

Designing an International Economic Order: A Research Agenda*

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Abstract

The institutions that have sustained global economic cooperation for the past 75 years are under threat. Despite admonitions that global peace and prosperity are at risk, policy-makers in important countries ignored the rules of the multilateral order over the last five years and moved down the path of unilateralism and economic nationalism. What role can social scientists play in redesigning the international economic order? We offer a research agenda for contributing to the reform and improvement of global institutions. The research agenda is guided by three themes: threats, solutions, and leadership. Threats refer to the deep causes of the crisis in global institutions, not the symptoms or expressions of those problems. Solutions refers to institutional reforms required to address deep threats to the global order. Leadership addresses the challenge of coordinating efforts to supply international institutions, which can be thought of as global public goods. We demonstrate the value of this research agenda by applying it to the World Trade Organization.

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1 Introduction

The international organizations that have sustained global economic cooperation since 1944 are under threat. The World Trade Organization (WTO) is in danger of losing legitimacy as important member countries ignore its rules and move down the path of unilateralism and economic nationalism (Bown and Irwin, 2019). The International Monetary Fund (IMF) and the World Bank have been weakened by divisions among members over governance and conditionality, leading China to launch its own global institutions, including the Asian Infrastructure Investment Bank (AIIB). Despite admonitions that global peace and prosperity are at risk, scholars of international organization have not defined a clear research agenda for responding to the mounting challenges that face the international economic order. While there has been substantial scholarship about various aspects of international institutions, a coherent body of research does not yet exist pointing to how international organizations might be reformed and coordinated in order to maintain and enhance global economic cooperation. In this paper, we develop a research agenda to fill this gap.

Prima facie, such a research agenda appears to be a daunting task, but we present an approach that we believe is tractable. We begin by identifying significant threats to globalization that have presented themselves in recent history. For example, populism and the emergence of new economic powers are threats to the current liberal international economic order (Frieden, 2019; Nye, 2017). For each salient threat, solutions may have been proposed in popular discourse, policy circles or the academic literature (Bacchetta et al., 2019; Scheve and Slaughter, 2018). The second step is thus to identify proposed solutions to each threat and determine the degree of academic consensus on the efficacy of the solution, if any such consensus exists. Finally, in the absence of a benevolent social planner to act on behalf of the community of nations, the question of implementation of solutions becomes salient. Who should implement these solutions and how? This raises the question of leadership in international economic relations and the role it plays in building consensus for reforms at both the domestic and international levels.

Redesigning globalization is a tall order. But modifying existing institutions is possible. This simple framework—threats, solutions, and leadership—is designed to help organize research on international economic order. Our aim is to provide guidance to scholars concerned about the possible breakdown of global economic cooperation and the international institutions that sustain it. While such concerns are widespread and have motivated excellent research on a variety of related topics—notably, populist voting in the United States and Western Europe—this research does not cumulate into a coherent set of recommendations for redesigning and improving the system of international institutions. Economic globalization rests on a founda-

tion of international and regional institutions constructed in the aftermath of the second World War. Pressures have been building within these institutions for a long time—before populist politicians and political parties gained ascendance in the United States and Europe. Indeed, the current crisis of globalization, can be understood as the consequence of the failure to respond to weaknesses and tensions in global institutions, not the cause of such tensions.

To illustrate, consider the WTO crisis centered on the Appellate Body. Countries currently have the right to appeal to the WTO's Appellate Body if they disagree with a preliminary panel ruling. But the United States has refused to allow the appointment of new Appellate Body members as old members' terms expire. The Appellate Body now does not have enough members to issue rulings on appeals. This could end the WTO's system of resolving disputes and lead to rampant unilateralism and protectionism (Bown, 2019).

The reason the current U.S. administration is blocking the appointment of judges to the Appellate Body is that the United States (and some other WTO members) believe that the Appellate Body oversteps its authority (United States Trade Representative, 2018; Payosova et al., 2018). This long-standing complaint about judicial overreach is, in turn, rooted in the failure of WTO members to negotiate updates to WTO rules in areas that were left vague, as with the Anti-Dumping Agreement. In other words, the crisis at the WTO is not driven by the disruptive policy actions of the current administration, as it may seem. Nor is it a problem with the WTO's dispute settlement mechanism, which has earned a reputation as the "crown jewel" of the global trading system for successfully resolving hundreds of trade disputes. Rather, the crisis reflects the failure of members to clarify existing rules on trade remedies (see below), and to negotiate new rules for members with state capitalist economies, like China. Clearer rules are needed on trade remedies, and new rules are needed for China. But members have not been able to find consensus in these areas since the WTO agreement went into effect in 1995. By consequence, the Appellate Body has been left to render its decisions based on a set of ambiguous and incomplete rules, which provokes controversy.

We suggest that the crisis over appointment of Appellate Body judges is a symptom of the failure to modernize WTO agreements over the past 25 years. The current trade war is also a symptom of the failure of systematic WTO reform. In 2018, frustrated by years of fruitless efforts to modernize WTO rules through negotiation, the U.S. imposed \$50 billion of new tariffs on steel and aluminum imports on national security grounds, claiming that the action did not require WTO review or approval (Bown, 2019). Then the U.S. retaliated against China without going through the WTO's dispute resolution process, imposing tariffs of \$250 billion on Chinese imports. While these unilateral actions contravened WTO rules that require a member to win a dispute before acting against another member (and then, within strict limits, and only if the

member refuses to change its policies), the U.S. claimed that it had run out of WTO-consistent options, citing problems with Appellate Body overreach (United States Trade Representative, 2018). In fact, the U.S. complaint that the Appellate Body is creating law rather than enforcing established rights and obligations stems from a long history of Appellate Body decisions challenging U.S. “trade remedies” —anti-dumping, subsidy, and safeguard measures that protect domestic industries from import competition.¹ Since 1995, the Appellate Body has issued numerous rulings condemning U.S. trade remedies, including safeguards on imported steel. In anti-dumping, the U.S. has lost dozens of WTO cases involving “zeroing,” an approach to calculating anti-dumping tariffs that is strongly biased in favor of more and higher anti-dumping duties (Bown and Prusa, 2011). The Appellate Body also affirmed a panel ruling that outlawed a U.S. policy, known as the “Byrd Amendment,” that transferred tax revenues from anti-dumping duties directly to the domestic firms that had petitioned for relief. The U.S. was aggrieved because “no provision in the WTO Agreement limits how a WTO Member might choose to make use of the funds collected through anti-dumping and countervailing duties” (United States Trade Representative, 2018, 24). The broader U.S. concern is that Appellate Body rulings routinely constrain its ability to use the agreement’s “escape clause” (trade remedies) to protect politically sensitive domestic industries and jobs that the U.S. deems important. This issue became even more prominent with China’s accession into the WTO in 2001 (United States Trade Representative, 2018).

The current trade war, as well as the stalemate over the appointment of new judges to the Appellate Body, are symptoms of deeper problems in the international economic order. If global capitalism is in trouble, the trouble lies with international institutions and the deeper threats that they face. For the remainder of the paper we cover the three themes and identify the areas of research we see as critical.

2 Threats

Threats are the deeper problems in global institutions, not the symptoms or expressions of those problems. The purpose of an initial diagnosis is to establish a relationship between the underlying threat and its outward expression as a current crisis. In this note, we suggest that the three major threats to the current international economic order are: (1) populism; (2) state-controlled economies; and (3) national security. For the moment, we focus on the populism

¹Although safeguards are governed by their own chapter in the WTO agreement, we consider them “trade remedies” since, like anti-dumping and countervailing duty actions, they allow members to temporarily opt out of their obligations.

threat.

Populist politicians appeal to disaffected voters by posing a stark trade-off between international institutions and national sovereignty. For example, “Take Back Control” was the alluring slogan of the Brexit campaign to leave the European Union while in Italy, Luigi Di Maio of the Five Star Movement spoke of “continuous attacks... from Eurocrats.”² In the case of the United States, President Donald Trump vowed before the United Nations General Assembly that “We will never surrender America’s sovereignty to an unaccountable, unelected global bureaucracy. . . We reject the ideology of globalism.”³

Two decades ago, economist Dani Rodrik recognized that *international economic integration* and *national sovereignty* are two elements of an irreconcilable “political trilemma of the world economy” (Rodrik, 2000, 180). The third element is *democracy*, which Rodrik referred to as “mass politics.” According to Rodrik, governments can combine any two of these three elements but can never have all three simultaneously. By “international economic integration” Rodrik was referring to reductions in national barriers to trade and capital flows, and the international rules and institutions that help countries sustain these reductions. His term “nation-state” referred to the independent sovereign authority of states to make and administer laws within their territories, while “mass politics” directs attention to democratic political systems in which the franchise is unrestricted, societal actors are highly mobilized, and politicians and political institutions are responsive to mobilized groups (Rodrik, 2000, 180-81).

Rodrik’s insight—which can serve as a useful heuristic for analyzing the populist threat to international institutions—is that global economic integration, national sovereignty and democracy are not attainable simultaneously. Nations can combine any two of these elements but must sacrifice the third. For example, when nation-states pursue deep international economic integration, they face a trade-off. They can retain their national sovereignty and make the pursuit of global economic integration their overriding policy objective. But this choice is incompatible with mass politics because democracies must be responsive to competing interests and policies. The other alternative is for nation-states to pool their sovereignty in a “global federation” that tailors mass politics to the needs of global markets. With this choice, as approximated in the Eurozone, mass politics is retained at the level of the federation, but the powers of nation-states are severely circumscribed by supranational rules and authorities.

²The “Take Back Control” campaign website is at <http://www.voteleavetakecontrol.org>. Luigi Di Maio was quoted in “Italy’s Populists aim to Challenge EU on Debt and Migrants.” 16 May 2018. *BBC News*. Available at <https://www.bbc.com/news/world-europe-44136218>

³“Remarks by President Trump to the 73rd Session of the United Nations General Assembly.” 25 September 2018. Available at <https://www.whitehouse.gov/briefings-statements/remarks-president-trump-73rd-session-united-nations-general-assembly-new-york-ny/>.

Rodrik developed the trilemma at the beginning of this century, when national political and legal jurisdictions were giving way to supranational rules and norms for allocating goods, services and capital. At that time, the European Union had moved farther in this direction than the rest of the world, but many governments were embracing global markets and international agreements. Although Rodrik thought that global federalism might be possible in the long run, he recognized that “Another possibility is that governments will resort to protectionism to deal with the distributive and governance difficulties posed by economic integration”(Rodrik, 2000, 185). As noted above, populist forces want to roll back global rules and institutions in order to restore national sovereignty.

We take Rodrik’s trilemma as our point of departure for studying the populist threat to international economic institutions. However, we do not conceptualize the trilemma as a stark choice of picking all of two elements and none of the third. In geometric terms, that would mean selecting a line in a triangle, and forcing that line to be on the edge of the triangle. Instead, we think the line could go *through* the triangle, giving some weight (but not full weight) to all three elements. This allows us to conceptualize populism as a movement that seeks to *re-weight* the elements of the trilemma.

If populism is understood as an effort to reduce the weight on international economic integration, then it suggests that there is a limit to how far governments can move toward this node of the trilemma without triggering a political backlash. We call this limit the “democratic constraint.” The democratic constraint recognizes that international economic integration imposes large, concentrated adjustment costs on the workers and industries that are exposed to increasing international competition. Exposed workers must retrain and often relocate to find jobs in other sectors; capital must be redeployed into more productive activities. As nations engage in even deeper forms of economic integration beyond trade — to finance, and domestic regulations of various kinds – these adjustment costs rise, increasing the likelihood that exposed citizens and groups will mobilize against integration. Thus, in democracies, there is a limit to how high these adjustment costs can go before triggering a backlash against international economic integration.

Figure 1 presents a stylized version of how the trilemma weights might have appeared in 2001 for the European Union, the United States, and China. The dashed red line illustrates the “democracy constraint” — the threshold at which mass politics induces a backlash against globalization. Notice that the constraint is binding for both the United States and Europe, but not China. In the US, low-skilled workers and cultural nationalists embraced Donald Trump’s attack on the political establishment in Washington, DC, while in western Europe (and the United Kingdom), these actors targeted the EU for its lack of democratic accountability (Norris and

Inglehart, 2019). In both of these contexts, populist forces expressed a desire to return policy control to ordinary people — which captures the essence of what we mean by the “democratic constraint.”⁴

While the EU and the U.S. faced a democratic constraint on how far globalization could progress, China was in a different position in 2001. In the figure, we positioned China to the left of the U.S. and the EU to illustrate that China is less constrained by “mass politics” due to its single-party authoritarian political system. For example, there was hardly any domestic backlash to the sweeping commitments China made to open its economy in negotiations with the U.S. over WTO membership. There were, however, concerns that rising unemployment in sectors that shrank due to international competition might trigger greater government repression (Halverson, 2004).

We think this approach has important implications for scholarship. First, it illustrates that democratic institutions impose an upper bound on international economic integration. This is because the adjustment costs of economic integration are concentrated, and this incentivizes exposed actors to mobilize against globalization. Second, and more optimistically, it suggests that populism need not pose an “all or nothing” threat to globalization and the international institutions that sustain it. If the level of economic integration is kept below the “democratic constraint,” then a moderate form of economic integration should be politically and socially sustainable. In other words, it may be possible to “redesign” global institutions with *intermediate* solutions that address the limited and specific grievances of populists. Third, the value of Rodrik’s framework is that it alerts us to the core trade-offs, but the details surely vary across policy areas and international institutions. Therefore, scholars would do well to focus on identifying the *specific* grievances that exacerbate populism as they apply to *specific* aspects of globalization and *specific* global institutions. While the trilemma captures the general nature of the populist challenge to global institutions, the specific challenges—and the specific solutions—will vary from institution to institution.

To this end we ask, which specific areas of U.S. policymaking do populists want to claw back from the WTO and why? National sovereignty is the rallying cry of American populists, but precisely which WTO decisions and policies are causing this grievance, and which mobilized groups within the U.S. are behind the challenge?

To our knowledge, these research questions have not been addressed before. While there

⁴According to (Norris and Inglehart, 2019, 3), “Populism should be understood as a style of discourse reflecting first order principles about who should rule, claiming that legitimate power rests with ‘the people’ not the elites.” In Donald Trump’s words, “The only antidote to decades of ruinous rule by a small handful of elites is a bold infusion of the popular will. On every major issue affecting this country, the people are right and the governing elite are wrong.” Quoted in *The Wall Street Journal* 14 April 2016.

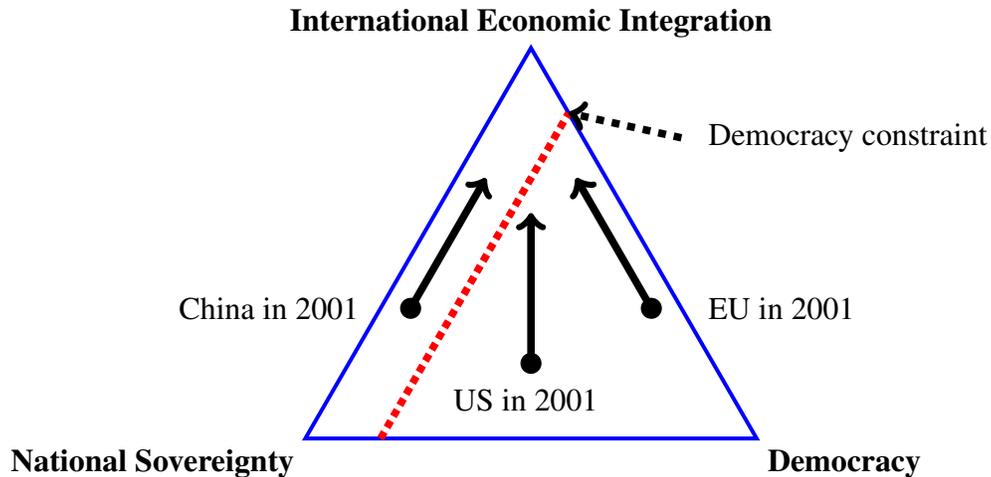


Figure 1: Populism as a response to hitting the “Democracy Constraint” in Trilemma

are detailed literatures on populism and on the WTO, they remain, for the most part, separate literatures. Scholars of populism study the economic and cultural sources of populist voting without reference to the WTO and its activities. By the same token, scholarship on the WTO assesses the conflicts among member nations that have led the WTO to the brink of gridlock without explicitly incorporating the specific sovereignty concerns that motivate populists to threaten the WTO.

We consider that this is an instance of the level-of-analysis problem in research on international institutions. There has long been a divide between scholarship on the domestic politics of foreign economic policy and scholarship on international institutions. Scholars of trade policy explore how interest group and voter pressures are aggregated through domestic political institutions to shape trade policy outcomes (Grossman and Helpman, 1994; Rodrik, 1995). But they neglect how WTO commitments and dispute settlement decisions constrain these outcomes. For their part, WTO experts explore interactions and among member states but neglect how those interactions are shaped and constrained by domestic political pressures within member countries. Both sets of researchers use “tractability” as the justification to focus on one level of analysis to the exclusion of the other. From a research design perspective, this makes sense since simplification is usually required to analyze complex phenomena. We submit, however, that responding to current threats to global economic institutions requires scholars to bring the two levels into a common analytical framework. To continue to do otherwise is to risk irrelevance.

In short, we encourage research to move in two related directions: First, we see a need for research that explores the connection between the WTO and the threat of populism. We think that Rodrik’s framework can inform analyses of the *specific* WTO rules and decisions that are

driving efforts to re-weight the trilemma. Second, in order to analyze this connection, we encourage scholars to bridge the artificial divide between international and domestic politics, as Rodrik suggested twenty years ago. At the time, his expectation was that the increasing pace of globalization would force a choice between either national sovereignty or democratic accountability (Rodrik, 2000). By 2011, however, Rodrik was advocating against “hyperglobalization” as the primary policy objective: “Democracies have the right to protect their social arrangements, and when this right clashes with the requirements of the global economy, it is the latter that should give way”(Rodrik, 2011, xix). His vision for “Capitalism 3.0” provided the benefits of a “moderate globalization while explicitly recognizing the virtues of national diversity and the centrality of national governance”(Rodrik, 2011, 235-36).

Populist forces today are advocating for similar changes. The populist turn is away from globalization and toward democracy plus sovereignty. But the specific areas of globalization that need to be “moderated” to accommodate these pressures and the domestic politics that are driving these demands, have not been extensively explored. Using the WTO crisis as an example, we illustrate how these research directions might proceed. If scholars are to make contributions toward redesigning global institutions, analyzing connections between domestic politics and international organizations should be a part of the research agenda.

2.1 Populism in the United States as a threat to the WTO

To begin, we ask if populism is a threat to global economic cooperation, why might it manifest itself as an attack on the Appellate Body? To answer this question, we need to know how Appellate Body decisions relate to the economic frustrations of populists. This, in turn, moves the research agenda away from analyzing populism and the WTO crisis in isolation from one another. If populism and the WTO crisis are related as we argue below—they should be analyzed jointly. We begin by describing the WTO’s Dispute Settlement Process and the threat in more detail.

The WTO’s dispute settlement process begins when a member mounts a Complaint against another member for violating WTO rules. Next, the parties enter a Consultations phase where they try to negotiate a mutually-acceptable resolution of their dispute. About 60% of all disputes are settled via consultations—an obvious benefit since this avoids costly litigation. In the roughly 40% of cases that remain unresolved, the dispute goes to a Panel of Inquiry, where independent experts, who can’t be from a country involved in the dispute, review evidence and then issue a ruling. If either side disagrees with the panel’s ruling, they can request Appellate Review. Each appeal is heard by three members of a seven-member Appellate Body. Members of the

Appellate Body have four-year terms and broadly represent the range of WTO members. They must be individuals with recognized standing in the field of law and international trade, and they cannot be affiliated with any government. The Appellate Ruling they issue can uphold, modify or reverse a panel's findings; these Appellate Body reports are final and can only be blocked if all WTO members vote against them (as with panel rulings). The next phase involves implementation of the Appellate Body Report, which aims to bring the "losing" side's policies into conformity. The Appellate Body monitors and reviews compliance and, in the event of non-compliance, allows the complainant to impose retaliatory tariffs against the respondent that has failed to implement.

In the 2016 presidential campaign, candidate Donald Trump described the WTO as a "disaster" and threatened to pull the U.S. out of the organization if it interfered with his plan to impose penalties on U.S. companies that moved jobs offshore.⁵ Once elected, President Trump continued criticizing the WTO as unfair and began blocking the appointment of new Appellate Body members.⁶ Figure 2 illustrates the WTO dispute settlement process, and the point at which the Trump administration has intervened. There must be three members on each appeal and the Trump Administration is blocking new appointments. These actions have crippled the WTO's system for enforcing its rules and opened the door to tit-for-tat trade wars (Hillman, 2018).

As of December 2019, the Appellate Body does not have enough members to hear appeals. For the first time since the establishment of the WTO, the Appellate Body cannot accept new appeals, and this will have knock-on effects on the entire dispute settlement system. When a member appeals a WTO panel ruling, it goes to the Appellate Body, but if there is no Appellate Body, the panel report will not become binding and will not attain legal force. The absence of the Appellate Body thus means that members can now block dispute settlement proceedings by appealing panel reports "into the void." WTO panels will continue to function as normal. But if either party to a dispute requests an appeal, the panel's report cannot be adopted, and the dispute will hang in legal limbo, effectively providing the loser with a veto. This rolls back dispute settlement to the era of the GATT, when any member could block a panel ruling by refusing to consent to it. In the absence of a functioning WTO dispute settlement system, there

⁵*Meet the Press*, July 24, 2016, available at <https://www.nbcnews.com/meet-the-press/meet-press-july-24-2016-n615706>.

⁶Only Congress has the authority to pull the U.S. out of the WTO. Congress approved the 1994 legislation that authorized U.S. participation in the WTO and, under that law, Congress can decide every five years whether the U.S. should continue its membership. In 2000 and 2005, Congress reviewed and voted on withdrawal resolutions filed by anti-WTO lawmakers. The withdrawal resolution of 2000 was rejected by a 56-363 vote in the House, while the 2005 resolution fell on an 86-338 vote. There were no votes in 2010 and 2015. See "Congress Can Stop Trump from Ditching WTO." July 5, 2015 at <https://www.rollcall.com/news/policy/congress-stop-trump-ditch-wto>

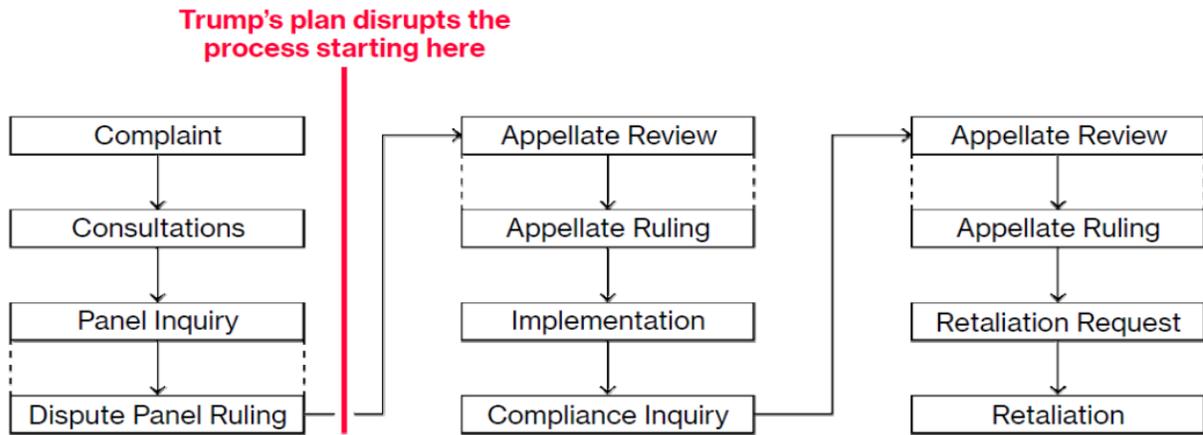


Figure 2: The WTO Dispute Settlement Process. Source: The World Trade Organization, process abridged by Bloomberg

is a high likelihood of escalating trade wars (Hillman, 2018).

Scholars seeking to contribute to forging a new consensus on international institutions might try to understand why the United States is so frustrated with the WTO. The current administration’s policy toward the WTO has been roundly criticized as impetuous and misguided, but the frustrations that drive it are longstanding and worthy of scholarly attention. These frustrations arose shortly after the WTO came into existence and are well understood by policy professionals, trade lawyers, industry associations, and members of Congress—all have expressed concerns about WTO decisions and their relationship to U.S. law.⁷ If academics want to help save multilateralism, they may consider looking past the rhetoric to the underlying issues. In the next section, we peel back the rhetoric to identify the underlying research questions.

2.2 Is the WTO unfair to the United States?

We assess the rhetorical claim that the WTO is unfair to the United States. According to President Trump, “We were losing all our cases in the World Trade Organization. Almost every case, ... lost, lost, lost.”⁸ The rhetoric glosses over the fact that countries do not take disputes into costly litigation unless they are confident that they will win. So, the complaining country almost always wins. Figure ?? reports the “win-loss” record of the United States in WTO disputes

⁷On business groups, see Stewart and Drake (2017). On Congress, see Congressional Research Service (2012)

⁸Remarks by President Trump on American Energy and Manufacturing, Monaca, PA, August 13, 2019. Available at <https://www.whitehouse.gov/briefings-statements/remarks-president-trump-american-energy-manufacturing-monaco-pa/>.

between 1995 and 2016, as reported by the USTR.⁹ The U.S. was the complainant in 108 disputes during this period, and it lost on the core issues only four times (4%), while winning on the core issues 46 times (42%) in litigation, and resolving to its satisfaction in consultations 29 times (27%). If we consider only the 79 U.S. complaints that were completed by the end of 2015, the U.S. has prevailed (in litigation and in consultations) 75 times (95%). By contrast, when the U.S. is the respondent, it loses most of the time. The U.S. was the respondent in 124 disputes to the end of 2015, and 97 of these disputes had worked their way through the dispute settlement process. Of these 97 completed disputes, the U.S. lost on the core issues 57 times (59%). So, it is inaccurate to say that the WTO is unfair to the United States. By the USTR's own scorekeeping, the U.S. almost always wins the cases it brings against other WTO members, but it loses most of the cases that other members bring against it.

We think these dispute outcomes can inform research on domestic political support and opposition to the WTO in the United States. While researchers have examined patterns in WTO dispute settlement before, no one to our knowledge has connected these outcomes to U.S. domestic politics (Mavroidis and Sykes, 2005; Busch and Reinhardt, 2002). We focus on the disputes that the U.S. loses, because losing similar disputes repeatedly suggests that the offending domestic policies are backed by powerful constituencies within the United States.

As other scholars have noted, in most of the cases where the U.S. is the respondent, “trade remedies” are involved (Schott and Jung, 2019). Trade remedies are WTO-legal domestic policy tools that allow governments to impose tariffs on imports that are causing material injury to a domestic industry. They provide an element of flexibility in trade agreements and serve as an “escape clause” so that members can be responsive to politically-important constituencies when they need to be without abrogating their overall commitment to trade liberalization (Rosendorff and Milner, 2001; Pelc, 2016). Figure 4 presents data on the 126 disputes where the U.S. was a respondent between 1995 and May 2016.¹⁰ Trade remedies were the source of 74 (59%) of these WTO disputes, with complaints about U.S. anti-dumping policies driving nearly half (49%) of all trade remedy disputes. Why are there so many U.S. trade remedy disputes at the WTO?

Trade remedies provide protection to U.S. industries and workers that are harmed by imports (Johannesson and Mavroidis, 2016). In so doing, trade remedies redistribute income, and that is why they are controversial. Within the U.S., the “winners” of trade remedies are the

⁹Compiled from data provided by the USTR's “Snapshot of WTO Cases Involving the United States.” December 9, 2015. Available at <https://ustr.gov/issue-areas/enforcement/overview-dispute-settlement-matters>.

¹⁰Compiled from Hoekman, Bernard, Henrik Horn, Louise Johannesson and Petros C. Mavroidis. 2016. The WTO Dispute Settlement Data Set, 1995-2016. Available at: <https://globalgovernanceprogramme.eui.eu/research-project/wto-case-law-project/>

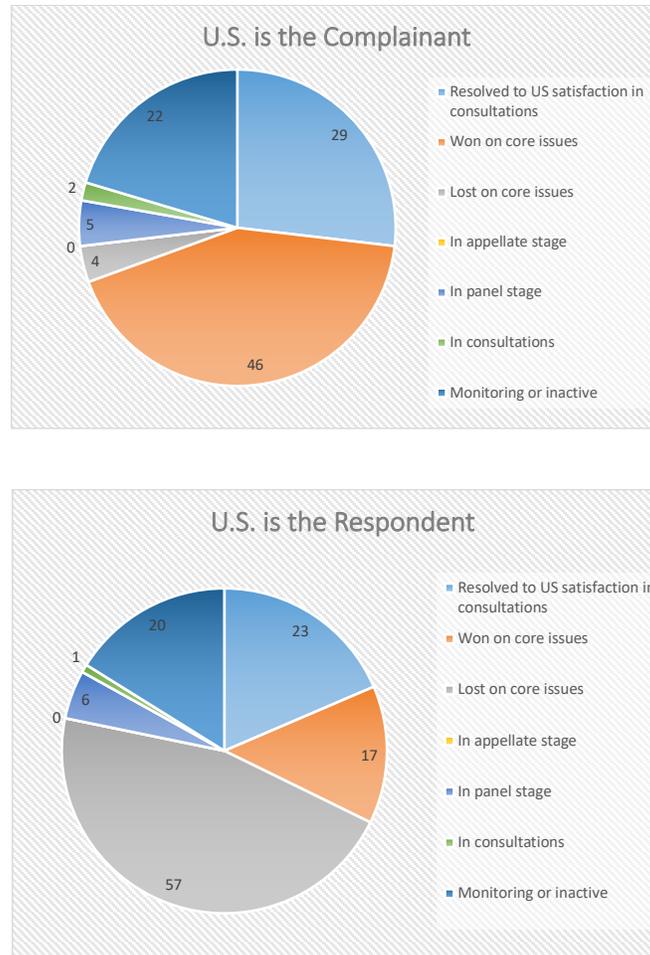


Figure 3: United States “Win-Loss” Record in WTO Disputes, 1995-2016

import competing industries that produce the protected goods; the “losers” are consumers of these goods, including the industries that purchase the goods as inputs. Society as a whole is also worse off since trade remedies induce a misallocation of resources. Outside the U.S., foreign exporters of the protected goods are harmed since trade remedies shift production to domestic producers. According to Blustein (2009) U.S trade remedies are “despised by foreign exporters who see the supposedly free-trade Americans using the laws as a disguised form of protectionism.” Indeed, Finger (1993) describes trade remedies as “ordinary protection with a grand public relations program.”

Trade remedies are allowed by the WTO but must be administered through a domestic process that is transparent and fair. Remedies are also deeply embedded in U.S. domestic law. The Tariff Act of 1930 (aka the Smoot-Hawley Act) gives the U.S. the authority to impose anti-

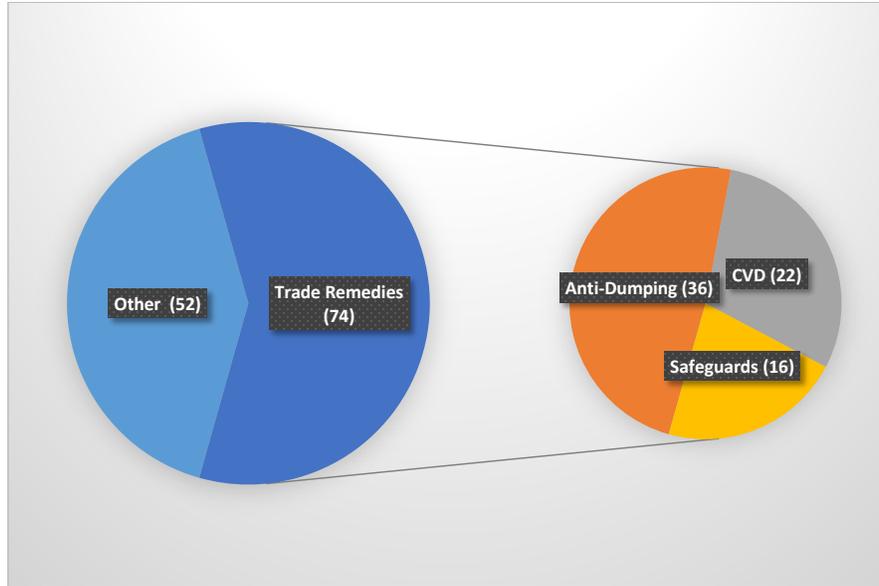


Figure 4: US WTO Disputes as Respondent

dumping (AD) and countervailing duties (CVD) on imports that are either “dumped” (sold at less than their fair value) or subsidized by foreign governments, if they cause or threaten material injury to a domestic industry. Under Section 201 of the Trade Act of 1974, the president may also impose “safeguard” duties if import surges are a substantial cause of serious injury to a domestic industry. “National security” provides another means of escaping WTO obligations (under Article XXI), but has been used less frequently by the U.S. than other trade remedies (since it invites abuse by other members). President Trump’s 2018 use of Section 232 of the Trade Expansion Act of 1962 to impose tariffs on imported steel and aluminum on national security grounds is unprecedented in scale and scope (Congressional Research Service 2019).

The U.S. has long insisted on its right to use trade remedies when it negotiates trade agreements with other nations. In the Uruguay Round negotiations, the U.S. fought to insulate its trade remedies from challenges by the WTO’s Dispute Settlement Body (DSB), obtaining a standard of review (Article 17.6) that imposes constraints on the DSB’s ability to override member governments’ interpretations of the facts in trade remedy cases. The U.S. also successfully prevented a strict prohibition on the practice of “zeroing” in calculating duties in anti-dumping proceedings, but the resulting compromise was vague, and left the door open to many subsequent WTO disputes about zeroing. According to Thomas Prusa, “zeroing has been the single most disputed issue at the WTO.”¹¹

¹¹Thomas Prusa interviewed by Chad P. Bown and Soumaya Keynes. 2018. “Zeroing: The Biggest WTO Threat

We argue that the main reason the United States has crippled the WTO is because the Appellate Body has consistently ruled against the U.S. for abusing “trade remedies”—the set of domestic policy tools that provide trade protection to industries that are injured by imports. These rulings affect a relatively small number of import-competing industries in the United States and less than one percent of all U.S. imports.¹² The research question is thus: Why are the interests of a narrow set of import-competing industries driving U.S. policy toward the WTO? We also encourage scholarship on the link between WTO decisions and political outcomes in the United States. Here a potential research question is: Did WTO rulings against the United States contribute to the election of Donald Trump?

2.3 Digging deeper: Zeroing and the United States discontent

Zeroing refers to a way of calculating anti-dumping duties that assigns a “zero” to all instances in which the export price of a product is higher than its price in the home market. Since dumping is defined as selling a product abroad for less than it sells for at home, zeroing virtually guarantees that U.S. administrative authorities find evidence of dumping, and impose higher AD duties when they do. Thus, zeroing increases trade protection. Since the U.S. uses zeroing on all its AD determinations, trade protection is higher than it would otherwise be. According to the best available evidence, “were the United States to stop zeroing, perhaps as much as half of all U.S. anti-dumping measures would be removed and the duties in the other cases would fall significantly” (Bown and Prusa, 2011, 360). For this reason, other WTO members that export to the U.S. have repeatedly challenged the U.S. for zeroing, and the Appellate Body has repeatedly ruled in their favor. In the latest example, the Appellate Body supported China’s complaint (DS471) that the U.S. broke the rules when it used zeroing to calculate anti-dumping duties on 13 imported Chinese products, including steel, aluminum, machinery, and electronics.¹³

Trade remedies—and the esoteric issue of zeroing—appear to be the most important reason why the U.S. has crippled the WTO. The current administration acknowledges that trade remedies underlie its rhetoric toward the WTO.¹⁴ Using language that echoes Rodrik’s trilemma,

You’ve Never Heard Of.” Trade Talks podcast Episode 45, July 2. According to Prusa, there have been 30 WTO disputes involving zeroing, and 28 of these disputes involve the U.S. as a respondent.

¹²Chad P. Bown and Soumaya Keynes. 2018. “Zeroing: The Biggest WTO Threat You’ve Never Heard Of.” Trade Talks podcast Episode 45, July 2.

¹³See https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds471_e.htm

¹⁴According to Thomas Prusa, zeroing “is the single biggest reason behind the US’s current position toward slowing Appellate Body decisions.” Quoted in Chad P. Bown and Soumaya Keynes. 2018. “Zeroing: The Biggest WTO Threat You’ve Never Heard Of.” Trade Talks podcast Episode 45, July 2. This U.S. frustration has been around for years, but it took on greater urgency after China entered the WTO in 2001, as noted by the Trump ad-

the administration announced that “defending U.S. national sovereignty over trade policy” and “strictly enforcing U.S. trade laws” are its two top trade policy priorities.¹⁵ The concern with “national sovereignty” refers *specifically* to Appellate Body rulings on zeroing—the U.S. position is that, since there is no explicit prohibition against zeroing, Appellate Body rulings against the practice infringe on its sovereignty.¹⁶ The administration’s priority on “enforcing U.S. trade law” refers *specifically* to trade remedies, embedded in U.S. law. Indeed, the President’s trade policy agenda is unambiguous about the importance of trade remedies: “Trade remedies are a foundation to the implementation of the WTO agreement...it is critical that WTO members fully recognize their centrality to the international trading system.”¹⁷

Rodrik (2011, 252-59) proposed reforming the multilateral trade regime to provide nations with more policy space to accomplish their domestic objectives. This is broadly what the Trump administration hopes to accomplish by pressing the case for more flexibility on trade remedies. But important research questions should be addressed before solutions to the current impasse are considered. The key question for scholars is, why are trade remedies and zeroing so important to the United States? It is worth noting that trade remedies are economically unimportant, affecting a small number of industries and a small share of imports into the United States. Furthermore, research suggests that trade remedies do little to insulate manufacturing industries from declining employment and production (cites). Why, then, are trade remedies of such outsized importance that the United States is now threatening to take down the multilateral trading system over them? To answer these questions, we encourage scholarship that connects WTO decisions to U.S. domestic politics.

We suggest two approaches for making this connection: (1) the interest group approach, and (2) the electoral approach. The interest group approach is the mainstay of political economy research on redistributive trade policy, so we begin with it. But the electoral approach is also relevant since it emphasizes the impact of trade on election outcomes. If WTO constraints on trade remedies contributed to the election of Donald Trump, then perhaps there is an electoral basis for the priority the U.S. attaches to trade remedies.

ministration in the President’s Trade Policy Agenda of 2017, prepared by the office of the U.S. Trade Representative (USTR). Available at <https://ustr.gov/about-us/policy-offices/press-office/reports-and-publications/2017/2017-trade-policy-agenda-and-2016>.

¹⁵President’s Trade Policy Agenda of 2017, pp. 2-3. Available at <https://ustr.gov/about-us/policy-offices/press-office/reports-and-publications/2017/2017-trade-policy-agenda-and-2016>.

¹⁶Stephen Vaughn, former general counsel to the USTR, presents a clear statement of the Trump administration’s trade policy agenda in Chad P. Bown and Soumaya Keynes. 2018. “Trade Policy Under Trump.” Trade Talks podcast Episode 111, November 25. See also Rushford (2018).

¹⁷*President’s Trade Policy Agenda of 2017*, pp. 2-3. Available at <https://ustr.gov/about-us/policy-offices/press-office/reports-and-publications/2017/2017-trade-policy-agenda-and-2016>

2.3.1 The Interest Group Approach to Trade Remedies

The central insight of the interest group approach is that the relative political influence of the winners and losers of trade protection largely determines trade policy outcomes (see Rodrik (1995) for a review). Interest group influence can take the form of campaign contributions, lobbying, or votes—the resources that elected policymakers require to stay in office. If the beneficiaries of trade protection can organize to generate these resources more efficiently than the losers, then trade policy will be biased in their favor. In general, research supports the finding that the protection received by an industry is higher when it is organized—a function of the number and concentration of firms in the industry—and when its output is high relative to competing imports (Grossman and Helpman, 1994).

The challenge for the interest group approach is to explain why the import-competing beneficiaries of trade remedies are now so influential that the U.S. is willing to mount an existential challenge to the WTO. Trade remedies have been around for a long time, and the lobbies that back them—notably, the steel industry—have had disproportionate influence over U.S. trade policy in the past (Blustein, 2009, 114-117). But why does President Trump’s “new era in American trade policy” give top priority to trade remedies among other trade policy goals?¹⁸ What has changed? Are existing users of trade remedies applying more influence than they used to, or are opponents of trade remedies applying less countervailing pressure? Have new industries joined the fray and put their resources behind trade remedies? More fundamentally, what was the underlying shock that upset the domestic political balance on remedies? The Trump administration explicitly ties the importance it gives to trade remedies to the massive surge in imports that followed China’s accession into the WTO. Did the rush of imports from China cause the relative influence of the domestic trade remedy lobby to increase?

These questions are amenable to theoretical and empirical research. Data on AD/CVD petitions are available to identify which industries utilize trade remedies and which industries do not, and how the distribution of industries changes over time (Bown, 2012). The instrumented “China Shock” measure provides good identification on the industries that were exposed to import competition from China (Autor et al., 2016). Granular data on campaign contributions and lobbying expenditures are readily available to measure the “relative political influence” of pro- and anti-remedy interest groups in the United States.¹⁹ And legislative proposals in the U.S. Congress to amend U.S. trade remedy statutes provide opportunities for researchers to

¹⁸President’s Trade Policy Agenda of 2017, see fn 17.

¹⁹The Center for Responsive Politics at <https://www.opensecrets.org/> provides campaign contributions data. See Kim (2018) and Bonica (2016) for lobbying data.

evaluate the interest group politics of trade remedies.²⁰

Congressional proposals on trade remedies have occurred frequently over the years, largely in response to industry concerns that remedy procedures are not meeting their needs. Usually, these proposals aim to amend the criteria for determining injury to make it more likely that determinations will be made in favor of the petitioning industry.²¹ Congress also focuses on trade remedy laws during trade agreement negotiations, and when it is considering extending Trade Promotion Authority (TPA) to the president. In these instances, members of Congress make observable choices (co-sponsorship of proposals, roll-call voting on final passage) that indicate their support or opposition to trade remedies.

We encourage research on interest group influences on congressional behavior regarding trade remedy legislation. But the American frustration with the WTO over trade remedies may be more than a warning sign that the domestic political balance has tipped toward interest groups that rely on trade remedies: WTO decisions may also have contributed to the election of Donald Trump and the rise in populism.

2.3.2 The Electoral Approach to Trade Remedies

Trade remedies provide WTO members with an escape clause. By adding an element of flexibility into an otherwise rigid agreement, remedies allow governments to commit to binding their tariffs. Seen in this light, Appellate Body decisions against U.S. trade remedies may have reduced the ability of the U.S. to insulate politically-important constituencies from import competition. Since the restrictions occurred when remedies were needed most—after China entered the WTO and import competition surged—the WTO may have contributed to the rise of economic nationalism and Donald Trump’s narrow victories in key industrial swing states.

The research we propose complements the literature that links international trade to populist election outcomes in the United States and Europe, and the “Brexit” referendum in the United Kingdom (Autor et al., 2017a,b; Feigenbaum and Hall, 2015; Colantone and Stanig, 2018a,b; Becker et al., 2017; Malgouyres, 2017). This literature establishes that voters in areas harmed by import competition from China were more likely to vote for Donald Trump, right-wing extremist parties in Europe, and Brexit.

Our extension incorporates the WTO as a separate and distinct influence on populist voting. The flood of imports from China caused economic harm to communities where import-

²⁰See, for example, Cooper (2002).

²¹See, for example, H.R.2523—The American Trade Enforcement Effectiveness Act—was supported by 46 co-sponsors in the 114th Congress (2015-2016) and incorporated into H.R.644, the Trade Facilitation and Trade Enforcement Act of 2015 (Public Law No: 114-125)

competing manufacturers are located. The WTO, in turn, limited the capacity of the U.S. government to cushion the shock. By constraining trade remedies when—and where—they were needed most, voters in exposed regions of the country may have been more likely to be persuaded by Trump’s economic nationalism. Trump won Michigan by 10,000 votes (0.23% margin), Pennsylvania by 67,000 votes (0.72%), and Wisconsin by 22,000 votes (0.77%). He also railed against China and the WTO when campaigning in these states. Given the spatial concentration of manufacturing in these states, our conjecture is that by taking away the escape clause, the WTO magnified the pressures of the China Shock, leaving voters in affected regions vulnerable to Trump’s nationalist rhetoric.

To investigate this conjecture, scholars should identify the products and industries that are affected by WTO rulings on trade remedies and then measure the regional exposure to these rulings across the United States. Given the tendency of industries to cluster in specific areas of the country, regional exposure to WTO rulings will vary, and can be measured by way of employment shares in the affected industries. Following Autor, Dorn and Hanson (2016), the expectation is that adverse WTO rulings will reverberate across the local labor market, affecting aggregate employment, wages, and labor market participation rates. These broader effects are important because they implicate voters in exposed regions, not just the directly affected industries and their lobbies.

We don’t expect adverse WTO rulings to have large *aggregate* effects on the 2016 presidential election. But we do expect WTO rulings to matter in regions suffering from high exposure to the China Shock. In other words, our conjecture is conditioned by regional exposure to import-competition from China. Furthermore, our electoral approach to trade remedies need not imply that the interest group approach to remedies is irrelevant—both forces may have contributed to current U.S. antagonism toward the WTO. Therefore, we encourage both types of research.

3 Solutions

Solutions refers to the institutional reforms that are needed to address threats to the liberal international order. For example, many solutions have been proposed to address the threat of populism—from investing in education, to reducing inequality, to providing a guaranteed minimum income to all citizens. But few solutions have been directed toward the international organizations that sustain global economic cooperation. This is a glaring omission.

The motivation for targeting reforms at international institutions is captured in the following syllogism: if populism is a threat to the global economic order, and if populism is at least in part a consequence of the free trade policies of the WTO, then reform of the WTO must be

part of the solution to populism. Rodrik (2011, 252) noted that the major defect of the multilateral trade regime is its “lack of widespread support among ordinary people.” But few scholars have linked solutions to populism to reforms of the WTO. This is surprising because scholars fundamentally agree that the rapid expansion of international trade between developed and developing countries in recent decades would not have been possible without the WTO (Helpman et al., 2008; Subramanian and Wei, 2007; Tomz et al., 2007). They also agree that populist voting in developed countries is a reaction, in part, to the expansion of trade with developing countries (Autor et al., 2017a,b; Feigenbaum and Hall, 2015; Colantone and Stanig, 2018a,b; Becker et al., 2017; Malgouyres, 2017). Trade competition from low-wage developing countries, most notably China, has combined with technological change to devastate many OECD industries, with turbulent effects on local labor markets (Acemoglu et al., 2016; Autor et al., 2016; Krugman, 2008).

It is increasingly clear that the current backlash against globalization is driven by economic grievances that implicate the WTO. We identify proposed solutions to the current WTO crisis and then suggest research questions that address the political economy of WTO reform.

3.1 Solutions to the Crisis at the WTO

In this section, we lay out a research agenda for evaluating solutions to the WTO crisis. To gain traction on the issues, we treat the WTO agreement of 1994 as an incomplete contract that bound negotiated tariffs and quotas but left significant discretion over trade remedies to national governments (e.g. Horn et al., 2010). The contract was incomplete for two reasons: First, at the time the WTO agreements were negotiated, members could not agree on how much discretion they should have with respect to trade remedies, so these provisions were vaguely worded. For its part, the U.S. explicitly refused to agree to negotiating proposals that would have prohibited zeroing. The resulting vagueness left room for the WTO adjudicating bodies to determine the actual degree of discretion which is why the U.S. is at loggerheads with the Appellate Body today. Second, the agreement was incomplete because it did not (and could not) anticipate China’s entry into the WTO in 2001, and the subsequent import surge that decimated manufacturing industries and local labor markets in the United States (Autor et al., 2016; Acemoglu et al., 2016). The link to trade remedies is that, previously, the U.S. had designated China a “non-market economy,” which allowed it to use alternative methodologies — not reliant on data provided by China — to assess its countervailing and anti-dumping duties. These alternative methodologies are the equivalent of zeroing: they allowed the U.S. higher protection against imports from China. But in 2011, the Appellate Body reversed an earlier panel ruling

that supported the U.S. position that Chinese state-owned enterprises are “public bodies” that potentially provide subsidies to downstream Chinese firms (Stewart and Drake, 2017). The decision alarmed U.S. trade officials because they wanted to use countervailing duties to defend against subsidized imports from China (United States Trade Representative, 2018).

In combination, this incompleteness lies behind the Trump administration’s attack on the WTO. On the one hand, the U.S. charges the Appellate Body with judicial “overreach” for constraining U.S. discretion on trade remedies — a grievance that intensified with the China Shock. On the other, the U.S. charges other WTO members with “underreach” for failing to agree on new rules regarding state-capitalist members like China.

Current WTO decision-making rules make it difficult to address these complaints. The “overreach” complaint targets the adjudication wing of the WTO, which operates by reverse consensus rule. This means that all 164 WTO members must agree in order to block a panel or Appellate Body ruling. This rule gives the adjudication wing of the WTO extraordinary power — it is the source of U.S. frustrations with the Appellate Body. The “underreach” complaint targets the negotiating wing of WTO, which operates by normal consensus: to go into effect, new agreements, or modification of the existing rules, must obtain the support of all 164 members. The consensus rule hampers effort to modernize the rules, address unforeseen contingences, and resolve conflicts.

Unanimity decision rules in both wings of the WTO complicate the process of resolving today’s crisis, because they inherently favor the status quo. The U.S. wants to negotiate new rules on China, and new rules for digital commerce; it also wants to clarify existing rules on trade remedies. But if any single member country can frustrate consensus, negotiations will stall. The Appellate Body wants members to clarify existing voids and address new issues but feels compelled to exercise its powers when negotiations stall, inducing charges of judicial overreach. In short, unanimity decision-making is one reason the WTO is on the verge of collapse.

Scholars of the WTO have been proposing reforms since the founding of the institution.²² But there is little agreement on what can or should be done to get past the prolonged impasse in negotiations. One proposal is to permit agreements between some, but not all, members (Lawrence, 2006; Levy, 2006). Another proposal is to relax the requirement of consensus, adopting some form qualified majority voting.²³ While there are many variations on these themes, research on reforming the WTO has not yet incorporated the current context of the

²²See Hoekman (2012) for a review and synthesis.

²³Voting on some issues is already allowed in WTO rules, but has never been used in practice. See Ehlermann and Ehring (2005).

Trump administration's policy toward the WTO.

Solutions to the crisis at the WTO should be grounded in an understating of the main threat. As discussed above, the core reason the United States has provoked a crisis at the WTO is that it has lost a series of trade remedy cases at the Appellate Body — rulings that overturned U.S. anti-dumping, anti-subsidy and safeguard measures. The Appellate Body has repeatedly outlawed the practice of zeroing in the calculation of anti-dumping margins; it has also interpreted the WTO's Safeguards Agreement to mean that safeguards can only be imposed if there is evidence that an import surge occurred as a result of "unforeseen developments." As for U.S. countervailing duties on China, the Appellate Body ruled that majority government ownership alone was insufficient to establish that such firms operated like government entities and thus were capable of conferring subsidies. In short, "the decisions that are at the heart of the United States' substantive concerns are those in the trade remedy arena" (Hillman 2018, 5).

By blocking appointments to the Appellate Body, the U.S. signaled that trade remedies are important to it. In terms of Rodrik's "trilemma," the U.S. wants more room to opt out of its obligations, expanding its policy space to accomplish domestic objectives. In the previous section, we outlined a research agenda that seeks to explain why the U.S. is jeopardizing the WTO over this issue when the economic impact of trade remedies is small. While the amount of trade implicated is probably insignificant, remedies are of great political importance in the United States (either for interest group or electoral reasons). This combination of high political salience in the U.S. and low economic impact suggests that a solution to the crisis is possible.

The logic here is that it was not worth sacrificing the whole system for the sake of issues of marginal economic importance. Other members might potentially be open to solutions that address specific U.S. concerns about trade remedies — including conceding on the zeroing issue — if this is enough to ensure continued U.S. participation and good behavior in the WTO, as well to restore the dispute settlement mechanism and end the costly trade wars. In principle, a targeted solution to the crisis is possible, given the outsized concern the U.S. places on trade remedies.

Conceding on zeroing is just one option of many, and we encourage scholarship along these lines.²⁴ Disputes involving trade remedies could be handled differently than other disputes. For example, trade remedies disputes could be resolved by non-adjudicative process, or by a temporary moratorium on appeals of trade remedy panel reports. Since the U.S. grievance is about Appellate Body rulings that overturn panel findings on remedies, a temporary moratorium might not be enough to induce U.S. agreement. In that event, members could amend the rules to make panel decisions on trade remedy matters final, thereby eliminating the threat of judicial

²⁴See Hillman (2018) for other targeted solutions on trade remedies.

overreach on these cases. In any case, we encourage the study of solutions that create “A Separate System for Trade Remedies” (Hillman 2018, 4).

In this section, we connected the threat to the WTO to solutions that specifically address the threat. Doing so, leads us to be relatively optimistic about the future of the WTO. As Rodrik (2011, 253) emphasized “Expanding policy space to accomplish domestic objectives does not negate an open, multilateral trade regime; it is a precondition to it.” Since current U.S. policy toward the WTO gives disproportionate attention to trade remedies, finding a targeted, incentive-compatible solution should be possible, within the constraints of unanimity decision-making. The connection we draw between the threat and the solution also reinforces the point we made earlier: understanding the domestic interest group and electoral pressures that underlie the U.S. preoccupation with trade remedies can help scholars identify solutions to the crisis.

4 Leadership

The final part of our research agenda is Leadership. Leadership refers to the most challenging aspect of international organization: building domestic and international consensus for creating and, when necessary, reforming global institutions. Global institutions are public goods, which means they are faced with free-riding problems both within and among countries. In the past, the U.S. government provided global leadership, and this leadership was sustained by a broad consensus within the United States in support of an open world economy (Ruggie, 1982). Today, the potential for consensus-building and leadership is in doubt. Research that explores the leadership problem at both levels of analysis is needed.

Active solutions to the problems of international organization require actors willing to expend resources advancing those solutions. Previous research has linked support for free trade and international organizations within the United States to constituencies that gain from globalization (Milner and Tingley, 2011; Broz and Hawes, 2006). For example, service-sector firms and manufacturers with global supply chains tend to agglomerate in large prosperous cities (Moretti, 2012), and the congressional legislators that represent these prosperous regions tend to vote in favor of free trade agreements (Jensen et al., 2017). Lobbying by global firms also has been linked to pro-globalization voting in Congress (Osgood, 2018; Kim, 2017). By contrast, legislators representing decaying manufacturing regions with import-competing industries in their districts tend to vote against free trade agreements (Feigenbaum and Hall, 2015). While this research can help us understand patterns of support and opposition to globalization, it does little to inform our understanding of leadership.

We make the case that scholarship on leadership needs to focus more attention on the U.S.

Congress rather than the U.S. presidency. Just as scholarship on populism has largely ignored the WTO and other international organizations, research on leadership tends to downplay the role of Congress. This is an important omission since Congress has the constitutional authority to set U.S. trade policy objectives and procedures, while the president is limited to carrying out the will of Congress. Scholars have acknowledged that legislative changes in this principal-agent relationship helped paved the way for U.S. leadership on international trade, with almost all research focused on the Reciprocal Trade Agreements Act of 1934 (RTAA).²⁵ With this landmark legislation, Congress delegated (within strict limits) its constitutional authority to set trade policy to the executive branch, and required the president to negotiate reciprocal (equal in value) tariff-reducing trade agreements with other nations. Ever since, presidents have provided global trade leadership, regardless of their partisan affiliations, often building consensus by joining ranks with members of the opposition party to pass free trade legislation (Karol, 2000). But Congress has remained deeply involved in U.S. trade leadership, repeatedly modifying the terms of its delegation to the president and adding new procedures and requirements to the trade policymaking framework. We encourage scholarship that closely examines Congress's role in providing leadership. We recommend that scholars should move beyond the RTAA to study all the institutional procedures that Congress uses to build and sustain consensus for international trade agreements.

4.1 Leadership and the World Trade Organization

In this section, we identify a research agenda on the domestic sources of U.S. global leadership. We focus on trade policymaking institutions within the United States because these institutions—which were created by laws such as the Reciprocal Trade Agreements Act of 1934 (RTAA), “Fast-Track,” and Trade Promotion Authority (TPA)—affect the levels of support and opposition to U.S. trade leadership.²⁶ Scholars have studied these institutions before, but not as dependent variables related to the concept of leadership. We conceptualize U.S. trade policymaking institutions as outcomes that affect the level of support for international trade agreements in the United States. We encourage scholars to explain changes in these institu-

²⁵See, for example, Bailey et al. (1997), Gilligan (1997), Lohmann and O'Halloran (1997), Irwin and Kroszner (1999), and Karol (2000).

²⁶Fast Track was enacted under the Trade Act of 1974. It was used to pass the Tokyo Round Agreements Act of 1979 (P.L. 96-39), which implemented agreements negotiated under the General Agreement on Tariffs and Trade (GATT), the predecessor to WTO. Fast Track has been renewed five times—1979, 1988, 1993, 2002, and 2015—and was renamed Trade Promotion Authority in 2002. But similar institutions, described below, go back to the RTAA.

tions.

Congress has the constitutional authority to define trade policy objectives and procedures.²⁷ Since 1934, Congress has used this prerogative to establish trade policymaking procedures that generate support, and reduce opposition, to U.S. trade leadership. These procedures have varied over time and provide an observable record of consensus-building efforts within the United States. We encourage research on U.S. trade policymaking institutions because changes in the way trade policy is made shape the level of domestic support and opposition to international trade agreements.

To provide guidance, we distinguish between policymaking institutions that generate support for international trade agreements from institutions that reduce opposition to trade agreements. Because the benefits of trade are widely distributed while the costs are concentrated, building consensus requires both increasing support and reducing opposition to international trade cooperation. Two institutional procedures that increase support for free trade agreements are: (1) Delegation and (2) Reciprocity. Three institutions that reduce opposition to trade agreements are: (1) The Escape Clause; (2) Notification and Consultation; and (3) Compensation. We summarize these in Figure 5 and provide details below.

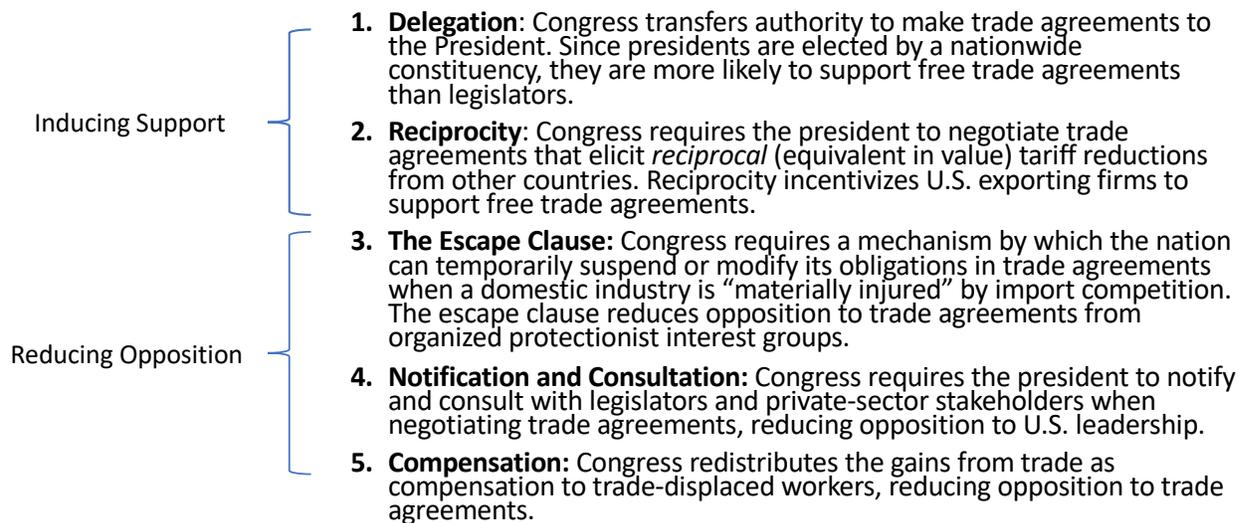


Figure 5: Consensus-Building Institutions

²⁷Article 1, Section 8 of the U.S. Constitution grants the authority to Congress “to regulate Commerce with foreign Nations.”

4.1.1 Delegation

To illustrate, consider the procedural changes brought about by the RTAA in 1934. With this law, Congress delegated its trade policy authority to the executive branch and required the executive to negotiate reciprocal trade agreements with other nations. Delegation increases domestic support for tariff-cutting trade agreements because the president is elected by a nationwide constituency and therefore considers the aggregate societal benefits of freer trade. By contrast, members of the House and Senate are beholden to organized interest groups located in their subnational districts and they do not internalize the costs of protectionism on other districts. Because presidents internalize these costs, they have incentives to move trade policy toward the societal optimum *even if voters/consumers are not organized and lobbying for free trade*. In short, delegation leads to what has been called “Presidential Liberalism” (Lohmann and O’Halloran, 1997; Bailey et al., 1997; Gilligan, 1997; Karol, 2000). Delegation also facilitates global leadership because it allows the United States to speak with a single voice in trade negotiations with other nations.²⁸

4.1.2 Reciprocity

The reciprocity feature of RTAA promotes consensus because it bolsters the incentives of export industries to lobby in support of free trade agreements (Gilligan, 1997). “Reciprocity” refers to the procedural requirement that the president negotiate trade agreements that elicit reciprocal (equivalent in value) tariff reductions from other countries. Before reciprocity, Congress set tariffs unilaterally and export interests did not have strong incentives to organize to influence trade policy. Import-competing producers were the main mobilized lobby group on trade legislation because they reaped concentrated benefits from high tariffs while the costs were dispersed (Irwin, 2017, 432). Although exporters have a general preference for lower domestic tariffs, the cost to an exporter of a particular tariff is small, so exporters did not organize in opposition to protectionism. However, by institutionalizing reciprocity into the policymaking process, exporters had a concentrated stake in tariff-reducing trade agreements and this shifted the political balance of power toward export interests: “By directly tying lower foreign tariffs to lower domestic tariffs, the RTAA fostered the development of exporters as an organized group opposed to high tariffs and supporting international trade agreements” (Irwin, 2017, 432).²⁹

After World War II, the United States “multilaterlized” the reciprocal method of generating

²⁸The bilateral tariff-reducing agreements that the president negotiated under RTAA went into effect without obtaining Congressional approval, but the RTAA itself required renewal every 1 to 4 years. This renewal feature ensured that presidents remained attentive to Congressional political imperatives.

²⁹For evidence, see Bailey et al. (1997) and Irwin and Kroszner (1999).

support for trade agreements by incorporating it into the GATT (Irwin, 2017, 455-508). Reciprocity remains the cornerstone of multilateral trade cooperation today. In the WTO, just as with the RTAA, countries negotiate bilaterally on a product-by-product basis with the principal supplier of the good in question. Then they generalize the resulting reciprocal tariff cuts to other members via the most-favored nation clause (MFN).

4.1.3 Escape

Just as delegation and reciprocity help build domestic support for trade agreements, the escape clause serves the function of reducing domestic opposition to trade agreements. The escape clause refers to trade remedies—antidumping and countervailing duty statutes that provide import-competing industries with the means to redress “unfair” foreign trade practices—and safeguards. Trade remedies permit temporary tariffs on imports that are deemed to be unfairly traded and cause, or threaten to cause, serious injury to a domestic industry. Safeguards protect domestic industries from import surges. As a consensus-building device, the role of the escape clause is to reduce political opposition to trade agreements.

The escape clause has a long history in U.S. law and has evolved significantly since it was first included in the US-Mexican Trade Agreement of 1943 (Jackson, 1997, 179). In 1947, during negotiations on the GATT, President Truman signed an executive order requiring an escape clause to be included in every agreement negotiated under RTAA authority. In the RTAA Extension Act of 1951, Congress itself mandated that all new trade agreements must include the escape clause. The same year, the escape clause text from U.S. law was incorporated into the GATT, as Article XIX, suggesting that the GATT escape clause was a “direct descendant of the US-Mexican Trade Agreement of 1943” (Ibid). Over the years, Congress has added many new features to the U.S. escape clause, and these changes provide an observable barometer of opposition to the trade agreements program. Authors in economics have studied escape extensively (Bagwell and Staiger, 1990; Rosendorff and Milner, 2001, among others), however, since the political purpose of escape is to mollify opponents of international trade agreements, it would be useful to dig deeper into the domestic political economy factors that drive changes in the escape clause. This seems to be a priority, given that the current crisis at the WTO centers on the escape clause and the U.S. grievance that the Appellate Body has overly constrained its use.

4.1.4 Notification and Consultation

Another means of assuaging opponents is to institutionalize notification and consultation procedures to ensure that Congress and the private sector play a greater role in shaping trade agreements before they go into effect.³⁰ While the escape clause applies to industries that have already been exposed to tariff cuts, notification and consultation procedures serve to prevent bargains from taking place that would expose politically-sensitive industries to greater import competition. Since the Trade Act of 1974, Congress has required the executive branch to consult with Congress and private-sector stakeholders prior to and during trade negotiations, as well as upon completion (signing) of trade agreements.

To ensure that mobilized interest groups have a role in trade negotiations, the Trade Act of 1974 set up a three-tiered system of private-sector consultation. At the top of the system is the 30-member Advisory Committee for Trade Policy and Negotiations (ACTPN) consisting of presidentially-appointed representatives from a broad range of U.S. industries and labor groups.³¹ The second tier is composed of advisory committees in specific policy areas: Agriculture, Labor, Trade and Environment, Intergovernmental Policy, and Africa. The third tier consists of 17 sector-specific committees to provide policy advice—one agricultural and 16 industrial sectors. In addition to consultations with the advisory committees, the USTR solicits the views of private actors through Federal Register notices and hearings. These procedures allow trade negotiators to learn which industries are too sensitive to expose to reciprocal tariff reductions; they also allow exporters and global corporations to convey their priorities to U.S. trade negotiators. In combination, consultation and notification requirements facilitate coalition-building on international trade agreements.

4.1.5 Compensation

The final procedure that ameliorates opposition to trade agreements is compensation. The argument for compensation is that economic policies like free trade improve aggregate social welfare but also have significant distributional effects. In such circumstances, a Pareto improvement is possible if the winners from free trade can compensate the losers, leaving both winners and losers better off. In the U.S., there has been a long-standing effort to use compensation to reduce opposition to trade agreements. The Trade Expansion Act of 1962 established “adjustment assistance” and placed the program under the authority on the Tariff Commission (Alden, 2017).

³⁰Notification and consultation requirements also help build support for trade agreements by giving export interests the ability to influence trade negotiations.

³¹For the current membership, see <https://ustr.gov/about-us/advisory-committees/advisory-committee-trade-policy-and-negotiations-actpn>

The program redistributed the gains from trade as compensation to trade-displaced workers, in the form of extended unemployment benefits and retraining and relocation assistance. The Trade Act of 1974 renamed the program “Trade Adjustment Assistance” (TAA), expanded its benefits, and placed it under the Department of Labor, to increase the number of accepted claims (Ibid, 120).

Since 1974, expansions and extensions of TAA have been a regular feature of the renewal of TPA, to appease opposition to trade agreements. As part of the 2002 TPA reauthorization, Congress enlarged the scope of TAA benefits. In 2009 and 2011 Congress again expanded TAA, allowing benefits to service-sector workers for the first time. For decades trade agreements (TPA) and trade adjustment assistance (TAA) were a package deal. But in the 2015, the deal fell apart as organized labor turned against the TPA-TAA package.³² President Obama had been negotiating the Trans-Pacific Partnership (TPP), which labor leaders intensely opposed, ending the bargain.

In summary, the U.S. Congress designs trade policymaking institutions to encourage support and reduce opposition to international trade agreements. In so doing, Congress provides leadership that helps resolve free-rider problems at the domestic level. Delegation, reciprocity, the escape clause, notification and consultation, and compensation are the underlying sources of U.S. global leadership. While reciprocity and the escape clause are inventions of Congress, they have been incorporated into the multilateral trading system and thereby help other nations generate internal support for trade cooperation as well. All five institutions have changed in many ways since their genesis. If scholars want to understand how the United States builds and maintains consensus for U.S. leadership in international trade, they need to analyze the factors that drive Congress to change these institutions.

This research agenda poses several challenges. On the empirical front, changes in these institutions need to be identified and measured, since no systematic data currently exist. Coding changes in the levels of these consensus-building institutional variables create additional difficulties. Since Congress has the option of changing from one to five institutions in response to societal demands for more or less trade, the theoretical challenges are likely to be even greater. Are these institutions complements or substitutes? For example, if the level of domestic opposition to trade increases, does this lead Congress to reduce delegation or increase compensation, or some combination of the two? And since there are five institutional procedures for reducing opposition and increasing support for trade agreements, why is one institution preferred over the others, and why is any single institutional response superior to changes in two or more of

³²Russell Berman, “A Big Win for Big Labor,” *The Atlantic*, June 12, 2015. Available at <https://www.theatlantic.com/politics/archive/2015/06/a-big-win-for-big-labor/395699>.

GATT/WTO resolutions.

The next step is to test hypotheses about the emergence and evolution of these consensus-building institutions. Congress has the prerogative to establish trade policymaking procedures that generate support and reduce opposition to U.S. trade leadership. Our data set will stand as an observable record of these consensus-building efforts over time. As dependent variables, the theoretical challenge is to explain why these institutions change, and how they relate to one another. Are they complements or substitutes? For example, if imports rise dramatically and domestic opposition increases (as with the China Shock), does this lead Congress to reduce delegation or increase compensation, or some combination of the two? Since there are five institutional procedures for reducing opposition and increasing support for trade agreements, why is one institution preferred over the others, and why is any single institutional response superior to changes in two or more of the others? Despite these challenges, this research is critical to understanding U.S. leadership in global trade cooperation.

5 Discussion

We have outlined a research agenda for contributing to the reform and improvement of global institutions using the WTO as a guiding example. Our agenda is organized around three themes: threats, solutions, and leadership. Threats refer to the underlying cause of a crisis in a global institution, not symptoms like refusing to allow the appointment of Appellate Body judges. Solutions refers to institutional reforms required to address threats to global institutions, and leadership addresses the challenge of coordinating efforts to supply international institutions that have public good characteristics.

What we observed about the WTO crisis is that the threat underlying the Trump Administration's rhetoric and actions is the failure of the members to fill in gaps in the WTO Agreement, especially in the area of the escape clause (i.e., trade remedies). This failure has led the Appellate Body to "overreach" its judicial mandate and infringe on U.S. "national sovereignty" by ruling against methods the U.S. uses to calculate antidumping, countervailing duty, and safeguard duties on imports from China and other nations. In short, the WTO crisis is centered on vagueness in the escape clause and the willingness of the United States to bring dispute settlement to a halt in order to clarify trade remedy rules.

In broader perspective, the threat to the WTO can be understood in terms of the "political trilemma of the global economy" (Rodrik, 2000, 2011). As Rodrik anticipated, global rules and

by the US Department of Labor were used to establish various levels of adjustment assistance. Irwin (2017) and Baldwin (2012) served as broader references to get a sense for how these leadership institutions changed over time.

institutions could become so constraining that they would ignite a populist backlash in which national policymakers would demand more room to pursue domestic objectives that benefit ordinary people — what Rodrik called “mass politics.” This captures the essential goals of populism, but we argue that the specifics are important and vary by policy area and international institution. In the case of the WTO, the specific constraint involves trade remedies, and the demand is for more flexibility to respond to politically important, import-sensitive industries such as steel, aluminum and furniture.

Having identified the threat, we then outlined a research plan to explain why the Trump Administration feels so strongly about trade remedies (which are of little economic importance). We argued that answering this question requires examining the impact of WTO decisions on politics within the United States. In other words, we advocate scholarship on the WTO crisis that crosses the international and the domestic levels of analysis. We established a connection between populism and the policies of the WTO and then we assessed solutions to mitigate the threat. Finally, we considered leadership problems associated with building political consensus within and across countries for the WTO.

We suggested two approaches for linking WTO actions to U.S. domestic politics: the interest group approach and the electoral approach. The interest group approach recognizes that Appellate Body decisions affect specific industries and firms within the U.S. When the Appellate Body rules against zeroing, for example, the organized interests in the U.S. that rely on trade remedies may intensify their political activity against the WTO, lobbying members of Congress and the administration to take note of their grievance. Since the benefits of trade remedies are concentrated on certain import-competing industries while the costs of dismantling dispute settlement are diffuse, politicians may receive little organized pressure in support of the WTO.

The electoral approach also recognizes that WTO decisions affect domestic politics, but the channel is through voters and elections, not interest groups (these channels may not be mutually exclusive). Existing research indicates that the China Shock contributed to populist election outcomes in the U.S and Europe. Our complementary hypothesis is that Appellate Body decisions against U.S. trade remedies may have contributed to the anti-globalization backlash and the election of Donald Trump by taking away the escape clause just when and where it was most needed. One way to test this hypothesis is to see if the industries affected by Appellate Body rulings are spatially concentrated in the industrial swing states that Donald Trump won by narrow margins.

As for solutions to the crisis, our preliminary analysis suggests that scholars should be focusing on narrower reforms that address U.S. concerns about trade remedies, rather than grand bargains that would be difficult to get past the unanimity constraint. Trade remedies

are politically important to the U.S., but they don't have much economic significance relative to what is at stake. If keeping the United States in the WTO and restoring the dispute settlement mechanism are more valuable to other members than conceding to the U.S. on remedies, then there is room for a narrower solution that carves out a special process for handling trade remedy disputes.

Our analysis of leadership produced the most surprising research agenda. Typically, analysts don't think of the U.S. Congress as providing global trade leadership. Yet we encourage research on how Congress builds domestic consensus for U.S. trade leadership by manipulating the structure of domestic trade policymaking institutions. We identified five consensus-building Congressional institutions; two that generate support (delegation and reciprocity), and three that reduce opposition (the escape clause, notification and consultation, and compensation). Over time, Congress has repeatedly changed these institutions, both individually and in combination. We suggest research that measures and explains these changes. We need to understand the forces that drive change in these institutions because Congressional policymaking procedures directly influence U.S. leadership at the global level. Given the paucity of existing research on these institutions, this is the most challenging part of our research agenda. In terms of the current WTO crisis, it is also the most pressing since, absent a domestic consensus, the U.S. cannot provide leadership on reforming the WTO.

Our framework—threats, solutions, leadership—can guide research on crises in other international organizations. For example, the U.S. withdrawal from the Paris Climate Agreement is a symptom of a deeper threat, located in U.S. domestic politics, that needs to be identified and analyzed. Solutions tailored to the threat can then be assessed on their merits and in terms of their political feasibility. Finally, scholars could contribute by examining how the structure of Federal climate change policymaking encourages global leadership. As with international trade, U.S. leadership efforts on climate change are undertaken under laws approved by Congress. While climate change amelioration improves aggregate social welfare, it also imposes costs on certain industries, occupations, and regions. Climate change touches on a wide array of interests, as with trade. The stakes vary from industry to industry and region to region, but an effective solution requires a balancing of those interests, which typically is achieved through the legislative process.

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