

Joanne Gowa, "Bipolarity, Multipolarity, and Free Trade," American Political Science Review vol. 83, no. 4 (December 1989), pp. 1245-1256.

Free trade will encourage income gains for states, but will also result in negative security externalities as their (potential) opponents also gain. What to do?! Remove that potential!
Therefore, military alliances are the basis for opening international markets, however, alliances in bipolar systems will be more likely than those in multipolar systems to encourage free trade.

Security externalities of trade – gains from trade come from increased efficiency, an inherently joint phenomenon, so both sides have more money left over for military uses. Since states are locked in security dilemmas, then free trade is no good. Take interwar Europe for example...

But why will Bipolar systems yield alliances that are more inclined towards free trade than the alliances produced by multipolarity? Two reasons: the risks of exit and incentives for great powers to act altruistically to their alliance partners.

Risk of Exit

1. Multipolar alliances are more likely to develop from "choice among several options" whereas bipolar alliances are more "structural." Therefore, bipolar partners are less substitutable.
2. The amount of info about potential allies is inversely related to their number, but information is costly. Bipolar alliances are likely to be better "researched," while states in multipolarity may take time to try out different alignments.
3. In bipolar systems, the poles are pitted against each other, so alliance stability becomes important for both of them and they will work hard to achieve it.

Therefore, because multipolar partners exit more often, future benefits accruing from market openness will be discounted more.

Incentives for "altruism"

Incentives to exploit alliance partners – large states' dominant strategy is to put up tariffs and small states' have to grin and bear it. However, greater consideration of the long run may encourage a hegemon to reject this strategy.

Constraints on exploitation – when great powers depend on the welfare of their allies, they will define their self interest "altruistically" – and will not impose optimal tariffs. When in a bipolar system, the threat of exit and the fear that the other big state will act altruistically will make free trade more likely than in multipolarity, where great powers can discriminate amongst smaller states (who face divergent opportunity costs for exit.)

Testability – Gowa says comparative systems testing is difficult, if not impossible because of the small sample and paucity of older data. So, she just presents the argument.