Milner and Yoffie, "Between free trade and protectionism: strategic trade policy and a theory of corporate demands," *IO* 43:2 (Spring 1989).

Firms that are internationally oriented, those that are significantly engaged in foreign markets, will generally prefer liberal trade policies. Even when foreign governments impose protectionist measures multinational corporations (MNCs) will resist attempts at similar moves in their home market. Protectionism could potentially provoke similar measures in foreign markets and can hamper intra-firm trade flows. MNCs generally respond to foreign market closures through direct investment in those markets or by moving production offshore to reduce production costs. Milner and Yoffie address the empirical puzzle of why, given these hypothesized preferences, some internationally oriented firms advocate protectionist measures.

Traditional theories of firm preferences assume unconditional preferences for either total liberalization or total protection. There is however a third type of preference predicted by strategic trade theory: *specific reciprocity*. Strategic trade theory (STT) advocates the selective use of protectionist measures as a means of increases aggregate income. STT relaxes the traditional assumption of perfectly competitive markets. In industries characterized by unusually large economies of scale, steep learning curves, and dependent on large R/D investment and innovation there are significant "first-mover advantages" to gaining a competitive advantage. By moving quickly firms can generate large economies of scale and consolidate a large enough market share such that it would not be profitable for a potential competitor to contest the markets. Often a foreign firm successfully lobbies to have their home market closed so as to have a captive home market as well as export markets while consolidating its market dominance.

When firms of an industry are faced with such a competitor they will prefer protection so as to hinder the use of their market in the consolidation of first mover advantages. This protection is specifically targeted towards the country and foreign industry in question. In the US, industries' responses to such conditions have varied. When firms of an industry are all in the same strategic position vis-à-vis the foreign competitor they will be unified in lobbying for reciprocal trade barriers. Where the industry has been fragmented, collective action costs have been higher and there have been weaker or no reciprocal measures advocated. The success of countermeasures is contingent upon the unity of preference in the industry because the faster reciprocal measures can be advocated and implemented, the foreign firm's first mover advantages are diminished.

Milner and Yoffie examine four US industries: semiconductors, commercial aircraft, telephone equipment, and machine tools. They identify protectionist demands as "strategic" by examining firms' initial preferences and studying how firm preferences change over time. Preferences are strategic if there was a change in the economics of the industry (eg technological changes) and there was a corresponding change by a foreign firm and its government to secure first mover advantages.

The unity of preferences varied as a function of the firms' strategic position within the industry. Semiconductor firms were all in similar competitive positions and therefore were unified and swift in lobbying for reciprocal protection against their Japanese competitors. At the other extreme machine tool industry firms were highly differentiated and were not able to form a unified lobby. The face of foreign competition, MNCs switched production to high tech machine tools and low-tech tool firms perished in the face of foreign competition. Milner and Yoffie point out that demands for specific reciprocity are more likely to be successful because they are consistent with the norm of fairness that is fundamental to US trade policy.