder that much of the limits on the effective use of pressure tactics can be found at home, among domestic interest groups. As such, it offers valuable lessons for those in the policy community interested in finding more constructive approaches for dealing with some of America's most intractable trade problems.

Third, my claim that a country in a dependent position in a relationship may be both more resistant to pressure tactics *and* less prone to conflict in trade with the partner country challenges the dependency theory. The dependency theory contends that developing countries are constrained by their dependence on export markets in the developed world in their search for economic development. In this view, the workings of the capitalist world economy tend to perpetuate and to reinforce developing countries' dependence on the markets of the core countries.⁴² My argument provides a critique of such an overly pessimistic and rigid view of the bargaining power of developing countries. Since production of labor-intensive products has increasingly been phased out in the industrialized economies, import users in those countries are increasingly wary of having to cut off their supplies from their complementary trading partners. This provides trade relations between complementary trading partners with a certain degree of durability that not only serves to minimize protectionist pressures in the country issuing the threat but also enhances the leverage of the targeted country, which is usually inferior in terms of power resources, in bilateral negotiations.

In addition, although this study focuses primarily on the effect of trade structure on patterns of trade conflicts, it may be possible to extend this logic to understand patterns of military conflicts. The large body of literature on the relationship between economic interdependence and military conflict has mostly examined the effect of total trade (such as trade volumes, trade values, systemic trade levels, trade as a proportion of gross domestic product [GDP], and trade in strategic goods) on the level of military conflict.⁴³ But if certain kinds of trade relationships (such as a complementary trade structure) may induce some domestic actors who stand to lose from trade disruptions resulting from military actions to oppose such measures, while other

kinds of relations (such as a competitive trade structure) do not exercise the same pressure, then it may indeed be necessary to develop more sophisticated models of the connection between bilateral trade structure and the possibility for conflict (or cooperation) in international military disputes.

Finally, while ostensibly a study of American foreign trade policy, this project nevertheless sheds light on the theoretical literature over the democratic peace as it applies to both security and trade issues. Importantly, the finding that the domestic pressure generated by trade structure overwhelms democratic institutions' purported conflict-constraining abilities ought to provide us with a basis to question both the audience cost theory—which posits that democratic institutions and processes ought to allow democracies to better reveal their true intentions in a bargaining situation, thereby encouraging the opponent to refrain from escalating the conflict so as to prevent a costly “war”—and theories emphasizing how institutional characteristics of democracies such as separation of powers and electoral accountability contribute to the trade-liberalizing tendencies of democratic regimes.

Furthermore, such a conclusion drawn from a study of trade conflicts may allow us to assess the validity of different strands of theories of the democratic peace in security affairs. As noted, norms-based, structure-based, and signaling arguments are the three most prominent theories developed to explain why democracies are less likely to fight with one another in the security realm. Yet scholars have not yet been able to establish the relative causal validity of these competing arguments. But if it can be shown that democratic institutions and structures do not prevent democracies from fighting each other in trade, then one can further infer that structure-based explanations may not have constituted the real causal mechanism for the democratic peace in security. The substantive findings of this project therefore have important implications for the debate over the democratic peace and may offer certain policy prescriptions for policymakers interested in finding effective solutions to ongoing international conflicts.