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WHEN WILL POLITICS END AND THE MARKET BEGIN? WHITHER "FREE" TRADE AFTER DOHA

Geoffrey R. D. Underhill[*]

I. INTRODUCTION

The potential benefits of liberalizing trade for both developed and developing countries are well covered in the economics literature. There are of course caveats in terms of distributional and adjustment costs, but increasing trade through liberalization or other means is closely associated with long-term sustainable historical growth patterns. Given these demonstrable benefits, it is somewhat surprising that even modest proposals for liberalization appear so prone to failure. Rational decision-making in a context of strengthened multilateral institutions such as the WTO ought to lead to more optimal outcomes. It is unlikely, however, that policy makers are either consistently irrational or stupid; something else must be going on.

The apparent collapse of the Doha Round and the proliferation of potentially trade-diverting bilateral and regional preferential trade agreements once again raise the question as to why trade liberalization appears to be such an uphill task in a multilateral setting. At least once the 'Singapore Issues' were more or less withdrawn from the table; Doha could be characterized as a relatively modest proposal, certainly compared to the Uruguay Round. Nonetheless, it foundered with recriminations all around.

This article seeks to explain the apparent paradox or tension between the demonstrable benefits of cross-border trade liberalization and the clear historical and current difficulties of achieving it. In doing so it explores

[*] Chair of International Governance, Amsterdam School for Social Science Research, *Universiteit van Amsterdam* OZ Achterburgwal 237, 1012 L Amsterdam, The Netherlands g.r.d.underhill@uva.nl; http://home.medewerker.uva.nl/g.r.d.underhill/

how the dynamics of liberalization versus protection might best be understood, an analysis which prompts a rethink of the concepts of both 'market' and 'governance'. It also aims thereby to demonstrate that the way in which one conceptualizes specific policy problems such as international trade affects one's view of what should be done about it and where the potential solutions might lie.

The starting point is that the terms of competition in the market are shaped as much by the political as by the economic strategies and resources of firms and other economic agents. From this starting point, this article argues that the principal obstacle to realizing the benefits of trade liberalization is the capacity of producers themselves to organize institutionally in order to determine the terms on which competition across borders (and, indeed, within them) will take place. This occurs often either in competition or combination with other producer groups such as labor. If one understands trade conflict as conflict over the terms of competition, and therefore as a direct extension of the profit/utility-maximizing behavior of firms or other economic agents and their attempts to realize competitive and distributional advantages over their rivals of various kinds, then the awkward political economy of liberalization becomes easier to comprehend. Liberalization becomes less an economic goal to be achieved and more a political balancing act between broader notions of the public good and the interests of specific socioeconomic constituencies, and more a question of distribution than optimality. This implies normative choices about who should benefit and how as well as who should bear the burdens of adjustment.

In this sense, 'free' trade and 'protectionism' remain ideal-types depicted in the literature, and real trade policy preferences are situated along a continuum where neither pole on the continuum is ever reached. Policy preferences are seen in relation to potential outcomes in terms of the breadth of the market, the intensity of competition, and the subsequent distribution of benefits relative to realizable growth in output. In view of this analysis, the article will also explore how one might devise strategies to move up or down the protection-liberalization continuum to optimize the benefits for particular constituencies which, on normative grounds, one might argue deserve a better outcome.

The article first engages in a conceptual discussion of the political economy of trade liberalization, emphasizing the range and essential unity of various means employed by firms (and/or other constituencies) to gain competitive advantages, in turn generating more open or closed market structures. Secondly, the article will draw on case research into protectionism and eventual liberalization in the textile and clothing industry, as the 2005 abrogation of the long-standing Multi-Fibre Arrangement (MFA) recedes into the past and new attempts at protection emerge. Thirdly, the article will generalize the case material points in relation to the multilateral attempts to achieve the benefits of liberalization. The article concludes by applying the analysis to the recent difficulties of Doha and the eventual search for solutions.

II. FREE TRADE VERSUS PROTECTIONISM, MARKET VERSUS GOVERNANCE

The economics literature has long been concerned with explaining markets as a spontaneous extension of human propensities and freedoms (Leube and Zlabinger, 1985; Hayek 1949, 1960), and most analyses logically focuses on the interaction of agents in a competitive setting (Arrow and Debreu, 1954; Coase, 1992; Williamson, 2005: 1-2). There is rather less interest in the relationship of market processes to various forms of political processes, what is commonly called 'governance,' despite important exceptions.[1] Governance and decision-making have tended on the whole to

[1] The claim here concerning the economics literature is of necessity a general one and concerns most importantly the dominance of the neoclassical approach. This article does not wish to imply that the discipline of economics entirely fails to concern itself with the relationship between market processes, governance, and policy, for this is not the case. A range of notable exceptions may be cited in the public choice literature or the literature on institutional economics, among others. A heterogeneous range of examples includes Peltzman 1976; North 1990a/b; Rodrik 1995; Grossman and Helpman (1994); Rotemberg (2003); Dixit 2003; Gawande and Hoekman (2006), as well as other works referred to in the discussion below. However, it is certainly not inaccurate to argue that the principal focus of the discipline has been as claimed, and the plea is for more theoretical focus on this market-governance relationship, and to

remain the analytical focus of political science. In line with the claims of a range of political economy and policy studies literature which has sought to bridge this divide,[2] the argument of this section is that conceptualizing this relationship between the structure of markets, how they function, and the process of governance is crucial to understanding the recurring conflicts of the international trade regime. This makes the analysis of markets inherently a question of preferences and political economy. The focus of the discussion is on how the terms of competition on which rival economic agents confront each other are established.

States, Markets, and Governance

The market vs. governance distinction in relation to trade works more or less as follows. Functioning competitive markets in a domestic setting bring demonstrable collective benefits, which mean that unrestrained cross-border trade should bring similar benefits if it can be achieved. There is a close correlation between the growth of world trade and the expansion of global GDP (see figures 1-4, from Maddison, 1995; Irwin, 2002). In this light, facilitating the growth of cross-border trade appears to be a sound objective, and liberalization is one means through which to achieve this goal.[3] Thus, in the literature, 'free' trade and its benefits are typically contrasted with the negative effects of protectionism, as polar opposites. This yields a conceptual dichotomy between the two. Free trade represents the smooth and self-regulatory functioning of the market; protectionism then represents the dysfunctional role played by political intervention, analogous to state intervention at the domestic level. The struggle for free trade is a struggle against politics and for the market as a system of allocation. In such a formulation, governance is conceived of as exogenous to the 'market' as a phenomenon.

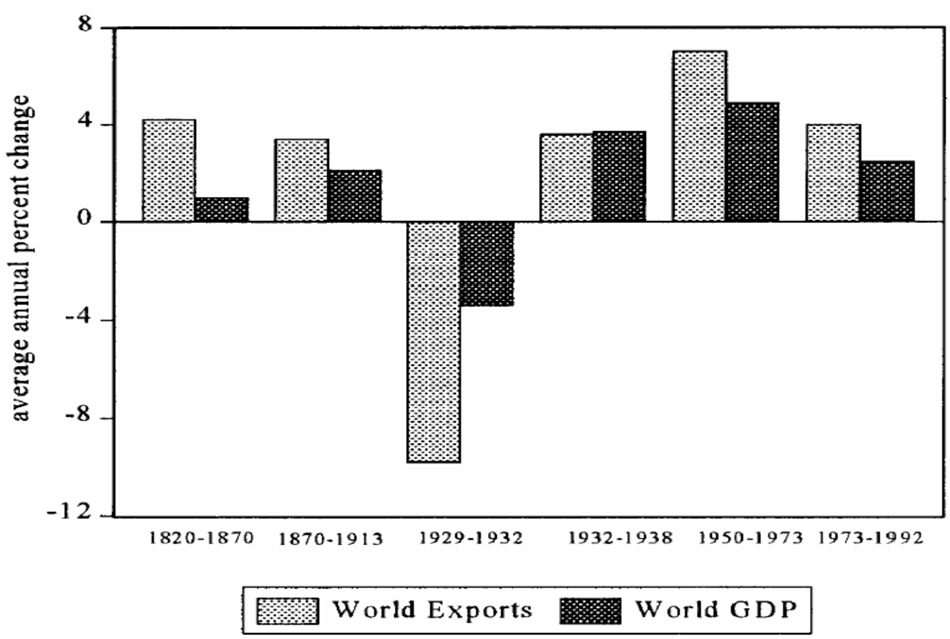
take the explicit step of theorizing governance as endogenous to a system of market exchange.

2 See an early call to bridge the divide by Strange (1971), the literature survey in Underhill (2000), and the range of literature in e.g. Murphy and Tooze (1991); Cohen (2004); Stubbs and Underhill (2006); Weingast and Wittman 2006.

3 For a balanced literature survey on the relationship between trade liberalization and economic performance in developing countries, see Santos-Paulino, 2005.

This vision in the literature assumes that the model of the competitive economy "is a reasonably accurate description of reality (Arrow and Debreu, 1954: 265)" and that conditions can be specified which correspond to a wide variety of actual situations under which a competitive economy tends towards equilibrium (Arrow and Debreu,1954: 266)—a form of spontaneous order. Some (e.g. Coase, 1992: 714) point out that economics has largely consisted of increasingly abstract formalization of what is claimed to be Smith's (1937/1776) central idea that an economy could operate in an orderly fashion free of government regulation and central planning. "Sometimes, indeed, it seems as though economists conceive of their subject as being concerned only with the pricing system and that anything outside of this is considered no part of their business (Coase 1992, 714)." The market is clearly conceived of as separate from the domain of political interaction.[4]

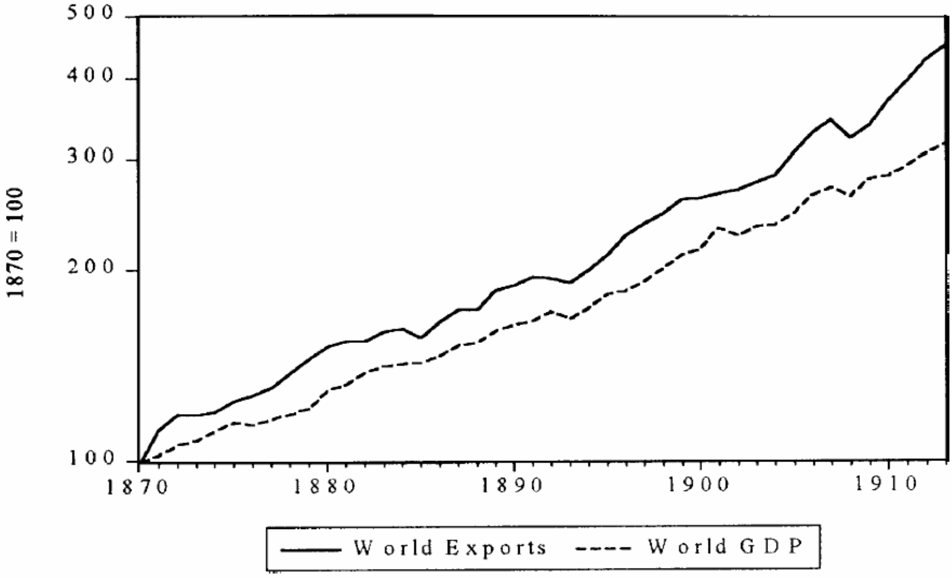
Figure 1. World export volume and world real GDP



Source: Maddison (1995).

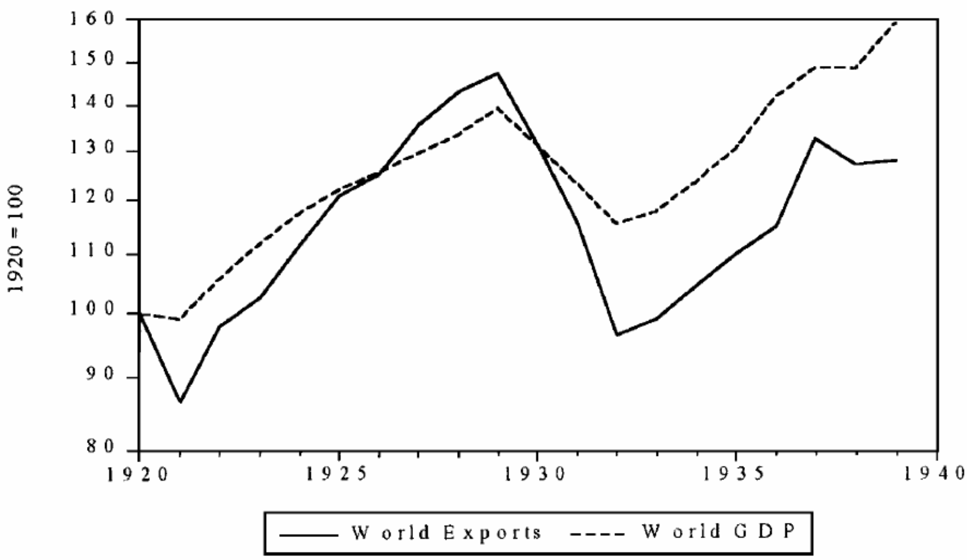
4 See note 1 above. The critique offered here refers to what both Williamson (2002, 172; 2005, 3) and Coase (1992) label as the "dominant" or "standard" economic theory/approach or "orthodoxy," by which they refer essentially to neoclassical approaches to economics.

Figure 2. World trade and world GDP, 1870–1913



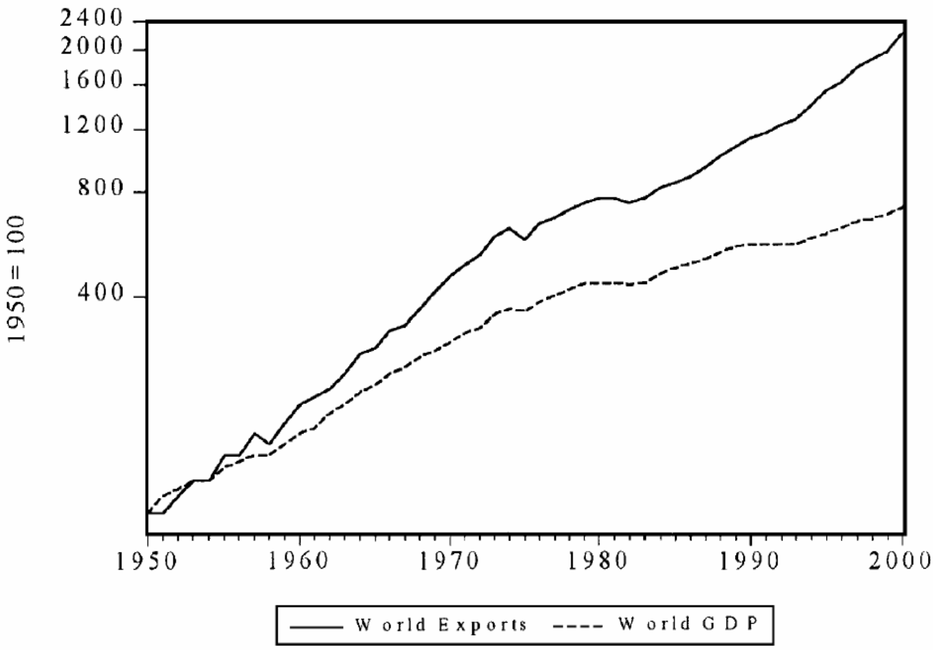
Source: See text.

Figure 3. World trade and world GDP, 1920–1939



Source: See text.

Figure 4. World trade and world GDP, 1950–2000



Source: WTO (2001), Table II.1. p. 29.

One may challenge the literature in a variety of ways by focusing on the assumptions used or on the nature and internal consistency of the model, or one may challenge the notion of the market as spontaneous order itself. The argument here takes the latter route, moving beyond Williamson's notion of economic governance as "principally an exercise in bilateral private ordering" (Williamson, 2005:1). While models of perfect competition may help us understand the benefits of removing significant barriers to the freedom of transactions and movement of goods, situations of perfect competition are not found walking about. 'Governance' should be thought of as part of what the 'market' is and how it operates, and not as an exogenous intrusion.

The point requires further elaboration. One may begin with the observation that a wide range of producer groups are closely associated in historical terms with protectionism (Gourevitch, 1977; Friman, 1990), while they often still support market forms of allocation and distribution in fundamental ways. Producer constituencies are seldom interested in the unbridled forms of competition which economic analysis associates with efficient and optimal outcomes. In this sense there is an apparent and persistent disjuncture between the conditions associated with successful market mechanisms and the ongoing reality of the way markets work in practice. In short, the distributional and other gains to those agents that successfully find ways to constrain competition through monopoly or oligopoly are well-known. This point exposes an important characteristic of markets and the way they work: the agents most intimately associated with market transactions and support for markets as allocative devices are also those with the greatest incentive to interfere with their effective functioning and overall efficiency, and are therefore the most likely to do so.

The principal impact of the point is that markets are in practice likely to prove unnatural institutions which do not necessarily tend towards spontaneity or equilibrium in the classical sense of the term. They are 'peopled' by rent-seeking agents whose rational profit-motive detects little interest in competing regularly with others if they can help it (Fligstein, 2001). Given the powerful incentives, constituencies with a range of preferences are likely to attempt to affect the structure of markets and their distributional outcomes.

The question concerns not only the utility of this analytical distinction between markets and governance, but also is it empirically reliable? This article argues that it is not, and that in view of this point the analytical distinction obscures more than it clarifies. Empirically speaking, the terms of competition are set not only by firms interacting in the market, but also by a range of factors external to market exchanges themselves yet directly linked to the preferences and utility-maximizing behavior of market agents. Some are indeed attributed to Williamson's private ordering of the 'market' such as factor prices, cost barriers to entry, energy and other inputs, the quality of management, product innovation and pricing, and the like. Others are situated on the border between private markets and 'external' political intervention, such as private restraints to trade, officially accepted cartels, or systems of self-regulation such as industry-enforced standards or complex private organizations such as stock exchanges. Still others are openly associated with state-based political intervention, such as environmental regulations, legal dispute settlement and enforcement by the courts, welfare and labor market regulation, health and safety legislation, collective pension and health provision, educational provision, or local land-use laws. Many of these latter categories are recognized to enhance the operation of the market and its efficiency even if they constitute external third-party intervention in free exchanges among economic agents. They are associated with political decision-making and they operate through the deployment of both informal and institutionalized political resources of a range of the constituencies active in market transactions.

The most important point is that they all have a direct impact on the terms under which competition among agents in the market takes place. A closer look is yet necessary: even those at first sight thought of as having prices set in the 'market' may in fact be highly politicized. Energy input costs are determined by a combination of competition juxtaposed upon OPEC or other government policy, (sometimes monopoly) utilities regulation, and other 'non-market' factors. Indeed the traditional factors of production (land, labor, and capital) are part of highly politicized market settings integrated into the decision-making structures of states, in which organized economic agents participate. Land use and environmental policies shape the market for land. The cost of capital is shaped by both market interactions and often highly political decisions concerning interest rates, exchange rates, or the licensing of financial institutions. The cost of labor and its relative skills and efficiency are determined as much by educational policies, minimum wage legislation, pension and healthcare provision, or collective bargaining institutions at peak or sectoral/firm level as they are by 'market' forces.

In this sense the distinction between the different ways of affecting the terms of competition is purely analytical—based on the distinction in the literature between the private order domain of the market and the public domain of politics. Both this 'political' and the traditional 'economic' aspect of the terms of competition are integral to the strategies of firms, operating singly or in associations, and thus to the way in which markets operate, as a range of policy studies indicates (Coleman and Atkinson, 1989; Hancher and Moran, 1989; Greenwood and Jacek, 2000). What is referred to as the political and institutional aspects of 'governance' and what is referred to as 'market' are part of the same dynamic to resolve the terms on which competition will take place.

This raises the second aspect of the problem. If the benefits of competitive markets as specific forms of allocation and distribution are to be achieved, then the institutions of governance in society must aim to underpin and enforce market-based outcomes. Regulation and political intervention providing coordinative or collective goods is very much part of creating the 'specific conditions' under which systems of free exchange will accomplish their public purpose. Forms of coordination such as state monopoly monetary systems provide alternatives to market exchange at lower cost in ways which ultimately facilitate the operation of markets.

However, the institutions of governance are influenced and often 'peopled' by the same producer constituencies with limited interest in market-efficient outcomes. Those best placed to influence the structure and operations of markets through the mechanisms of governance are also those with limited incentives to conform to the classical model of allocative efficiency. One might expect constituencies with such interests to engage actively in the restraint of competition, in opposition to those constituencies which seek market entry or some other alteration in the terms of competition. In this sense governance is all about the terms on which the market operates, and the market is a broad and complex form of governance based on a series of equally complex institutions for regulating conflict amongst the constituent elements of society. Such producer constituencies will simultaneously engage in both market-competitive and political activities both aimed at influencing the terms on which competition takes place.

Institutions thus emerge embedding the preferences and interests of some constituencies better than others. This is of particular relevance to the problem of protectionism in international trade. It is often forgotten that free trade and protectionism, representing market structures with higher or lower degrees of competition, share an important characteristic: each represents contrasting preferences of different producer groups in the economy. Each degree of free trade or protection is a governance solution peculiar to particular types of interests in specific circumstances. They are thus part of a continuum of preferences for maintaining a market-based system involving varying degrees of raw competition among economic agents. Where not all agents have the same functions and interests, and thus where their preferences conflict sufficiently, contracting in to institutions having enforcement capacities becomes necessary or else market continuity and coordination break down.

The institutions of governance will therefore represent compromises among constituencies about how the market will function with how much competition, with what sort of distributional outcomes. They involve compromises to resolve conflicts of interest among the constituencies associated with land, labor, capital, and state. One should be reminded that the state is anyway a peculiar form of economic institution, a super-firm of a very special kind (Coase, 1960: 9) with claims to reserved monopolies which are either economic (taxation, monopoly issuance of money) or are central to economic life, such as the monopoly of law and coercive intervention (Krətke and Underhill, 2006: 33). These monopolies resolve collective action problems among contractual parties in the market, and attenuate uncertainty. They and the state agencies responsible for them also have their own specific sets of interests and engage actively in asserting them.

The market is thus a form of governance integrating the organizational principles of both hierarchy and competition (Williamson, 2002: 175). The market, as a domain of competition, is embedded in society, and society's conflicts and political institutions of governance, with particular types of agents performing different functions. In this sense, 'governance' and the 'market' are not separate phenomena at all. Political compromises among socioeconomic constituencies, operating through different, and sometimes competing, forms of institutions determine what sort of economic interaction will emerge in the first place, more or less market, or no market at all, and what the distributional outcomes are likely to be.

For far too long, the study of economics and of governance has developed on separate paths while dealing with many of the same phenomena. Both contrasting and shared methodologies and theoretical assumptions have been applied to delineate separate disciplines focusing respectively on the economic and political domains. Political logic is held to pull one way, and economic logic another, in a sort of state-market dichotomy or tug-of-war. Yet the institutions of governance are essential and integrated supports for market-based systems of exchange; the political processes of these institutions are part of the way in which markets are formed and function. This implies that the market is not a domain apart from the dysfunctional politics of governance but that it is one way, and in most contemporary economies the primary way, in which governance among competing socioeconomic constituencies is organized and takes place. Politics is part and parcel of how the market emerges and is sustained. In this sense enquiry needs to be refocused away from the uniqueness of Williamson's (2005) 'economic governance' in contrast to political processes, but towards the essential unity of the political and economic domains.[5] While the state and the market are analytically distinguishable elements of the process, this analytical separation is not empirically grounded. State and market agents exist symbiotically in practice, and more often than not the analytical distinction contributes more confusion than it clarifies. If the institutions of state and those of the market are not empirically distinguishable, not discreet things as such, then it would be better not to conceptualize them so (Underhill and Zhang, 2005: 4–5; 8).

The analysis represents a last conceptual step which involves thinking of the state and the market as an integrated ensemble of governance, as a state-market 'condominium' as opposed to separate domains with separate logics and dynamics. The uncertainties and collective action problems to which high transaction costs are attributable generate not just firms as organizational hierarchies but also institutions of regulation and state as the conflicts of interest of a functioning market system with greater or lesser degrees of competition are resolved.

This does not undermine the historical 'main business' of economics—a focus on the dynamics of the market in a competitive setting. It remains crucial to know what the benefits and distributional impact of a more competitive or restrictive system might be, "uncovering the conditions necessary if Adam Smith's results are to be achieved and where, in the real world, such conditions do not appear to be found, ...[proposing] changes which are designed to bring them about." (Coase, 1992: 2). But if it can be established that institutions are endogenous to the process, it would also be more than helpful to understand the real world in which proposals for reform needs must be developed and applied, and the real obstacles which will be encountered. These are encountered in settings populated by hierarchical institutions permeated by rent-seeking interests rather more than settings characterized by perfect competition.

[5] This point has been argued elsewhere in the political science/economy literature; see Underhill (2000); Underhill and Zhang (2005).

If the state and the market are found together as an ensemble of governance, then that is the world we should analyze.

Returning to the issue of free-trade versus protectionism, the model tells us we should focus first and foremost on the preferences of firms and other producers and how they become embedded in the institutions which underpin the form of market which emerges in a particular sector or country. If "the efficiency of the economic system depends to a very considerable extent on how these organizations conduct their affairs, particularly of course the modern corporation" (Coase, 1992: 2), then let us investigate realistically how they conduct all of their affairs, from pricing to the organization of production to influencing the terms of competition against various rival interests, be these firms or other agents active in the economy. This influence on the terms of competition includes the ways in which firms are integrated into legal and regulatory institutions through which the market operates, including the decision-making processes which set the terms on which law and regulation works. Political resources are part of the game wherein producers seek to "widen the market and narrow the competition" (Smith, 1937/1776: 250) by the various means at their disposal, including their use of factors and the other ingredients for pricing their products.

This is essentially the explanation for what economists would argue are suboptimal trade regimes. They are anchored in domestic patterns of institutionalized rent-seeking which underpin the institutions and outcomes of the market; they extend into the international domain. This explains how protectionism is an extension of market behavior, and why real-world markets always exist on a continuum along which the terms of competition are set. Through the path dependency phenomenon the interests of some private interests come to be institutionalized and enshrined in particular trade policies and regimes; these may represent the bad equilibrium among multiple possibilities, yet prove very stable over time.[6] In other words, the ability of private interests to win political games at the early stages of institutionalization locks their preferences in and this equilibrium is difficult to change, even if it has negative effects on the broader public interest. These interests become institutionalized precisely because they were there in the earlier stages of industrialization when path-dependency was being generated.

This model represents precisely the empirical findings of a major study of protectionism in the textile sectors of developed countries (Underhill, 1998) and covered in the next section. The study also responds to the question as to at what point and under what circumstances these arrangements change, e.g. towards liberalization. This concrete example of the state-market condominium model is developed in the next section of this article.

III. REAL-WORLD PROTECTIONISM AND LIBERALISATION: THE CASE OF THE MFA[7]

On 1st January 2005, the Multi-Fibre Arrangement finally came to an end, closing a chapter of systematic protectionism contrary to the general rules of the trade regime across a whole industrial sector of world trade. The MFA case, highly detrimental to the interests of developed country consumers and developing country producers illustrates well the arguments concerning path-dependency and the 'vested-ness' of interests in the institutions which give form to the market. Collusive behavior initially predominated, but over time the dynamics shifted to a more liberal stance.

In this case, an alliance consisting of state agencies and a coalition of market agents in Europe and North America used their combined

[6] On this point see the both important and interesting argument of Crouch and Farrell (2004) concerning institutional path dependency, the potential for multiple institutional equilibria, and the dynamics of eventual change in institutionalized and path-dependent equilibria.

[7] The following section draws heavily on Underhill (2003), pp. 766-71, and is based on the extensive research published in Underhill 1998.

political resources to shape the international terms of competition for textile and clothing products largely to the private advantage of non-competitive developed country producers. In doing so they created an institutional path-dependent equilibrium (Crouch and Farrell 2004) that proved difficult to reverse despite its negative consequences for a broad range of socioeconomic constituencies in developed and developing societies, and also despite the existence of an international trade regime which explicitly forbade such protectionist arrangements. Developing country producers were deliberately forced off one of the few playing fields, in particular the garment industry, where they might readily compete. Thus the private interests of the market did not compete with new producers in the developing world on textbook economic terms, but appropriated the mantle of national policy, of the public good, for their own purposes. They systematically got the better of both European and North American consumers and of developing country producers in a range of often fragile emerging market economies. The established producers successfully defended their competitive position not through innovation, nor investments in technology, nor better management. Instead they captured the policy process at the national and international levels and succeeded in institutionalizing their preferences, through state policies, to maintain terms of competition advantageous to themselves. In this way their preferences found expression in institutions which gave a particular form to the market. Never mind that developing country firms succeeded in producing equal or better products for a better price – this 'economic' factor was not allowed to come to bear.

The outline of the case is as follows. From the 1950s onwards, European and American textile and clothing producers began to face an increasingly (if moderately) liberal trading environment. They also enjoyed an apparently golden future of rapidly growing domestic markets based on rising consumption, with little incentive to do other than expand capacity to meet the growing demand. Over time however, meddlesome competition from new developing country producers emerged, mainly in cotton production and mass-market clothing assembly. In the 1950s this concerned low-wage Japanese producers competing successfully in a quite limited range of straightforward products and with easy initial access to the American market. Growing domestic demand made adjustment for US producers relatively painless. According to trade theory, steady liberalization of domestic and international markets would leave everyone better off, allowing price and product competition among different national producers. 'All the liberalization that the traffic would bear' was the established US trade policy, both generally and towards the textile and clothing sector.

However, US producers resisted even these minor intrusions on their home turf. The industry represented the original wave of industrialization in the older industrial economies, meaning that they were often 'first-comers' in the process of path-dependent institutionalization of policy preferences. They were well entrenched politically both in relation to the Congress, and to government departments in the form of the Department of Commerce and what in time became the Office of the United States Trade Representative (USTR). The historically high tariff walls behind which American producers had been sheltered from older (read European) producers were under threat. Although European producers were no longer much of a worry, producers harnessed the institutions of governance to continue to shape the terms of competition. Complaints of 'unfair' Japanese competition became a familiar refrain.

Government policy-makers became hostage to senators in Congress who supported the textile sector industrial alliance (Friman, 1990: 95). Because Japan was a key US ally and by 1964 a member of the GATT, overt tariff or quota protectionism was unacceptable. The US instead invented so-called 'Voluntary Export Restraints' or VERs, whereby Japan not-very-voluntarily restricted its exports in cotton textile products for five years from 1956. As Japan became a less important source of alleged 'unfair' competition and poorer countries with yet lower wages tried to climb the economic ladder through textile-based industrialization, advanced countries continually sought to put obstacles in their way. The 'voluntary' quotas became formalized in the multilateral Short-Term Arrangement (STA, 1961-62) and the Long-Term Arrangement in Cotton Textile Trade (LTA, 1962-1973), aimed at most developing countries.

Parallel developments were taking place in Europe. Markets grew as consumption increased, but companies did not appreciate adjusting to those challenges which did arise. Some domestic industries (e.g. in the United Kingdom) faced import competition from colonial, soon to become ex-colonial, producers, which paid lower wages. For others, particularly France, decolonization closed off historically protected colonial export markets. European countries also faced more intense competition from other GATT countries, particularly the US, as post-war liberalization advanced. Most important was the intensified competition which resulted, after 1968, from the removal of internal tariffs within the Common Market partnership. Suddenly, formerly protected national industries faced intra-EU competition, which was intense for the ill-prepared, and against which retaliation was prohibited (but which happened at the margin anyway). The focus became developing country exports.

Firms reacted to 'market disruption', to which competition was euphemistically referred, not by autonomous adaptation to the market, but by activating their close institutionalized alliances with trade and industry ministries and parliamentarians. They allied themselves with American firms in the STA and LTA trade agreements that aimed at an ever wider range of developing countries. The industries of the two most advanced economic zones formed a transatlantic state-market alliance, often including trade unions, which consistently resisted competition by invoking 'voluntary' quotas, accomplishing this objective against the clearly expressed liberal trade policy objectives of both the United States and the European Union governments.

It can be robustly established that the principal competitive challenges to firms in difficulty came from fellow EU, US, and other high-wage producer firms. Developing country producers made relatively few inroads in a limited number of product ranges mostly mass-produced cotton clothing. Italian exports were probably the biggest source of competitive pressure on other industrialized countries, particularly in Europe.[8] It was anyway politically difficult to challenge full GATT or EU trading partners in the industrialized world. But the developing countries were politically weak and an easy target; their exports fed headlines by growing rapidly, even if they were not proportionately very significant. Middle-income countries such as Spain or Portugal (neither in the EU at the time) and Turkey were also 'responsible', and they too became subject to quotas until eventual entry into EU/European Economic Area. The LTA soon hardened into the broader 1973 Multi-Fibre Arrangement (MFA), renewed consistently with ever broader country and product coverage through until 1994. Mediterranean, Caribbean, Latin American and Asian countries were all subject to systematic if 'voluntary' quota systems, including some product lines which developed countries did not even produce. The EU and the US were effectively protected from competition from all newly industrializing and developing economies for well over forty years on an ever-widening range of products. Although the agreement was finally phased out in 2005, protectionism in the sector is still with us, though in the much reduced form of what are called temporary restrictions against China.

How does one interpret this story? The traditional Ricardian market-based explanation, based on factor endowments and perfect competition, should have been one of a steady shift in the division of labor in the sector, with more labor-intensive activities moving to countries with lower wages. To an extent this happened, but developing country products, as mentioned, in fact made relatively few serious inroads into developed country markets. A spontaneous order 'market

[8] These claims are well defended in Underhill (1998), chs. 1-2.

competition/international division of labor' story in fact does little for our understanding. Relatively open competition did not prevail and the strategies of firms did not engage on 'economic' turf alone. The particular institutional arrangements put in place to resolve the dilemmas of market competition involved a strong dose of collusive behavior, which operated through the legal and regulatory institutions of the state and the international trade regime. The protectionist trade regime was a direct outgrowth of the utility-maximizing propensities of both firms and labor in the sector.

A rigorous analysis of optimal available cost structures and available new technologies demonstrates that labor costs were far from crucial for most textile sector products, the exception being garment assembly. Dynamic firms in the advanced economies preserved their competitive advantages in most segments of the sector with relative ease. For those, which did not, this was largely due to their own failure to take advantage of opportunities through investment in technology or marketing/ management skills. Many firms simply did not want to change their ways and engage in the more open competition which international trade liberalization implied because alternative means of adaptation were available. Investment levels were often chronically low, and product innovation did not keep up with the market and the changing patterns of consumption as society changed in the late twentieth century. If the firms could not compete, it was due their failure to take advantage of viable alternative strategies.[9] They turned to protection as the way out.

Thus we cannot understand the evolution of the sector without simultaneous reference to both the (failed) competitive strategies of many firms in the advanced countries, and the political bargains they were able to strike through their capture of the global trade regime. So, instead of firms responding to competition through adjustment, or paying the ultimate price in a Darwinian economic universe, they

9 These claims are analyzed and supported in Underhill (1998), chs. 1-2.

responded by shaping the terms of competition in their own favor. A transnational policy process emerged in symbiosis with the pressures of global market competition, successfully erecting a complex institutionalized cross-border rent-seeking operation and thwarting the development aspirations of poorer countries in the process. There was a clear integration of the political dynamics of the trade regime and the market game of competitive advantage as played by firms.

There is a further irony to the story. Over time, many advanced country firms developed innovative responses to liberalization through investment in new technologies, product innovation, marketing strategies, and better management. In clothing manufacture, this also involved outsourcing the most labor-intensive production to neighboring low-wage countries. These strategies increased the pressure on their weaker brethren. Furthermore, states began to respond to the demands of firms in this regard by setting up favorable tax and finance regimes promoting the temporary export of prepared fabrics and the reimportation of the finished clothing products for both domestic and export markets. The US Caribbean Basin Initiative and EU trade agreements with Mediterranean countries included such measures. This outsourcing/reimportation of labor intensive production grew rapidly, and the MFA quota system became an obstacle. Producers were themselves increasingly responsible for the rapid growth of imports from low-wage economies. Industries found themselves requesting that quotas be exceeded so that outsourcing activities could grow. Policy preferences once more began to shift, this time in a more liberal direction. The Uruguay Round trade accord saw the industries of the advanced economies eventually agree to phase out the MFA over ten years beginning 1 January 1995. By this time, well over a third of US and EU imports from low-wage producers were initiated through outsourcing by American and European firms that no longer needed the more rigid protectionist legal devices, and it is interesting to note that the concerns of labor had been dropped.[10]

The more outsourcing spread, the more liberalization would be the order of the day and the better the firms did, but the more employment levels in the US and EU industries dropped. As long as they could control the terms of competition one way or another, they were happy rent-seekers but a far cry from the textbook version of entrepreneurs. The idea that the end of the MFA in 2005 ushered in an era of free market competition is also false. States and firms have stopped fixing the market together, because the firms are now able to do it themselves, and there are anyway, as mentioned, clear signs of occasional recourse to the 'old' ways.

In the end, the scope of competition was adjusted to the limits of the politically possible rather than adjustment of the strategies of firms to the limits of the competitively successful. A model based on state-market dichotomy could not help us to understand this situation, and why firms did not adjust to 'economic' pressures. An explanation based on the state-market condominium model allows us to appreciate the dynamics of the sector's political economy. States, and international legal/regulatory processes such as the trade regime, are at the heart of operationalizing markets as broader systems of governance. Private interests successfully used the cloak of state legitimacy to institutionalize their preferences by shaping the game of competition at the level of national governments and international agreements. The consequences for the development prospects of poorer countries cannot have gone unnoticed. It is the contention of this article that all markets operate in this fashion, which is very far from the spontaneity of the Austrian school. Indeed, similar antidevelopment coalitions are often at work inside developing countries themselves.

[10] Empirical evidence in support of the arguments in this paragraph are in Underhill (1998), ch. 5.

IV. DOHA: CRISIS? WHAT CRISIS?

The Doha Round broke down largely along developed-developing country fault lines, involving disputes in particular over agricultural trade and developed country subsidies.[11]The conceptual model and case material presented in this article provide some points of departure that can be generalized for thinking about the current dilemmas of the global trade regime and the apparent failure of the negotiations, recent attempts at revival notwithstanding, and leads also to some suggestions about where the effort to succeed might be focused. In particular, the state-market condominium model and the MFA case focus our enquiry less on the question as to whether free trade or protectionism is better in the sense of economic rationality. There is as stated at the outset plenty of evidence that further liberalization and growth of world trade is food for economic development and poverty reduction.[12] The focus should be less on the potential long-run benefits and more on the likely immediate distributional impact of further liberalization of international trade, including the adjustment costs. In this sense, analysis should aim to identify who benefits from the current policy and to what degree in the shorter term, who would benefit and to what degree from a policy change, and on which set of preferences are likely to prevail. Therefore, one should examine closely the ways in which particular constituencies are embedded in the institutions which facilitate the market, including the institutions of the international trade regime and their domestic equivalents. If economic enquiry generates strong claims that the likely outcome is rather less than optimal, then strategies need to be devised to accommodate constituencies whose preferences tend towards the protection side of the continuum.

Empirically, the respectively more or less protectionist/liberal options reflect divergent preferences which are good for some and not so good

[11] See the analysis in Collier, 2006.

[12] For a comprehensive treatment (if perhaps on the optimistic side) of the relationship of trade liberalization to global poverty reduction, with a particular focus on the agricultural sector, see Cline (2004).

for others, whatever the consequences for the public good if such may be determined. Trade liberalization is difficult to promote, yet protection is easy to explain as a collusion-based extension of Williamson's concept of 'economic governance' as private ordering in the market (Williamson, 2005:1-2). An ideal state of economic optimality represents a political and institutional equilibrium which is largely unattainable. In this sense, optimality is more a state against which one might measure the achievable, and where one might continue to aim for improvement. This means that in cases of real-world policy-making, frequently the name of the game is to make normative decisions about what the 'public good' ought to be, who should benefit in the main, and therefore how policy should be determined.

This also applies to Doha: whose preferences should gain, to which ends? Do the interests of developing countries currently count sufficiently? Should they and their populations count more? For economics, we must continue to ask and respond to questions such as who would benefit if a new direction in the international trade regime were to be pursued. The two sorts of analyses complement each other in important ways. This is an argument to bring the disciplines of political and economic analysis closer together on systematic basis.

Trade theory does tell us that we should not simply listen to the loudest voices with the best deployment of institutionalized political resources. They (viz path-dependency) are more than likely to have had their share of privilege. In short, whose rent-seeking will be privileged, how can rent-seeking be minimized, and can we find ways to facilitate the longer run benefits which trade theory tells us are there? If trade negotiations are about the benefits of different trade policy options to particular coalitions of interests and if a broader version of the 'general' interest is to prevail, there is a need to construct coalitions to realize the broader benefits of open trade and to avoid or compensate for adjustment losses. In this sense, whatever theory says, the benefits of freer trade are not at all self-evident when juxtaposed on the state-market model and in relative terms they differ from one constituency to another. They are indeed contrary to the rationally-determined preferences of a range of economic agents acting as utility-maximizers. This problem is inherent in real-world markets and should be kept front and centre when attempts are made to resolve stalled negotiations, from which if successful a wide range of parties may benefit reciprocally.

In elaborating these points, one could do worse than begin with Krugman's 'dirty little secret' about the distributional effects of international trade. "The measurable costs of protectionist policies—the reductions in real income which can be attributed to tariffs and import quotas—are not all that large" (Krugman, 1995: 31). There remains ongoing and considerable controversy in the literature concerning the effects of trade liberalization on the process of economic development, on growth, and on poverty reduction, particularly for developing countries. The respective role and extent of static effects, dynamic welfare gains, gains thorough productivity increases, and effects based on the stimulation of investment, are debated.[13] Cline's major study makes optimistic, if cautiously hedged, claims concerning the combined static, dynamic, and investment-induced effects of trade liberalization for developing countries, particularly if combined with element of preferential developing country access to developed country agricultural and other markets (Cline, 2004: 263-92). Santos-Paulino (2005: 804) presents a more skeptical picture, and goes on to point out that negative balance of payments effects may offset to a considerable extent the gains expected of developing country liberalization (813). Winters *et al* (2004: 72-3; 106-8) confirm the long-run positive effect of trade liberalization on poverty reduction as well as the potentially negative effects of the adjustment process on the poor, while arguing that changing trade policy may be one of the most cost-effective routes to growth and poverty alleviation. They argue that the outcome depends on

[13] See the literature survey concerning trade liberalization and macroeconomic performance by Santos-Paulino (2005) and the survey by Winters *et al* (2004) concerning trade liberalization and poverty.

the interaction of a range of contextual variables (e.g. the nature of the economy, the specific nature of trade reform policies, their interaction with other policies, the heterogeneous nature of the poor and the commensurately diverse reactions of poor households to trade shocks), and they recognize that poor households may be least able to protect themselves from adverse effects, a point which highlights the importance of compensatory policies for losers.

Returning to Krugman, the gains from free trade may be commensurately modest, with the empirical evidence for huge gains "at best, fuzzy" (Krugman, 1995: 32). Rapid liberalization is unlikely to produce a quantum leap in terms of national economic performance, helpful as it might be, and adjustment and balance of payments problems may in the end continue to dominate the agenda. Discouraging trade clearly is a bad idea if growth is the aim, but there is ample evidence from the Asian development miracles and the rapid growth of European economies in the post-war era that international trade can grow rapidly, along with national economies, while national trade policy maintains important elements of protectionism intact.

If both the costs of protection and gains from trade liberalization are modest despite the apparently impressive size of aggregate sums headlined in the literature, the difficulty of stimulating widespread policy liberalization is compounded by the skewed distribution of the costs and benefits of the liberalization process itself. It is a standard axiom that the gains affect a diffuse range of constituencies, particularly via lower prices for consumers, and these benefits are realized over time, with a lag. On the other hand, the adjustment costs are concentrated in their impact, hitting business activity and employment levels of specific producer constituencies. In this sense the benefits of protection are easier to see and thereby represent rational preferences for the producer groups with access to the ensuing rents. The state-market condominium model tells us that producer constituencies are likely to pursue these rents with considerable energy, as in the case of the MFA. This behavior is part and parcel of the way in which the institutions of the market emerge, an extension of utility-maximizing behavior, and we should not be surprised to see the difficulty of negotiations at the multilateral level. It is worth reminding ourselves that most real-world models of successful industrialized development, by which I refer among others to Europe, Canada, the US, Japan, and the Asian tigers, occurred despite considerable degrees of protectionism and not because of liberal trade strategies (although once again, trade promotion played an important role). Liberalization came later, once the countries were already developed, and there is strong evidence that the advanced economies became serious about post-war liberalization only when they were able to compete on reasonably complementary and equal terms (Shonfield *et al,* 1976: 35). Something other than the liberal thesis is clearly going on here.

A closer look at distributional and 'level of development' issues may take us further. There are good arguments developed in the literature which demonstrate that there is a tension or latent conflict of interest between developed and developing country economies in terms of trade relationships. In the first place, the Ricardian concept of comparative advantage assumes that the mutual advantages of open trade relationships accrue to economies on a similar level of economic development (de Cecco, 1973: ch. 1-3). These unequal outcomes might result for a number of reasons. Capital-intensive economies prove on the whole more competitive than those which remain labor-intensive. Labor market skills and the capacity to make use of new technologies are also higher. Poor countries with few products to offer the global market are likely to benefit less from liberalization and to have fewer trade-offs to offer in negotiations. First mover advantages, or the problem of late industrialization as described by Friedrich List (1885) or Alexander Gerschenkron (1962), are also a systematic disadvantage for developing countries. While liberal trade might be preferable in the long run, lags and adjustment costs combined with their distributional impact noted above may prove initially prohibitive. Developing countries are also just as susceptible as developed countries to rent-seeking coalitions imposing their preferences on the rest, if not more so, especially if there is and absence of democratic accountability in the policy process.

These points may be illustrated by an analysis of the dynamics of trade liberalization between developed and developing countries, and their distributional impact. The liberalization of agricultural trade is arguably of greatest economic benefit to the developing world, and the removal of developed country tariffs and quotas, plus subsidies acting as trade barriers, would be a positive development for poorer economies. Even though the aggregate benefits are likely to be substantial, the liberalization of agricultural trade in a broader sense may not have such obvious benefits for all concerned. Cline's thorough and extensive analysis (2004) indicates important static and dynamic effect gains for developing countries, well in excess of those estimated by the World Bank, as a result of agricultural trade liberalization, among other sectors. However, he is careful to qualify these aggregate gains with potential losses for some important constituencies, and the end result will depend on the specific economy and social constituency in question. Firstly, the higher agricultural prices resulting from liberalization and which would benefit the rural poor may be offset by losses for the urban poor (Cline, 2004:165, 273-5). Most of the poor in developing countries live in rural areas and are involved in agriculture, yielding a net gain. Yet in countries where the urban poor are growing as a group this phenomenon may prove in itself problematic, and it should be recalled that the urban poor are often more politically efficacious than the poor in rural constituencies. Governments are particularly sensitive to social unrest in cities. Secondly, economies with a strong agricultural export base will see greater benefits than net food importers, implying that the less export-oriented producer groups may see fewer gains or even losses; a good number of least developed countries anyway have no comparative advantage in food production (Cline, 2004: 274-5). Thirdly, much of the gain which Cline identifies is due to long term dynamic effects on productivity and investment (2004: 282-5). This means that capital must be mobilized (Cline, 2004: 216, 222), which implies that economies with poor access to net inward capital flows are unlikely to see these effects to any great extent. Overall, Asia has far higher poverty elasticity than sub-Saharan Africa, and is therefore likely to benefit far more (Cline, 2004: 253-4).

This raises the question of the distributional impact of trade liberalization in terms of poverty alleviation, which in normative terms, is widely accepted as a policy objective worth pursuing in the international community. Cline (2004: 1-4) begins by measuring the impact of current developed country protection on poverty in poor and middle-income developing countries, and the corresponding potential impact of trade liberalization. He argues that the gains for poor 'at-risk' countries[14] would be about double the current level of international aid to these same economies, and that unilateral developed country trade concessions to the poorer countries would cost developed countries economies minimally (though the effects would be concentrated regionally and in terms of constituencies). The result would be rising agricultural prices, positive for the 75% of poor people earning their living on the land, less so for the urban poor, but positive in aggregate. Encouraging exports in particular is crucial to poverty reduction. However, sub-Saharan African countries plus Bangladesh, representing 44% of the poor in the least developed countries, are likely to be net losers with poverty increasing. Clearly a goodly number of the weakest economies have little interest in liberalization without compensatory international assistance. Finally, in Cline's model most of the benefits for poor countries in general come from unilateral market access concessions from developed countries and/or from developing countries opening their markets to each other. He estimates (278) that between

[14] Cline defines 'at-risk' as Least Developed Countries, Heavily Indebted or HIPC countries, and Sub-Saharan African countries.

one-half and two-thirds of developing country gains across all sectors, but particularly in agriculture, textiles, and apparel (2), would stem "from increased access to industrial country markets rather than primarily liberalizing their own markets. These findings tend to suggest that the standoff at Cancun...was strategically sound rather than a blunder...." (Cline, 2004: 278)

This puts the focus back on resistance from protectionist producer constituencies in developed economies. More (unilateral) concessions from developed countries in trade negotiations, with the accent on the agricultural sector in the first instance and industrial sectors such as textiles and clothing, are required. On this basis Cline argues that pursuing the multilateral mutual concessions negotiating track should continue, but a second unilateral concessions track aimed at the 'at-risk' countries should also be pursued immediately.

V. CONCLUSION

To summarize the discussion, there are good reasons to be concerned about the distributional and adjustment implications of even agricultural trade liberalization for developing countries. While the net economic impact for the developing countries would most likely be highly positive, some of the poorest countries, and some of the poorest socioeconomic constituencies broadly speaking, may suffer at least in the short to medium term. The immediate focus should anyway be on unilateral concessions from developed countries, which would benefit the developing and developed world alike.

The model presented in this article tells that while the economic arguments concerning the benefits of liberalization may be quite correct, the problem is a political one of path-dependent institutions of governance in developed countries which confer political resource advantages on first-comer constituencies. The textile and clothing sector has been discussed, but the agricultural sector in the EU, Canada and the

US are even harder nuts to crack (Gawande and Hoekman, 2006). Very small proportions of the active population (3-5%) representing 6-10% of GDP apparently command disproportionate institutionalized resources to affect the terms of competition in their own favor. Private power has assumed the mantle of governance in the public interest. If the political blockage is to be removed, then negotiating strategies need to focus on either dismantling these constituencies and/or reorganizing the way in which policy-making institutions configured, probably a longer-term project. There is considerable evidence that international institutions like the WTO can help over time in this regard, reconfiguring the balance among domestic constituencies so as to favor a greater degree of liberalization (Davis, 2003). In the shorter term, compensation strategies in both developed and developing economies may yield results, focusing on compensating the losers in the adjustment process in ways which in particular do not constrain the flow of developing economy imports into developed countries. Burgoon (2004) argues that compensation for adjustment costs can prevent or at least diminish demands for protection from producer groups. Coalition building is also a longer term possibility, deliberately fostering and institutionalizing the preferences of consumer groups and those who benefit from imports.

At the very least the institutional and political conditions which have underpinned and facilitated the fairly dramatic liberalization of manufacturing and services trade in developed countries should be thoroughly analyzed, the better to inform political stratagems for liberalization where its benefits are arguably desirable. A high level of internationalization of industrial production strategies of firms is closely associated with more liberal trade policies (Milner, 1988). Capital mobility and global financial integration has contributed to the capacity of firms to adopt cross-border production strategies either through outsourcing or investing in overseas production facilities. National social welfare compromises as "side payments" to the losers in international trade can be demonstrated to strengthen political support for greater levels of economic openness, wherein welfare and protection may be regarded as "imperfect substitutes" which may facilitate potential tradeoffs between them (Burgoon, 2006). Similar analysis of the necessary underlying conditions for liberalization strategies in developing countries could also be undertaken in order to facilitate flexibility in their negotiating strategies and to reduce developing country government vulnerability to powerful organized constituencies. The idea of compensation may also be applied in relation to international assistance policies: 'aid for trade' in the traditional sense is helpful, but also aid to help liberal policies emerge in developing countries by providing aid to compensate welfare losses to constituencies experiencing the costs of adjustment in developing countries. Such assistance to poor countries costs little, would facilitate growth, and would only last until levels of poverty in these economies were reduced. Finally, enhanced financial and monetary stability for developing countries, and other measures facilitating positive net inward capital flows, would no doubt serve to reduce some of the costs of more liberal international trade. This is particularly relevant to Cline's long-run dynamic effects on productivity and investment.

In view of the model presented and the complexity of trade negotiations which it implies, failure of Doha perhaps should not be so unexpected.[15] When the international trade regime largely consisted of deals among developed countries, essentially the EU, the US, and Japan, all at similar levels of development with similar and often complementary economic structures, deals were possible. Developing countries found themselves either pulled along or reserving their positions, avoiding liberalization altogether. Eventually both developed and developing countries found reasons to engage in more liberal trade policies with each other. Developing countries changed their overall economic strategies in the late 1980s and early 1990s; from the 1980s developed country firms also began to seek increased access to the emerging markets in the

[15] Collier's (2006) analysis also implies this conclusion.

developing world, seeing these as the next frontier. Once developing country markets became the target of liberalizing interests in developed economies, the campaign for market access in service and other sectors, the game changed and became much more complex. Developed and developing countries have been attempting to make compromises despite contrasting levels of development and the other inherent tensions noted above which exist in their trading relationships, not to mention the fair bit of bullying traditionally exercised by rich countries of 'the quad'.

Perhaps the failure of Doha is also a positive signal in a perverse sort of way. Developing countries are signaling that a new pattern of rent-seeking must replace the current one, where the advantages of market access are perceived to accrue largely to large western multinationals in a range of sectors. If this new pattern of rent-seeking comes to be situated in a more liberal segment of the continuum, the better for all, and one should hope so. But it will never be 'free trade' as such.

The breakdown in the negotiations provides an opportunity to think about international trade in state-market condominium terms, about the tradeoffs among political constituencies, which might lead to the benefits of freer trade. There remains an important obstacle. If export orientation is what works most effectively for the development process, it is also clear that not all economies can pursue export oriented strategies simultaneously. That means that developed countries must continue to bear an important proportion of the development burden by providing markets which are unilaterally more open, despite elements of protection in the developing world. Such magnanimity is also in the longer-run self-interest of developed economies if looked at correctly: developing country exports lead to growth, which leads to the development of domestic markets and savings, and to the emergence of developing economies as members of the developed world, creating more for all.

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