

## TRADE INTERESTS IN CONTEMPORARY POLITICAL ECONOMY

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### ABSTRACT

In this research work, Author focus on the analysis of the trade interests in contemporary political economy. In last time foreign trade policy has been strongly affected by the force of the world economic crisis. Trade distortions revenues and protectionism played important roles in the politics of political parties. What indicates the importance and innovativeness of the research is the presentation of the new aspects of the political economy models of the foreign trade policy and trade interests in the political economy. First of all it must underline that in the new theoretical terms in the demand for trade policy very important is factor specificity. The low specificity of factors means that factor returns are equalized throughout a region's economy.

On the other hand, the Ricardo-Viner assumes that some factors are stuck in their present uses; therefore, factor returns are not equalized throughout a region's economy, but are industry specific. Trade policy coalitions should form along the lines of exporting versus import-competing industries. The main objective of the research task is to give a comprehensive analysis of the political economy models of foreign trade policy, trade interests indicated by export orientation and import sensitivity, protectionistic pressures in different political system and different types of authoritarian regimes. It must be emphasis that on a theoretical level, understanding the choice of trade policies between liberalizm and protectionisme is very important. It should be stressed that free trade in itself is not responsible for economic growth, but more significant are the determining macroeconomic stability and increasing investment.

**KEYWORDS:** Trade Policy, Public Choice, Liberalism, Protectionism, Authoritarian Regimes

### INTRODUCTION

Due to technical progress and to the growth of economic ties between particular countries, participants in the world economy, the benefits resulting from liberalised international trade and from the freedom of movement of foreign direct investments become bigger not only for the industrialised countries but also for the so-called "emerging markets", that is, the countries that find themselves on the stage of the accelerated development. It must be emphasized that there are the need for new approaches to trade cooperation in light of the forces that are currently re-shaping international business. It suggests that the multilateral trading system will need to adjust to developments in trade and in the trading environment. The key of trade developments within the broader socio-economic context is especially the rise of global supply chains, the general shift of trade power away from the West towards Asia.

In the process of the development global economy, apart from the phenomenon of growing interaction between various countries and business which participate in the international economy, in the course of increasing competition in the area of new markets and of capital investments, the control measures in international trade can be observed.

They are the subject of multilateral negotiations concerning the foreign trade liberalization issues, negotiations conducted on the World Trade Organization (WTO).

## **RESEARCH AND METHODOLOGY**

Realistic point was important trends in the global trade regime during the world economic crisis. The protectionistic pressures revenues and played very important role in this time of the economic development. The main aim of the article is the indication the trade interests in the political economy. The main objective of the research task is to present the political economy models of foreign trade policy, trade interests indicated by export orientation and import sensitivity, protectionistic pressures in different political system and different types of authoritarian regimes.

The analyzed problems were solved with the use of both quantitative and qualitative research methods. The main research method applied in this economic analysis, was a method of scientific study used for splitting the whole (of individual items, their sets, phenomena) by means of logical abstraction. It was also used the analogy (comparative) method, which consists in finding similarities and differences between the items under study, the documentation method and statistical methods. It were applied the descriptive method, as well as methods of descriptive statistics and forecasting. Additionally, it were used the methods of deductive and inductive forecasting.

## **DISCUSSIONS**

### **THE POLITICAL ECONOMY MODELS OF FOREIGN TRADE POLICY**

Traditionally, political economy models of trade policy have tendend to focus on the demand for protection, with factor endowments driving political reactions to exposure to international trade. Such model simply assumed that adversely affected economic agents would organize to seek protection, which would be afforded to them by their elected representatives in the political system. The supply side for trade policy was either ignored or underspecified in most model (Thies and Porche, 2007).

In the foreign trade policy theory interesting are the reviews of Alt et al. (1996) and Nelson (1988) about the demand for trade policy in terms of the theoretical importance of factor specificity (Alt, Frieden, Gilligan, Rodrik and Rogowski, 1996; Nelson, 1988). Factor specificity refers to the ease with which factors (land, labor, and capital) can move from one sector to another in an economy. The two dominant approaches to explaining the demand side of trade policy used radically differeent assumptions about the specificity of factors. The Heckscher-Ohlin model, used by Rogowski (1989) in his seminal contribution "Commers and Coalitions", assumes very low-factor specificity (Rogowski, 1989). The low specificity of factors means that factor returns are equalized throughout a region's economy. Producers should export goods that intensively use their abundant factors and import goods that intensively use their scarce factors, with the result that owners of abundant factors will favor free trade and owners of scarce factors will favor protectionisme. Trade policy coalitions will therefore be organized along factor or class lines. On the other hand, the Ricardo-Viner assumes that some factors are stuck in their present uses; therefore, factor returns are not equalized throughout a region's economy, but are industry specific. Trade policy coalitions should form along the lines of exporting versus import-competing industries.

Neither of these models explains how preferences over trade policies are actually translated into political action (Alt, Frieden, Gilligan, Rodrik and Rogowski, 1996). In a discussion of the endogenous tariff literature, Nelson (1988)

notes that the mobility costs of the specific-factors model may be a result of productivity differentials, labor union activity, or individual preferences for membership in a given geographic area, industry, or firm (i.e., some form of solidarity) (Nelson, 1988). In all of these cases, one can derive a link to preferences for tariff policy, “but without additional information on why the specific-factor model is chosen, it does not tell us much about political organisation”.

Alt et al. (1996) suggest that one can begin to understand this process by assuming that rational individuals make cost/benefit calculations (Alt, Frieden, Gilligan, Rodrik and Rogowski, 1996). The Heckscher-Ohlin and Ricardo-Viner models tell us the benefits that individuals hope to receive, but the costs of collective action also intervene as they organize to achieve those benefits in the political system. Olson (1985) argued that small groups with specialized interests are easier to organize and more effective in securing economic rents than large groups with diffuse interests (Olson, 1985).

Small groups are better able to control free riders than large groups, and groups with specific or homogenous interests can more easily coordinate and target their activities than groups with diffuse or heterogenous interests. This approach is thought to explain the success of agricultural producer groups in developed countries in organizing for protection as well as the inability of agricultural producer group to organize in developing countries (Anderson, 1995; Coleman, 1998; Olson, 1985; Olson, 1986; Sheingate, 2001).

However, Nelson (1988) points out that we should not assume that organized interests will be equally responsive to all issues (Nelson, 1988). Institutionalized interaction among actors may help to explain systematic patterns of action, especially as institutions created for specific historical purposes may outlive those purposes. Alt et al. (1996) suggest that if a particular group has paid the fixed costs of establishing collective action and developed well-worn channels of access to public officials, it may defend its trade policy preferences even when the stakes are low because the marginal costs of action are low (Alt, Frieden, Gilligan, Rodrik and Rogowski, 1996). It may be the case that “a much more affected but inchoate group does nothing because the start-up costs of organization are too daunting”. Past strength of an organization should therefore be an important intervening variable predicting group action on trade policy.

Further, as Nelson (1988) argues, once these institutions exist, supply-side interventions may also affect their usefulness as some are deemed legitimate or illegitimate aggregators of interest (Nelson, 1988). Thus, we must examine the way in which economic institutions and political institutions interact. Most economic models simply assume that a model of the economy is a model of the demand side for trade policy, but Nelson (1988) suggests that we must elaborate the mechanisms by which demand is articulated to the suppliers of trade policy (Nelson, 1988, p. 810). For a good overview of this argument, especially as it pertains to agriculture (Thies and Porche, 2007).

If the political systems rewards small sectoral groups, than individuals will not pay the costs of organizing large intersectoral coalitions. If the political system rewards large mass movements (i.e., majoritarianism), than individuals will have to pay the costs of organizing large intersectoral coalitions in order to achieve any benefits. Collective action costs and political institutions are interactive with factor specificity. They suggest that Rogowski’s (1989) Heckscher-Ohlin framework requires low factor specificity, low collective action costs, and domestic political institutions that favor mass movements (Rogowski, 1989). The Ricardo-Viner framework used by the endogenous tariff literature requires that factors are specific, collection action costs are high, and institutions are less majoritarian, with changes in any of these three variables also affecting the type of coalitions that form.

In the state as a rational dictator model, the state may be seen as either pursuing “good government” goals along a social welfare function or intervening in the economy for their own self-interested model of the state views politicians as offering preferential trade policy to economic actors in exchange for political support (Magee, Brock, Young, 1989), (Grossman and Helpman, 1984). On the other hand, pluralist theory typically view the state as a neutral aggregator of demands from groups in society. The supply of trade policy is then determined by the balance of power on any given issue. The supply side of trade policy is relatively undeveloped theoretically, and yet a crucial part of the equation. A variety of different characteristics of the political system are posited to affect the supply of trade protectionism, such as politicians incentives to cultivate personal votes, the size of electoral districts, party fragmentation, federalism, presidential versus parliamentary systems, and so on (Nielson, 2003; Rodrik, 1995; Rogowski, 1987; Rogowski, 1987).

On a theoretical level, understanding the choice of trade policies in countries is very important. A survey of economists in 1984 suggested that one of the few things they agreed on was that, under most conditions, tariffs, and quotas reduce the general welfare (Frey, 1984). The stubbornness of protectionism in the face of international and academic pressure against it has led economists to seek explanations. These explanations range from the simple ignorance of politicians to arguments about the rationality of protection for “infant industries” and “optimal tariff levels” in developing states. Faced with this frustrating question, scholars have increasingly turned to political answers in order to explain the choice of what would seem to be an “irrational” policy (Frey, 1984; Nau, 1989; Nelson, 1988).

### **TRADE INTERESTS INDICATED BY EXPORT ORIENTATION AND IMPORT SENSITIVITY**

The evidence considered provides substantial support for the argument that the trade interests of their constituents, as indicated by export orientation and import sensitivity of their district, influence policymaker’s behaviour on political and security issues. These effects are mediated by party and the heterogeneity of constituency and are consistent in both roll-call voting and sponsorship activity (Kleinberg and Fordham, 2013). Export orientation appears to be somewhat more important than import sensitivity. Both have substantively meaningful effects on sponsorships, but only export orientation is a statistically significant predictor of roll-call voting (Kleinberg and Fordham, 2013).

About the liberal argument it is important to underline that trade reduces international conflict and promotes cooperative foreign policies. The first is that the benefits of international trade indeed appear to influence policymaker’s attitudes toward trading partners as the liberal argument suggests (Kleinberg and Fordham, 2013). These results complement similar effects it can found in surveys of mass public (Kleinberg and Fordham 2010; Fordham and Kleinberg 2011).

The second conclusion is an important qualification to the liberal argument, though not one that is at odds with its underlying logic. Because the aggregate benefits of international trade are not shared equally within the trading states, trade’s political effects do not apply to everyone. The fact that some people can expect their income to decline as a result of international trade is critically important for whether it actually reduces conflict between trading partners. These people could contribute to demands for a less-cooperative foreign policy as well as for trade protection. In principle, the winners in the trading relationship should be able to remove this motive by compensating the losers out of the aggregate benefits of trade. In practice, such compensation is not always offered (Kleinberg and Fordham, 2013).

It is important to underline that legislative measures do not always have immediate effect on national policy (Kleinberg and Fordham, 2013). For example the East Asia Security Act did not become law, though it had substantial

support. Many of the other measures have a large number of cosponsors. The executive branch can and does block many such measures that would harm for example US relations with China. These legislative measures are still consequential. The cost of blocking them rises with the number of members who support them. Facing an unfavorable domestic political environment, the executive might set aside cooperative measures that it would otherwise have proposed. Moreover, for example the Chinese government takes note of hostile proposals in Congress, so they may affect political relations even if they do not become national policy (Kleinberg and Fordham, 2013).

A bilateral relationship, are also very important. This relationship is clearly unusual in some key respects. Relations USA with China are far more uncertain than relations with other major American trading partners, many of whom are longstanding democratic allies. Those harmed by trade with these other states would have difficulty convincing other Americans to view them as potential enemies. However, it does not follow that trade can have no effect on these relationships. There are points of tension and disagreement even among the closest of allies. Those who lose from trade might support less cooperative positions on these differences, perhaps using them as the basis for limiting the trading relationship. The 1996 Helms-Burton Act's effort to force European firms to adhere to American sanctions against Cuba is one possible example of such a measure (Kleinberg and Fordham, 2013). Special research would be necessary to test the domestic political effects on trade in the context of friendlier international relationships, but there is no reason to expect these effects to be confined to the relations between the United States and China (Kleinberg and Fordham, 2013).

### **PROTECTIONISTIC PRESSURES IN DIFFERENT POLITICAL SYSTEM**

It is important to indicate, that the role of trade unions in different political systems may be, to a high degree, different. In authoritarian systems it is, as a rule, smaller than in democratic systems. It would seem that if protectionistic pressure on the part of trade unions is weaker, the situation for economic growth is much better. Following that line of reasoning we could come to the conclusion that the authoritarian system is better for the effectiveness of the labour market. The examples of Chile, South Korea, Singapore and Turkey from the seventies and early eighties could confirm that point of view. In many cases during those two decades the authoritarian regimes persecuted trade unions and put restrictions on basic labour rights. During that period of oppression, South Korea, Singapore and Turkey experienced a spectacular growth in the sector of processing industry and in the growth of demand for labour. Growing profits and the demand for labour in a processing industry, caused a general growth of prosperity of the employed. Although similar results were not noted immediately during the authoritarian phase of development in Chile, a number of observers express the opinion that the reforms introduced at that time helped to reorganise the Chilean economy in the nineties. The application of democratic rules, on the other hand, may lead to lower productivity of labour force. In a number of years different democracies had to use significant financial resources for the employment of those who belonged to trade unions like for example in the European Union.

A different point of view says that government legislation concerning the labour market may be applied more effectively in an authoritarian system than in a democratic one. The authoritarian regimes often make use of individual interests of given circles. In most democratic countries there is no broad enough basis that would allow to use labour market policy for gaining the support from pressure groups, the urbanised labour market elite included. The major difference between authoritarian and democratic regimes lies in the level of the outside influence. In a well functioning democracy, the outside opinions are also taken into account and there occur some limitations which come from the outside,

which restricts the achievements of given groups of interest. In a dictatorship, a government cares only that those groups are not too strong.

There is, however, a number of democracies among the industrialised countries where an effective labour market exists. There is also a number of democracies with effective labour market policy among the developing countries. Similarly, in the countries in which the transformation from the authoritarian regime towards a democracy is taking place, avoiding unfavourable phenomena on a labour market is often a priority. For example, the Chilean government moved towards democracy and to free trade unions without home income growth. The end of oppression in South Korea, in 1987, started the partnership relations in full of conflicts industry (Banerji and Ghanem, 1997).

It is worth considering which of the two points of view presented above should be given support, that is, which of them is the proper one. The analysis of that problem may be based on the Grossman and Helpman model (Grossman and Helpman, 1994). This model describes economic development on the basis of two sectors - urbanised, regulated processing sector, and rural, unregulated agricultural sector. The protection of the labour market, especially of minimum wages, is usually applied in order to bring the benefits for the employees of the regulated sector, since the sector of unregulated employees does not come under the legislation concerning the labour market.

The sector of regulated employees, and also the owners, demand from the government that it leads an economic policy that is favourable to them. The employed demand high minimum wages, while capitalists demand high profits. Both groups demand the restrictions on the degree of economy openness. In a closed economy, higher market minimum wages and higher profits are usually connected with higher prices for home consumers, and this is not easy when those consumers are free to buy the substitutes in form of imported goods. Thus, incomes in an economy may be created by protection and later divided among the employees of the regulated sector and the capitalists, although sometimes the government itself takes a part of those incomes (Banerji and Ghanem, 1997).

A government conducting an economic policy takes into account a number of factors. Firstly, it has to decide the degree of obtaining the resources, that is, how much from those resources it wants to obtain. Hence the importance of investments and of future economic growth, and also of defining the possibilities for keeping the power it is currently holding. Secondly, the government should define the scale of support from each of the pressure groups that can influence the situation. The position and importance of each group for the development of political processes should be considered. For example, in the country where the regulated labour market is divided, and politically weak, only the capitalists may have a deciding voice in political processes. And the contrary also happens - in the societies where the labour market is organised, it may play the important role in mobilising voters.

## **DIFFERENT TYPES OF AUTORITARIAN REGIMES**

Interesting question is, which authoritarian regimes are most politically liberal? Among the authoritarian regime types often identified in the literature, multiparty, and to a lesser extent single-party, regimes will tend to have the largest selectorates. Therefore it argue that multiparty and single-party authoritarian regimes will have more open trade policies than other authoritarian regime types, other things equal. More specifically in the Wright–Geddes data (Wright, 2008a; 2008b; Geddes, 1999), the coding is divided into four categories: single-party, military, monarchist, and personal regimes (Hankla and Kuthy, 2013). In the case using this data, it can expect that single party regimes will tend to have more liberal trade policies than other authoritarian regime types. For the test using the Hadenius and Teorell data

(Hadenius and Teorell, 2007), it can expect that multiparty regimes will tend to have more liberal trade policies in comparison with any of the other four regime types (single-party, military, monarchy, and personal regimes) (Hankla and Kuthy, 2013).

The second component institutionalization argument is that regime stability encourages free trade policies in authoritarian systems. More institutionalized autocratic regimes are better able to co-opt dissent and should therefore tend to enjoy longer and more stable tenures. As a regime's stability increases, the time horizons, in turn produce powerful incentives to enact policies that will benefit the country's economy in the long run rather than just shore up support for the leadership in the immediate future. As Olson (1993) has argued even kleptocratic dictators have good reason to maintain the health of their national economies, if only to provide sources of future loot. By contrast, authoritarian leaders sitting atop unstable regimes and fearing removal will not be thinking about the long-term future. Instead their focus will be providing immediate benefits to their supporters in order to remain in power. As a consequence, the leaders of more stable autocratic regimes will be more likely to provide the public good of free trade, while those whose hold on power is precarious will tend to rely on particularistic goods such as protectionism to keep their winning coalition intact (Hankla and Kuthy, 2013).

This argument follows the logic presented by Hankla (2006) on time horizons and trade policy decisions in democracies, expect that it concerned here with authoritarian stability rather than electoral volatility. It is also similar to the argument developed by Wright (2008b) linking long time horizons in authoritarian regimes to the effectiveness of foreign aid (a rare piece of research exploring the policy implications of regime stability under dictatorship). Indeed, the prospects for stability to matter are perhaps greater in authoritarian regimes than in democracies, because for ruling groups in the regimes, losing power often results in death or imprisonment. Therefore, the pressure for protectionism in an attempt to gain short-term support in new unstable regimes is likely to be even greater for authoritarian governments than for those in a democracy. Additionally, truly stable authoritarian regimes tend to have individual leaders with very long time horizons (far beyond those of stable democratic leaders), providing them with stronger incentives to choose policies, like free trade, that may contribute to long-run economic growth (Hankla and Kuthy, 2013).

Seeking to understand trade policymaking in authoritarian regimes is all the more pressing because so few others have spent time on the issue. It is worth taking a moment, however, to consider two rare articles that touch on trade policymaking under autocracy. Frye and Mansfield (2003) argue that regime type is not as important an indicator of trade openness as the number of veto players with influence over policy change (Hankla and Kuthy, 2013). They find that in postcommunist East-Central Europe, both democracies and autocracies with more veto players also enjoyed freer trade. This link, they believe, is a product of incorporated a wider variety of voices into policymaking, thereby reducing the ability of governments to depend on patronage to stay in power (Hankla and Kuthy, 2013). While Frye and Mansfield make an important contribution to understanding of how trade policy is made under autocracy, they focus their attention only in Postcommunist East-Central Europe and they do not address the role of regime stability (Hankla and Kuthy, 2013).

It is important underline that authoritarian regimes do not behave similarly to one another with regard to their trade policies and that it is mistake to consider such regimes as identical (Hankla and Kuthy, 2013). Using the Hadenius and Teorell data, (Hadenius and Teorell, 2007) it find that multiparty regimes have significantly lower levels of trade protectionism than single-party autocracies, monarchies, non party regimes, and military juntas. As a robustness check,

it also find significant support for Wright –Geddes data (Wright, 2008a; 2008b; Geddes, 1999). In addition it find evidence using both the Hadenius and Teorell and Wright-Geddes for conclusion that more stable regimes will, on average, have more liberal trade policies. The effect of individual leader duration appears weaker, but there is some limited evidence of its importance (Hankla and Kuthy, 2013).

Scholarly understanding of the behavior of authoritarian regimes will need to be tied closely to an examination at their institution and institutionalization. Perhaps the most fruitful arena for future research will be to focus on the specific preferences of selectorates composition and policy outcomee (Pepinsky 2008). Such research could answer the question of how different formal institutions in autocratic system mediate these preferences in the formation of policy. It could also shed light on the types of selectorates likely to exist in different types of authoritarian regimes. A deeper examination of these questions can extend the knowlede of how autocratic institutios mediate social and elite preferences in the development of policy in a wide variety areas (Hankla and Kuthy, 2013).

## RESULTS

The trade liberalization has a special positive significance in the global context. However the international trade policy is strongly affect by the force and trends of the world economy development. The changes are evident in the growing importance of international trade to national economies and to domestic groups within those economies, in the closer linkages between trade and other international issues. In this context it must be emphasis that on a theoretical level, understanding the choice of trade policies between liberalizm and protectionisme in countries is very important.

Question is how can we recognise the type of power, the type of rule? First of all, we should investigate what level of resources a given government is going to achieve. If an authoritarian government is more or less corrupted than a democratic one, it will be creating the income, to a bigger or lesser degree, through protectionism. It will also appropriate some part of that income. Secondly, a given type of government may remain under the influence of different pressure groups. If an authoritarian government is trying, to some extent, to subordinate special pressure groups including the regulated labour sector, it will be, to some extent, generating incomes through protection and it will be turning over some part of them to those special pressure groups.

It should be pointed out that there exists a close relation between democracy and an economic growth, there are well known examples of open societies that stimulate the economic growth. This is true mainly in case of highly developed and strongly urbanised countries. In the countries with a developed democracy, the pressure groups have a bigger opportunity for acting. The research shows that the presence of trade unions helps to accelerate the economic reforms. The benefits resulting from liberalisation of the international trade are bigger when the trade unions exist in the sector of the economy under protection. The growth of import abilities leads to the decrease of wage pressures, and when the trade unions agree to that, such a situation allows for a better allocation of labour force in the economy. This is true both in the case of active and passive trade unions, although the effects are better in case of active trade unions.

Trade policy takes on additional importance in economic battle of the valiant liberal reformers, fighting against self-dealing rent seekers profiting from inconsistencies of the transition economy. Many of the clientelist policies that shelter rent seekers are impossible to maintain in the face of competition in the international economy. On the other hand, high tariff walls, export licensing, and artificial exchange rates provide numerous sources of rents for business people who are trying to promote their own loyalties.



The reduction or the elimination of trade restrictions stimulates significantly the growth of the world trade exchange, while the foreign trade, in turn, is an important factor of the economic growth of individual countries.

Scholarly understanding of the behavior of authoritarian regimes will need to be tied closely to an examination at their institution and institutionalization. Perhaps the most fruitful arena for future research will be to focus on the specific preferences of selectorates composition and policy outcome. Such research could answer the question of how different formal institutions in autocratic system mediate these preferences in the formation of policy. It could also shed light on the types of selectorates likely to exist in different types of authoritarian regimes. A deeper examination of these questions can extend the knowledge of how autocratic institutions mediate social and elite preferences in the development of policy in a wide variety areas.

## CONCLUSIONS

Both structural and micro-political economy analyses of foreign trade policy have missed the impact of changing ideas about protectionism and relatively unchanging institutions designed to handle domestic producer complaints. The political consensus on the supply of trade policy and protectionism change over time. In the economic depression tariffs revenues and protectionism play important roles in the politics of political parties. At the same time in the market economy even during the economic depression one can observe a little support for liberal foreign trade policy. In a global financial and economic crisis start to prevail also protectionist tendencies which accompanies economic recession. It is necessary to emphasize that in the foreign trade policy there are not pure liberalism and pure protectionism. In the high economic growth there are tendency to liberalism in the foreign trade policy and in the economic crisis there are tendency to protectionism.

The foreign trade policy plays a key role in the maintenance of both economic and political liberalization. The prominence of rent seeking in a country can have far-reaching implication for its economic development. Especially in underdeveloped or transitional countries, rent seeking takes scarce resource out of productive areas in the economy, using them to promote and/or perpetuate further rents. However it should be stressed that free trade in itself is not responsible for economic growth, but more significant are the determining macroeconomic stability and increasing investment.

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