

# Free Trade and Forms of Democratization

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How do democratic transitions affect trade policy? A well-known finding is that transitions in developing countries produce lower tariff rates. But prior work implicitly assumes that all forms of democratic transitions are alike. There is less reason to expect trade liberalization to follow transitions led by political elites, which constitute roughly half of all democratic transitions in recent decades. Analysis of industry-level tariff rates indicates that elite-led transitions are not consistently followed by trade liberalization, while transitions initiated by the general public are associated with tariff rate reductions.

What is the relationship between democracy and trade liberalization in developing countries? A common contention is that democratic transitions lead to lower trade barriers (e.g., Chaudoin, Milner, and Pang 2015). Milner and Kubota (2005) notably theorize that this is because democratization in developing countries empowers low-skilled labor, an abundant factor, and curtails the influence of elites tied to import-competing industries. But this literature generally groups all democratic transitions together, and recent studies show that not all forms of democratization are alike (Haggard and Kaufman 2016). I refine the existing body of work by showing that in a sizable subset of cases, democratic transitions do not prompt reductions in tariff rates.

Theories tying democracy to free trade rest on the idea that the publics of transitioning countries are able and willing to seek trade reform. When a developing country democratizes, power shifts from protectionist elites to low-skilled laborers. Traditional factor-based models of trade imply that as low-skilled labor is an abundant factor in developing countries, these newly enfranchised citizens will then pursue freer trade. For this mechanism to operate, these models must assume that voters are attuned to redistributive issues and willing to mobilize around them.

I contend that this assumption is unlikely to hold following *elite-led* transitions, which constitute half of all tran-

sitions in recent years. In these cases, trade policies should remain reflective of elite preferences. Unlike *mass-led* transitions, elite-led transitions occur absent any strong redistributive grievances, meaning either that trade is a low-salience issue for voters or that voters are satisfied with status quo trade policies. Elite-led transitions do not require a high level of mass organization, suggesting that even if citizens prefer trade reform they may lack the collective action capacity to effectively mobilize for it. Further, elite-led transitions reserve more power for incumbent elites than mass-led transitions, limiting the ability of the public to effectively lobby for tariff reform even if they have a preference for it and have surmounted organizational barriers. In line with this argument, using data on democratic transitions and industry-level trade policies between 1988 and 2008, I show that elite-led transitions lack a negative relationship with subsequent tariff rates.

## TWO PATHS FROM DEMOCRACY TO TRADE POLICY

Milner and Kubota (2005) posit that in autocratic developing countries, capital tends to be well represented within elite political circles, while low-skilled labor is left on the outside looking in. Capital tends to be a scarce factor in these settings, while low-skilled labor is abundant. Following from the Stolper-Samuelson theorem and Heckscher-Ohlin model, Milner and Kubota argue that this distribution of political power

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results in developing autocracies pursuing protectionist trade policies. When these developing countries democratize, low-skilled labor accumulates more political power and accordingly drives down trade barriers. Although there are limitations to this factor-based framework (Goldberg and Pavcnik 2007; Menendez, Owen, and Walter 2018), scholars have argued that democracies may lower tariff rates for other reasons, such as democratic leaders' attentiveness to consumer interests (cf. Betz and Pond 2019) or interest in conveying information to voters (Mansfield, Milner, and Rosendorff 2002). I argue that these causal stories are emblematic of only one form of democratic transition: mass-led transitions. Elite-led transitions occur by a distinct logic.

The arguments associating democratization with freer trade involve at least three assumptions about the character of new democracies: (a) trade reform, and redistribution more broadly, is a salient issue for newly enfranchised voters; (b) the mass public can counter well-organized protectionist special interests; and (c) incumbent elites retain little influence over trade policy following a transition. These conditions should not be taken for granted. While they may be satisfied during mass-led transitions, I argue that one or more of them are likely to be violated during elite-led transitions. This is a substantively important refinement of the theories linking democracy and free trade: elite-led transitions constitute half of all transitions between 1980 and 2008.

### **Salience of trade policy**

If voters do not pay attention to trade policy, it is difficult to argue that extending the franchise will induce trade reform. Yet despite its redistributive implications, trade policy is often a low-salience issue for voters (Guisinger 2009). People are susceptible to elite messaging when developing trade preferences (Hicks, Milner, and Tingley 2014) and often ignorant of the redistributive implications of trade until they receive "distributional cues" (Rho and Tomz 2017). Democratization therefore does not necessarily imply an increase in the number of people voting on the basis of trade policy.

Unlike for mass-led transitions, highly salient redistributive concerns are not a necessary feature of elite-led transitions (Haggard and Kaufman 2016). These transitions are instigated or permitted by incumbent elites, rival elites, or foreign actors (see app. B; apps. A–E available online). They are not rooted in the redistributive grievances present in mass-led transitions that plausibly make trade policy a salient issue and trade reform likely. In fact, these transitions are likeliest to occur when elites calculate that they will be able to gain from opening up the political system—a conclusion that is unlikely to be reached in the presence of a powerful pro-redistribution coalition (Haggard and Kaufman 2016, 159). The condition of

trade policy salience is therefore relatively unlikely to hold during elite-led transitions.

### **Strength of protectionist lobbies**

The second condition is that the mass public can counter well-organized protectionist lobbies. Collective action theory holds that large groups, such as low-skilled labor in developing countries, will have a harder time organizing than small collectivities, like the few elites with a stake in protectionism (Olson 1965). The concentrated costs and diffuse benefits that result from trade liberalization are often thought to bias trade policy making in favor of narrow protectionist interests. Countering these lobbies requires that protrade voters form costly organizations.

A lack of these mass organizations is an important characteristic of elite-led transitions, as it gives elites more confidence that they will be able to retain influence posttransition. In contrast, by the time of mass-led transitions, publics have at least partly surmounted barriers to collective action through, for example, labor unions and "left-wing mass parties" (Boix 2003, 20). As these organizations should be less common around the time of elite-led transitions, it should be more difficult for protrade individuals to effectively voice their preferences in these contexts.

### **Influence of incumbent elites**

The third and final condition for the democratization-free trade link to hold is that incumbent elites retain relatively less influence following a democratic transition. Bearce and Velasco-Guachalla (2019), for example, suggest that the displacement of protectionist interest groups might be one reason why democracies trade more. But this may be unlikely to occur following elite-led transitions, for as noted above elites will generally only initiate or tolerate democratization when they feel that they have something to gain from it. Elites are not necessarily entirely excluded from politics after mass-led transitions, but they should generally be more influential after transitions that they lead (Haggard and Kaufman 2016, 174).

Ample evidence supports this point. For example, constitutions governing new democracies are often constructed in such a way that allows incumbent elites to retain power; Chile's elite-led transition in 1990 proceeded under a constitution imposed by Augusto Pinochet, which secured powerful roles for incumbent right-wing elites (Albertus 2019). Notably, recent work finds that there tends to be less redistribution after transitions occurring under elite-imposed constitutions (Albertus and Menaldo 2014). When incumbent elites retain power beyond a transition, it should be likelier that existing trade policies persist as well. Note that I do not assume that these elites will necessarily be protectionist; recent evidence

points to a potentially high level of variation across elites in developing countries with regard to trade preferences (Betz 2017; Osgood et al. 2017).

In sum, the three assumptions underpinning theories linking democracy to free trade should tend not to hold in cases of elite-led transitions. Strongly articulated protrade preferences are likely to be absent. Even if they are present, a lack of established vehicles for mass mobilization and persistent elite influence should complicate voters' ability to translate these preferences into policy change. Elite-led transitions consequently should not consistently produce significant trade liberalization.

### EMPIRICAL APPROACH

To test whether democratic transitions of particular types are followed by shifts in trade policy, I regress measures of trade protection at the country-industry-year level on binary indicators for "intact" mass-led and elite-led transitions. For transition data, I rely on coding by Haggard and Kaufman (2016), who examine Polity transitions (crossing +6 on the -10 to +10 Polity scale) between 1980 and 2008. They identify mass-led transitions, or "distributive conflict transitions," according to two criteria. First, incumbent elites must face a threat from "the mobilization of redistributive grievances on the parts of economically disadvantaged groups or representatives of such groups." Second, this mobilization must either "directly oust" the incumbent regime or force incumbent elites to make concessions (37). Elite-led transitions, however, are signified by a lack of mass mobilization, mobilization in the absence of distributive grievances, or a lack of a clear link between mobilization and elite concessions (see app. C for further details).

Country-level averages of trade protection obscure the possibility of democratization having differential effects across industries (Barari, Kim, and Wong 2019). Accordingly, I record the unweighted mean of ad valorem equivalent, most favored nation tariffs at the two-digit harmonized system (HS2) level, aggregating across HS6 level rates. I use tariff data from the United Nations Conference on Trade and Development Trade Analysis Information System data set, which reaches back to 1988. I apply a log transformation given a pronounced right skew in the distribution of these rates. Future work might probe whether the theoretical distinction introduced here holds for other outcomes of interest, such as discriminatory trade policies (Kono 2008) or General Agreement on Tariffs and Trade/World Trade Organization (WTO) participation (Davis and Wilf 2017).

I include a range of standard control variables thought to influence trade policies: gross domestic product (GDP) per capita in constant 2010 US dollars, full WTO membership, the value of imports as a percentage of GDP, and national

population. I also condition on countries' "revealed comparative advantages" in particular product groups, where higher values indicate that a country is more advantaged in a particular area; this accounts for the possibility that trade policies today primarily follow industry-level comparative advantages (Hicks et al. 2014). The models are estimated by ordinary least squares, with all explanatory variables lagged by one year. I use three-way fixed effects for country, industry, and year, with robust standard errors clustered at the country and year levels.

### RESULTS

The main regression results are presented in table 1. As expected, elite-led transitions are associated with a lack of tariff reductions; the coefficients for elite-led transitions are statistically insignificant and substantively small. Conversely, in line with Milner and Kubota's (2005) general prediction, mass-led transitions are associated with significant and sizable reductions in tariff rates. These results are robust to the

Table 1. Regressions of AVE MFN Tariff Rates at the HS2 Industry Level

	(1)	(2)	(3)	(4)
Elite-led transition	.010 (.095)		.007 (.083)	
Mass-led transition		-.308** (.140)		-.302** (.131)
Product group RCA	.00001 (.005)	-.00002 (.005)	-.003 (.005)	-.003 (.005)
GDP/capita (ln)			-.474 (.341)	-.464 (.315)
Full WTO membership			.137 (.163)	.140 (.159)
Imports (% GDP)			-.005 (.004)	-.004 (.004)
Total population (ln)			.675 (.602)	.620 (.590)
Observations	51,189	51,189	50,291	50,291
Adjusted R <sup>2</sup>	.539	.542	.549	.552

Note. Results of regressions of ad valorem equivalent (AVE) most favored nation (MFN) tariff rates at the two-digit harmonized system (HS2) industry level (ln, unweighted mean) on binary indicators for transition type and other covariates. Country, industry, and year fixed effects included. Standard errors clustered by country and year in parentheses. All right-hand-side variables are lagged by one year. RCA = revealed comparative advantage; GDP = gross domestic product; WTO = World Trade Organization.

\*  $p < .1$ .

\*\*  $p < .05$ .

\*\*\*  $p < .01$ .

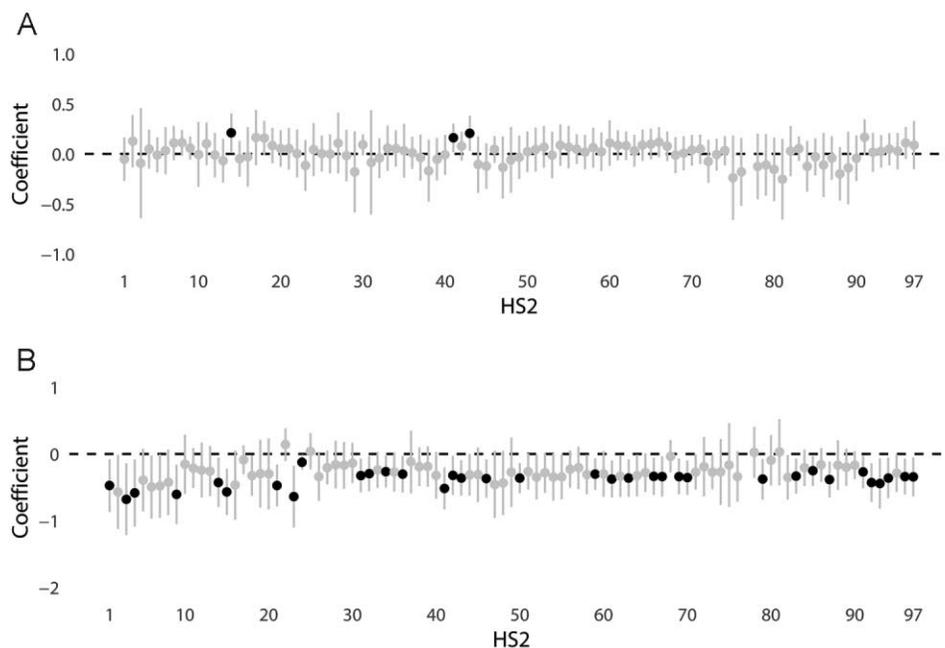


Figure 1. Results of regressions of ad valorem equivalent most favored nation tariff rates at the two-digit harmonized system industry level (unweighted mean) on binary indicators for transition type and other covariates: A, elite-led transitions; B, mass-led transitions. Country, industry, and year fixed effects included. Standard errors clustered by country and year. All right-hand-side variables are lagged by one year.

inclusion of variables for the revealed comparative advantages of different industries, as well as a range of other possible drivers of trade liberalization. Notably, the binary for mass-led transitions appears to be the most precisely estimated variable in both sets of models.

A shortcoming of these model specifications is that they do not account for differences in the pretransition trade policies of countries that ultimately experience elite-led or mass-led transitions. There is some difference in the distributions of industry-level tariffs across countries on the precipice of an elite-led transition and those nearing a mass-led transition. Among the former countries, median industry-level tariff rates stand around 13%, whereas in the latter countries they are around 14% (see fig. A1; figs. A1, A2, and D1 available online). Accordingly, I estimate an additional set of models in which I condition on mean HS2 level tariff rates in a country in the year before a democratic transition. Estimations of these models, which include country and year fixed effects, indicate a strong positive relationship between pretransition tariffs and posttransition tariffs, as would be expected. They also continue to point to a lack of trade liberalization after elite-led transitions (table D1; tables A1–A3, D1–D13, and E1–E2 available online).

To assess the risk that only a small number of industries are driving these results, I reestimate the full models while subsetting the data by individual HS2 industry. This allows for an assessment of whether the results are consistent across industries. Here I use country and year fixed effects with stan-

dard errors clustered along the same dimensions. The results of these estimations (fig. 1) again show that elite-led transitions lack a significant relationship with tariff rates across industries. These results are consistent across other model specifications (see apps. D and E).

## CONCLUSION

Not all paths to democracy are alike. Mass-led transitions, characterized by redistributive grievances, differ from elite-led transitions, during which redistributive concerns are weaker, incumbent elites retain substantial influence, and powerful mass organizations are absent. I find that while mass-led transitions are associated with liberalization, elite-led transitions lack a clear negative relationship with tariff rates. Enfranchising those who theoretically stand to gain from free trade accordingly does not necessarily produce free trade.

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