IR Field Seminar Summary
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Joanne Gowa. "Bipolarity, Multipolarity, and Free Trade," *American Political Science Review*. Vol.83, No.4, 1989, pp.1245-1256.

<u>Claim</u>
-Free trade is more likely among allies than adversaries because of greater security externalities.
-Free trade is more likely under bipolarity that multipolarity because of less credible exit threats as well as stronger incentives to engage in altruism.

<u>Literature</u>
-Hegemonic Stability Theory: A free trade system is a public good provided by a hegemonic state. Free riding is the problem.
-Optimal Tariff Theory: Large states who can influence their terms of trade maximize their real income by imposing an optimum tariff. If all the countries use this optimal tariff a individually and collectively suboptimal outcome results.
-These literature represent free trade as the Prisonners' Dilemma.

<u>Security Externalities</u>
-The Prisonners' Dilemma representation used by the literature focuses exclusively on the real income gains from trade. But, this approach ignores the security externalities of trade.
-The idea is that trade increases the potential military power of any country that engages in it.
-The relative gains concern makes states worry about the relative balance of power effects of trade.
-The breakdown of the 1933 World Economic Conference during the interwar period is a good example of the power of the security dilemma to contribute to a free trade deadlock. (French reluctance over the issue of German reparations)
-Because of security externalities and relative gains concern, free trade is more likely among allies than adversaries.

<u>Polarity and Free Trade</u>
-Polarity is defined as the number of the great powers whose "military power" is roughly equal.
-In principle, security externalities prevent states from fully enjoying the benefits of trade under both multipolar and bipolar systems. However, free trade among allies are more likely under bipolar system than multipolar one for the two reasons.
-The threat of exit is less credible under bipolarity than under multipolarity: less options (only two great powers), more stable alliance, bipolarity is structurally determined while multipolarity is often temporary, bipolarity is spatially concentrated, less uncertainty about potential great power allies (analogy of search goods and experience goods), realignment is impossible for either great power.
-In general, in its own interest, a great power may choose to forgo the use of an optimum tariff against its smaller allies because an attempt to exploit its power in the short run may undermine that power over time. (The limit pricing argument: the monopolist seeks to convince potential entrants that its costs of production are lower than they are in reality by limiting the price.)
-Constraints on exploitation are attributed to the dependence of the rulers on the welfare of those they rule and to the existence of competition or of rivals to rule. Constraints are greater in bipolarity than in multipolarity because the low risk of exit in bipolarity makes it easier for great powers to depend on their allies.
-Great powers in a multipolar world also tends to discriminate among its allies in terms of its investment in them, as their allies presumably confront divergent opportunity costs of exit.