International Approaches to Trade Outcomes

- **Is domestic analysis sufficient to explain trade outcomes?**

  – Domestic analysis ignores the role of the international system and the strategic interaction of nation-states.

  – Nation-states are positioned within an international political and economic *system* that constrains choices and conditions collective outcomes.

Theory of Hegemonic Stability

assumptions and variables

- States are *rational* (purposive, goal-oriented) and *unitary* (single decision-maker) actors.
- Outcome variable: degree of stability in the int'l economy. The level of global economic stability is the outcome to explain.
- Input (explanatory) variable: the structure of the int'l system, as measured by the relative size of nation-states.
- Argument: Stable world economy is a function of "hegemony," a int'l system characterized by the presence of a single, strongly-dominant nation-state (e.g., Great Britain in the late 19th century and the U.S. in the mid- to late-20th century).

Krasner's version

- **Provision of Int'l Economic Stability**
  - Economic openness is not necessarily preferred by *all* states. Trade policy preferences vary across states depending on their positions in the int'l system.
  - Stability and openness arises only when the dominant state, which strongly desires free trade for political/security reasons, alters the behavior of others.
- **Why does the hegemonic state want free trade?**
  - States have multiple goals and the hegemonic state gains more from free trade than other states in terms of some of these goals (Figure 5).
  - Predictions hold only if each goal is given equal weight.

Krasner's Variant

Effects of Economic Openness
(direction of relationship)

	relative size of country	level of development of country
political power	+	+
national income	-	?
economic growth	?	?
social stability	+	+

Note: In the column at the left are Krasner's four goals of state policy. The signs indicate how openness (free trade) affects each goal given a country's economic size and level of development (e.g., openness increases the political power of large, developed states).

Figure 6: U.S. in Relative Economic Decline?

(Selected Indicators and Years)

	1938	*1946*	*1950*	*1960*	*1970*	*1980*	*1990*	*1994*
% Gross World Product	21		30	26	24	23	21	21*
% World Manufacturing	31.4	50 (est.)				31.5		
% World Trade	11.3		18.4	15.3	14.4			
Relative GDP[1]	2.8 (UK)	4.1 (UK)	4.2 (UK)	2.4 (USSR)	2.3 (USSR)	2.4 (USSR)	2.4 (Jap)	2.4 (Jap)
Relative Per Capita GDP[2]	1.02 (UK)	1.43 (UK)	1.40 (UK)	1.31 (UK/Ger)	1.24 (Ger)	1.19 (Ger)	1.17 (Ger/Jap)	1.16 (Jap)
Relative Labor Productivity (GDP per hour worked)[3]	1.44 (UK)		1.61 (UK)		1.41 (Ger) 1973 data			.98 (Fr) 1992 data

*based on figures for 1992. Angus Maddison, *Monitoring the World Economy* (OECD, 1995)

1 Relative to next largest (in parentheses).

2 Relative to next largest (in parentheses). Excludes small wealthy countries like Switzerland and New Zealand.

3 Relative to next highest (in parentheses). Excludes small highly productive economies like the Netherlands.