Jeffery Frieden and Ronald Rogowski, "The Impact of the International Economy on National Policies: An Analytical Overview," in Keohane and Milner eds., *Internationalization and Domestic Politics* (New York: Cambridge University Press, 1996)

**I. OVERVIEW**

In this article, Frieden and Rogowski show how "globalization," defined as an exogenous easing of international trade, effects different groups within domestic politics. Because foreign and domestic policy is a result of political choices made by domestic actors, we here see how exogenous forces *work through them* to create foreign policy—this is, in effect, a feedback loop model of international relations. Globalization impacts domestic actors by improving the marginal welfare of the holders of abundant and/or globally competitive factors (and those who work for them) causing them to have a policy preference for further globalization and free trade. On the other hand, holders of scarce and/or globally uncompetitive factors (and those who work for them) will have their marginal welfare reduced by globalization and will thus have a policy preference for reduced globalization and protectionism. Frieden and Rogowski explicitly note that this will hold true even in economies in which the government distorts domestic prices (e.g. communist governments) because the opportunity costs to competitive producers will still be evident through the "shadow economy" or black market.

**II. THE INDEPENDENT VARIABLE: GLOBAL EASING OF RESTRICTIONS TO TRADE**
(p. 26-7)

**A.** Frieden and Rogowski argue that the evidence for increased globalization is evident everywhere. They sight several places where the reduced transaction costs of international trade has increased the tradables sector including:

1. *Lower transportation costs* i.e. canals, railroads, improved containerization, aircraft, etc.
2. *Improved infrastructure* i.e. better communications, more sophisticated credit and banking systems, forward contracting, etc.
3. *Government policies* including reduced tariffs, quotas, capital controls, etc.
4. *Increasing returns to scale* that favor mass production, indirectly creating support for "global" markets

**B.** They maintain that the relationship for international finance and domestic politics (which they do not study) is similar, if more complicated to trade (which they do).

**C.** Frieden and Rogowski maintain that this environment has created "changes that are not only exogenous to any one nation's policy but that resist manipulation by any one government." They hold globalization constant as their independent variable and seek to examine its effect on domestic politics.

**III. DEPENDANT VARIABLES: EFFECTS OF GLOBALIZATION ON DOMESTIC POLITICS**
(p. 28)

Holding globalization as given, Frieden and Rogowski seek to explain:

1. "The policy preferences of relevant socioeconomic and political agents within countries toward national policies and national policy-making institutions"
2. "Given these preferences, the adoption or evolution of national policies and national policy-making institutions"
3. "Given preferences, policies, and institutions, the relationship between a given set of institutions and a given set of policies"

**IV. INTERNATIONAL ECONOMIC TRENDS AS MOVEMENTS IN RELATIVE PRICES**

A link must be made between the IV—easing of trade, and the DV domestic policies. That link is the change in relative prices that is part and parcel with globalization. Frieden and Rogowski argue that "all developments of interest to economic agents have to do with relative price changes." Two types of changes are important:

**A.** PRICE CONVERGENCE (p. 31-4)

As barriers to trade come down and the tradables sector expands, Frieden and Rogowski propose that there will be a convergence in world prices. This will have differential effects on the producers and consumers of certain factors—especially those that have been protected

1. *Distributional effects* protection in the face of globalization effectively redistributes the resources away from consumers of uncompetitive/protective goods toward their producers
2. *Static cost of closure* globalization increases the potential gains from trade for the efficient factors. The more projectionist policies distort the market, the greater the forgone profits and the more the "inappropriate" the allocation of the country's resources (away from its comparative advantage)

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3. *Dynamic costs of closure—Total Factor Productivity (TFP)* Frieden and Rogowski argue that many of the skills needed to compete in the modern economy are a result of "learning by doing." If economies, due to protection, fail to exploit new technologies they will fall irretrievably behind the learning curve. This cumulative reduction in competitive is a result of falling behind in TFP intensive industries—such as high tech
4. *Closed societies* Frieden and Rogowski argue that losses from both static and dynamic costs of closure can be felt in closed economies as well because there the costs of protectionism are, in fact, the greatest

**B.** PRICE SHOCKS (p. 35)

Frieden and Rogowski argue that vulnerability to price shocks increase with globalization. They further maintain that they effect countries in way analogous to convergence. A shock that increases the price of a country's exports will enhance its terms of trade and lead to demands for greater openness, the converse is true: for shocks that depress the prices of a country's exports. This holds true for closed economies as well.

**C.** HYPOTHOSES (p. 35-6)

Increased globalization will:

1. "Increase pressure within each country to liberalize international trade and payments, including dismantling structural impediments to trade"
2. "Create such broad political pressure as an increasing function of the degree to which the national economy was previously closed…"
3. "Generate such pressure for change as an increasing function of the degree to which the economy has readily exploitable gains from trade available (such as high levels of TFP)
4. "All else being equal, pressure for increased participation in the world economy will rise when a country's terms of trade *improve*; when terms of trade *decline*, pressure for less exposure to global economic trends will increase."

**V. EFFECTS OF INTERNATIONAL PRICES ON DOMESTIC ACTORS**

Frieden and Rogowski introduce three models with which one can analyze the effects of globalization's differential effects on domestic actors, they are:

1. *Heckscher—Ohlin* As globalization increases and global prices converge, a country's abundant factors will benefit because their goods, being readily available domestically, will be cheap under closure but will *rise* to world levels as globalization increases. A country's scarce factors will be hurt by globalization because these factors, dear under closure because they will be less readily available, and when global reserves of these goods are made available their price will *drop* to world levels. Thus holders of abundant resources (i.e. capital in the USA) will favor increased openness and integration, while holders of scarce resources (i.e. unskilled labor in the USA) will favor increased closure and protection. (p. 37)
2. *Ricardo—Viner* Is similar to the Heckscher—Ohlin except they look at sectors rather than factors. For example "if the land of a particular region is suited only for the cultivation of wine, then [the land's price] varies with the … price of wine, not with the price of agricultural products more generally." Similarly, an increase in the price of steel for a country will increase the price of all steel using *industries* (i.e. cars, trains, etc.) in a ripple effect—it will not just effect the producers of metallurgic raw products. (p. 38-9)
3. *Economies of Scale (EOS)* Large firms that have the size and skills to compete internationally will seek gains from trade; small domestically oriented firms will seek protection from foreign firms that are able to capitalize on EOS. (p. 39)

**VI. INSTITUTIONS** (p. 43-4)

Frieden and Rogowski briefly cover the role of institutions in globalization. For a more complete review of the role of domestic institutions and globalization, I commend your attention to Nahomi's excellent review of the Garrett and Lange chapter from this same volume.

1. "On average, democratic regimes will liberalize more readily than nondemocratic ones."
2. "Among equally democratic regimes, and among different elective bodies within the same country, the tendency to liberalize will increase as the number of distinct constituencies decreases."
3. "All else being equal, the likelihood of liberalization will decline with increasing partisan fragmentation."

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4. “The longer the average life of a cabinet in a given country, the likelier that country is to liberalize.”

5. “Within a country, a cabinet is likelier to liberalize the stabler its majority or the more fixed its term of office.”
6. “The more influential are agencies relatively independent from direct political pressures in the making of international economic policy, the likelier is liberalization.”