What is the impact of democratization on trade protection in developing countries? Are governments in newly democratized developing countries more likely to adopt trade reforms during the initial post-democratic transition years? Political Scientists and Economists have invested substantial time and effort to address these two questions (e.g. Frye and Mansfield 2004; Giavazzi and Tabellini 2005; Milner and Kubota 2005; Rudra 2005; Eichengreen and Leblang 2008; López-Córdova and Meissner 2008; Tavares 2008; Milner and Mukherjee 2009a). While debates persist on how democratization increases the likelihood of trade liberalization, scholars generally converge on the view that governments in newly democratized developing states have political incentives to reduce trade barriers (Giavazzi and Tabellini 2005; Milner and Kubota 2005; Eichengreen and Leblang 2008; Milner and Mukherjee 2009a). Mutual agreement among students of political economy about the impact of domestic political institutions (in this case, the transition to democracy) on economic outcomes such as trade policy is rare.

Indeed, the widely accepted view that democratization fosters trade reforms stands in sharp contrast to debates about the impact of established democracies on trade protection. Some scholars suggest for instance that democracy is mutually compatible with free trade (Mansfield, Milner and Rosendorff 2000; Guisinger 2001; Eichengreen and Leblang 2008). Others, however, claim that democracy promotes free trade only under certain electoral systems\(^1\) or economic conditions (Tavares 2008). Furthermore, some researchers find that democratic governments employ non-traditional means such as non-tariff barriers to protect their economies (Kono 2006). Although claims about the effect of established democratic institutions on trade policy are far from settled, it is clear from the

\(^1\) Grossman and Helpman (2005) argue that majoritarian democracies are associated with higher trade barriers. Rogowski (1989) and McGillivray (2004) claim that trade restrictions are likely to be lower in democracies that employ the closed-list Proportional Representation electoral system.
preceding summary of the relevant literature that students of international political economy (IPE) are far more confident that the transition to democracy leads to trade liberalization in developing states. Is this confidence justified?

A close look at some examples suggests that the link between democratization and trade reforms in developing countries is more complex than suggested in extant studies. For example, during the initial post-transition years, the Sarney administration in Brazil’s newly democratized state and the Corazon Aquino-led government in Philippines’ new democracy sharply reduced trade restrictions (Weyland 2002; UNCTAD 2005). After Bangladesh and Ghana experienced a transition to democracy in 1991 and 1996 respectively, the first post-transition government in each of these two countries increased tariffs to protect domestic industries from import competition (UNCTAD 2005). These examples suggest that extant research on trade politics in developing states has arguably painted the link between democratization and trade reforms with a broad brush.

This should not be taken to mean that insights provided by current studies on democratic transitions and trade policy are inadequate. Instead, these studies provide an excellent foundation to conduct further research on when – rather than just why – democratization is likely to engender trade liberalization in developing countries. Conducting further research on how the emergence of democracy influences trade protection is substantively important as it may help us to address the variation in trade policy in the post-transition years across “new democracies”. Developing nuanced insights about the conditions under which leaders in newly democratized states adopt trade reforms also allow us to understand whether (and when) democratic transitions promote economic growth if we believe that more trade openness fosters growth.

Given the importance of understanding the link between democratic transitions and trade policy, the objective of this chapter is thus two-fold. The first objective is to consider the state of the literature on democracy (including democratization) and trade policy. With the massive proliferation of research on democratic politics and trade, one cannot provide an exhaustive analysis of all the relevant
literature in this issue-area. That said, key insights from this literature are highlighted in this review.

The second objective is to address the following three questions:

- What does the data tell us about trade reforms during the immediate post-transition years in newly democratized regimes in the developing world? Are some post-transition governments indeed more likely to liberalize trade policies than others?

- Is there variation in industry-level tariffs in new democracies during the initial years after the transition to democracy? What is the nature of this variation and what does it tell us about democratization and trade politics?

- Does trade liberalization positively influence the likelihood of democratization? Is there statistical evidence for an endogenous relationship between democracy and trade reforms?

The remainder of this essay is organized as follows. The next section begins with the discussion of the existing literature on the impact of democratic transitions as well as established democracies on trade policy. In section three, I analyze some data that reveals both variation in import duties and trade protection of skill-intensive versus low-skilled industries in newly democratized states. This is followed by a concise discussion of various arguments that may account for the variation in trade barriers mentioned above. The fourth section explores both the data and the literature that evaluates the impact of trade openness on the likelihood of democratization. I conclude with a discussion of key research issues that need to be addressed in the study of democratization and trade policy.

1 STUDIES ON DEMOCRACY AND TRADE

Economists generally agree that trade protection reduces welfare and generates deadweight losses. Yet it is common knowledge that governments in both developed and developing countries protect domestic industries from import competition through the use of tariffs and non-tariff barriers. Why do governments protect their domestic industries from import competition? The literature that

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2 For the claim that trade protection engenders deadweight losses in developed and developing countries, see for example, Harrison and Hanson (1999).
addresses this question is vast and one lacks the space to discuss this literature in detail in this essay. Stated briefly, however, academic research on the political economy of trade protection can be broadly divided into two categories: “demand-side” and “supply-side” explanations for trade policy. Demand-side explanations largely employ the Stolper-Samuelson theorem and the Ricardo-Viner model to account for the trade policy preferences of individuals. Demand-side studies of trade policy primarily explain how trade policy preferences of individuals or firms may influence the prospects for trade liberalization (Rogowski 1989; Busch and Reinhardt 1999, 2000; Scheve and Slaughter 2001; Hiscox 2002; Baker 2005; Mayda and Rodrik 2005; Mansfield and Mutz 2009).

According to these “demand-side” studies, the trade policy preferences of individuals, including voters, are determined by their degree of occupational specificity, education or income, their beliefs about whether or not trade openness is beneficial for them and lastly, their sociotropic perceptions of trade’s influence on the national economy. Theories about trade policy preferences held by individuals have been extensively tested by using survey-response datasets. In contrast to the focus on individual preferences, other demand-side explanations examine how campaign contributions and lobbying pressure from “special interests” affect trade politics (Baldwin and Magee 2000; Grosman and Helpman 2006). Empirical tests of the effect of industry-based campaign contributions provided by industries on trade policy outcomes are, however, rare given the paucity of publicly-available data about contributions and the extent to which industries are concentrated.

Unlike the demand-side approach summarized above, supply-side explanations about trade policy analyze the impact of political institutions on international trade. Some of these studies have explored the effect of international institutions such as the GATT/WTO on international trade flows or the settlement of inter-state trade disputes (Gowa and Kim 2005; Tomz, Goldstein, and Rivers

Other supply-side studies, however, theorize and find empirically that democratic regimes – this includes newly democratized states and established democracies – are more likely to liberalize their trade policies (Frye and Mansfield 2004; Milner and Kubota 2005; Eichengreen and Leblang 2008; Milner and Mukherjee 2009a). Building on extant articles about democracy and trade, several studies statistically evaluate and find robust support for the influence of specific democratic institutions on trade policy (Nielsen 2003; Hankla 2006; Henisz and Mansfield 2006). These institutions include electoral systems, the number of veto players, electoral particularism, political partisanship and the numbers of effective parties in democracies. Notwithstanding these demand-side and supply-side explanations for the determinants of trade protection, there is little ambiguity in the fact that trade barriers have decreased sharply across developing states during the previous three decades. This is corroborated by a substantial body of statistical evidence which shows that trade barriers have declined significantly across several developing countries since 1980 (Harrison and Hanson 1999; Goldberg and Pavcnik 2004; Milner and Kubota 2005).

Preceding and concurrent with the move to free trade in the developing world, there has been a global movement toward democracy. For instance, in their careful and detailed empirical study of democratic transitions and economic growth, Papaionnou and Gregorios (2004) identify as many as 59 episodes of “full” democratization and 24 episodes of “partial” democratization between 1970 and 2002. This is further confirmed by Milner and Kubota (2005: 158-159) who point out that the number of democracies in the developing world has grown at least three-fold between 1975 and 2002. It is precisely this “dual transition” phenomenon characterized by simultaneous democratization and trade liberalization in the developing world (since the early 1980s) that has encouraged researchers to claim that the transition to democracy leads to trade liberalization. Scholars have also employed a

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4 Papaionnou and Gregorios (2004: 8) define full democratization as “where both the Polity and the Freedom House indicators have reached an almost perfect score like Spain, Portugal, or Argentina”). They define “Partial Democratization” as incidents that include countries that have abandoned autocratic rule, but in which civil rights protection has not reached Western world levels (like Nigeria, Guatemala, or Albania).
variety of statistical models ranging from standard Generalized Least Squares to System-Generalized Moment of Methods (system-GMM) models to evaluate whether the emergence of democracy leads to a decline in trade protection. These statistical studies show that democratization indeed exerts a positive and statistically significant effect on trade liberalization or, in other words, leads to a significant decline in aggregate country-year trade protection measures such as import duties (Giavazzi and Tabellini 2005; Milner and Kubota 2005; Eichengreen and Leblang 2008).

In addition to the empirical research alluded to above, a fairly rich literature examines why democratization engenders trade liberalization (Stokes 2001; Weyland 2002; Milner and Kubota 2005). The most comprehensive theoretical analysis of democratization on trade liberalization till date is by Milner and Kubota (2005). They argue that since democratization expands the “selectorate” in a polity, it empowers whole groups in society that were formally excluded from the political process. In the context of developing countries, this implies that democratization empowers and enfranchises particularly labor in the rural and urban informal sectors, who given the Stolper-Samuelson theorem favour trade openness as they are the abundant factors that gain from trade in developing countries. As a result, governments in new democracies have political incentives to respond positive to the preferences of labor by lowering trade barriers.

Unlike Milner and Kubota (2005), Weyland (2002: 60) suggests in his work that democratization weakened the political power of vested interests that favored protectionism in Latin American states. This facilitated the adoption of trade reforms by political leaders in various newly democratized Latin American states such as Argentina and Brazil (Weyland 2002:60-61). An important difference between Weyland (2002) and Milner and Kubota’s (2005) theoretical analysis is that the latter set of scholars identify which social classes are more likely to benefit from trade reforms. Milner and Kubota (2005) also develop a clear and logically consistent causal mechanism that links democratization to specifically trade liberalization while Weyland’s (2002) book focuses more broadly on a larger set of economic reform (including trade reform) policies.
Other scholars (mainly comparativists) have also suggested either implicitly or explicitly that democratization generally promotes economic reform and more specifically trade liberalization. For instance, early research on the topic of political regimes and economic reform questioned the presumption that authoritarian governments have an inherent advantage with respect to implementing trade reform (Geddes 1995; Remmer 1998). Geddes (1995) and Remmer (1998) instead suggested that democratizing states are quite capable of implementing reform policies, including trade liberalization. Stokes (2001) suggests in her book that if trade reforms provide benefits to large sections of society in developing countries, then democratization will foster trade liberalization in these states. This is because leaders in new democracies will be subject to electoral punishment if they resist trade liberalization. Additionally, since governments in newly-democratized states anticipate political rewards from liberalization ex post, they have political incentives ex ante to liberalize trade policies (Stokes 2001).

The discussion in the preceding paragraphs indicates that extant studies on democratic transitions and trade policy primarily focus on why democratization leads to trade reforms. This is hardly surprising given that empirical studies on political regimes and trade consistently show that the emergence of democracy has a statistically negative effect on trade barriers. While numerous studies emphasize that democracy is negatively correlated with trade protection, not all researchers agree with the claim that democracy helps to reduce trade barriers. For example, I emphasized earlier that Kono (2006) finds that democracies have a negative effect on tariffs but a positive impact on non-tariff barriers. Garrett (2000: 973) posits that even though “on the one hand, democracy” helps with respect to “promoting trade liberalization…On the other hand, democracy also empowers distributional coalitions with intense interests, making higher levels of protectionism more likely.”

The possibility that democracy may not always promote free trade as suggested by Garrett (2000) has motivated scholars to focus on variation in trade barriers across democracies. Some studies find for instance that left-leaning parties are more protectionist policies than their right-leaning
counterparts in developed countries but are more pro free-trade in developing countries (Milner and Judkins 2004; Dutt and Mitra 2006). Nielson (2003) argues that trade protection is lower in presidential systems across developing countries, while Henisz and Mansfield (2006) show that the conditional effect of veto players matters for trade policy. Rogowski (1989) argued that closed-list proportional representation (PR) systems are more likely to have lower trade barriers. Building on this, Mansfield and Busch (1995) suggested more broadly that PR systems tend to have lower levels of NTBs. Lastly, Grossman and Helpman (2005) claim that in majoritarian systems, parties cannot prevent individual legislators from pursuing protectionist policies for the interests of their own constituencies.

It is important to note here that extant research on variation in trade barriers across democratic states focuses on trade policies in established and “consolidated” democracies across the developed and developing world. Less attention has, however, been paid to the possibility that the degree of trade protection (and thus the prospects for trade reform) may also vary substantially during the initial post-transition years in newly democratized developing states. Indeed, as discussed earlier, anecdotal evidence reveals that although post-transition governments in Brazil and the Philippines sharply reduced trade barriers, other newly democratized states like Ghana and Bangladesh increased trade restrictions during the initial post-transition years. Moreover, as shown below, variation in trade barriers during the immediate post-transition period is also prevalent in a larger pooled sample of “new democracies”.

2 DEMOCRATIZATION AND TRADE BARRIERS: THE DATA

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5 The term “consolidated” democracies, as used here, refers to new democratic regimes that did not relapse back into autocratic rule within three years after these countries made a formal transition to a full-fledged democracy.
The possibility that trade protection varies substantially across newly democratized states during the immediate post-democratic transition years is supported in a dataset on trade barriers for the years following a democratic transition across several developing countries. To see this, consider figure 1. This figure plots the moving-average of the import duty coverage ratio (a widely accepted measure of tariff barriers)\(^6\) during the first five years after a democratic transition across a comprehensive list of 56 developing countries that have experienced a transition to democracy in the previous three decades. These 56 countries and the year in which they made a transition to democracy (as identified in the Polity V and the Przeworski, Alvarez, Cheibub and Limongi (2000) datasets) are listed in Table 1.\(^7\)

Figure 1 shows that although import duties decreased in the first five post-transition years for 62 percent of these “new democracies”, it increased or retained the status-quo in the remaining 38 percent of the developing countries that also successfully made a transition to democracy. This figure therefore reveals that trade liberalization (that is, a decrease in import duties) in the initial post-transition years occurred in a certain share but not all newly democratized developing states.

It is worth emphasizing here that it is not merely an aggregate country-year measure of trade barriers across several industries – for example the import duties measure employed to extract figure

\(^6\) The import duty coverage ratio, labeled as import duties, is defined as the total value of a country’s import duties divided by the total value of its imports in a given year and is expressed as a percentage. Data for this variable is drawn from the World Bank (2011) and Milner and Mukherjee (2009a, 2009b).

\(^7\) The democratic-transition year for each country in Table 1 is identified using the (i) Polity indicator of the year of democratic transition in the Polity V database (which is currently available from 1800 to 2006) and (ii) Przeworski, Alvarez, Cheibub and Limongi (2000) dataset that also identifies the year in which democratic transitions have occurred across several countries from 1950 to 2000. Observe that most developing countries that democratized in the Polity V database moved towards a full democracy; indeed, the average POLITY2 index for countries following democratization on a -10 (complete dictatorship) to +10 (full democracy) scale is 6.57. The Polity V database identifies a total of 65 episodes of democratic transition across all developing countries from 1976 to 2005, while the Przeworski, Alvarez, Cheibub and Limongi (2000) dataset identifies 61 democratic transition episodes across developing countries during the same time period. Because data on import duties is available for 56 developing countries out of the total of 65 (61) developing states that experienced a democratic transition, we derived figure 1 based on the available import duties data for these 56 “new democracies” listed in Table 1.
1—that varies across newly democratized states in the post-transition period. If, for instance, one makes a distinction between trade protection on high skilled goods produced by skill-intensive industries (e.g., the petrochemical industry) and low skilled goods (e.g., agriculture) in developing states, then one finds that the relationship between democratization and trade protection in the developing world is more complex. To see why, consider figure 2 which illustrates the mean of output-weighted (average) tariffs for several high skilled goods and low skilled goods at the 3-digit International Standard of Industrial Classification (hereafter ISIC) level (i) for a sample of established developing country democracies between 1980 and 2006, and (ii) during the first five post-democratic transition years for the 56 developing countries listed in table 1. Before discussing the pattern of industry-level tariffs in this figure, it is important to discuss here the three-step procedure that I employed to operationalize the output–weighted average tariff level for low skilled goods (labeled low skilled tariff) and high skilled goods (skilled tariff) which is illustrated in figure 2. First, I collected ad-valorem tariff country-year data for 30 different industries—including the agricultural sector—that is disaggregated and classified at the 3-digit ISIC level (Revision 2) for each established developing democracy and newly democratized state. Tariff-data at the disaggregated 3-digit ISIC level for developing countries is only available for these 30 industries. These 30 industries and the goods that they produce are listed in Table 2. The goods listed in Table 2 range from low skilled goods such as wood products and

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8 Scholars are increasingly focusing on industry-level tariffs that includes tariffs on good produced by skill-intensive industries versus those produced by low skilled industries (see e.g. Milner and Mukherjee 2009b; Lu, Scheve and Slaughter 2012).

9 The list of low and high skilled goods for which I collected output-weighted industry-level tariff data at the 3-digit ISIC level, and which are included in figure 2 are listed in Table 2 (see appendix).

10 This sample includes a total of 51 established democracies in the developing world. This includes developing country democracies such as Brazil, India, Costa Rica and other developing democracies (i) where democracy has lasted for more than 15 years and (ii) that have not relapsed back into authoritarian states.

11 The criteria that I employ to classify produced goods into either low or high skilled is drawn from economists such as Nunn and Trefler (2006); this criteria is described below. The sample size is based on availability of industry-level tariff data at the 3-digit ISIC level. Note that the illustration in figure 2 does not alter if one uses unweighted or import-weighted 3-digit ISIC industry-level tariff data.

12 The data for skilled and low skilled tariff is drawn from Milner and Mukherjee (2009b). The primary and secondary sources employed to operationalize skilled and low skilled tariff are listed in detail in Milner and Mukherjee (2009b). These sources are not listed here to save space.
goods produced in the agricultural sector to relatively high skilled goods that include, for e.g., scientific equipment.

Second, after collecting country-year tariff data for the 30 different industries, I classified these industries and therefore the goods that they produce into two broad categories: low and high skilled goods. This is done as follows: first, following existing studies, I calculated the $S/L$ ratio, that is, the ratio of skilled workers $S$ (workers with greater than or equal to 12 years of schooling) to low-skilled workers $L$ (workers with less than 12 years of schooling) employed in each industry to rank-order the goods produced in the industry according to their skill-intensity of production (Nunn and Trefler 2006). As suggested by Nunn and Trefler (2006), if the ratio of skilled to low skilled workers employed in an industry listed in Table 2 is $S/L \geq 0.39$, then the good produced by the industry is classified as high-skilled; if $S/L < 0.39$ for an industry, then the good produced by the industry is classified as low skilled.

When I use the $S/L$ ratio of 0.39 as a threshold to classify the 30 industries and the goods that they produce into low or high skilled, I obtain 17 low skilled goods that are produced in low skilled industries and 13 high skilled goods produced in skill-intensive industries. The mean low skilled and skilled tariff levels illustrated in figure 2 do not change when I use any value in the $S/L \in [0.36, 0.42]$ range as the threshold for the $S/L$ ratio to categorize the goods produced in the 30 industries as low or high skilled. Third, following extant studies on trade protection at the 3-digit ISIC industry-level, I used the tariff data for each low and high skilled good to compute the output-weighted average tariff for the 17 low skilled goods (low skilled tariff) and 13 high skilled goods (skilled tariff) for each country in

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13 The data to calculate the $S/L$ ratio is taken from Milner and Mukherjee (2009b); the sources employed to compute the $S/L$ ratio are also listed in detail in Milner and Mukherjee (2009b).

14 See e.g. Nunn and Trefler (2006). We use output-weighted tariffs since it accurately captures each industry’s – that produces tradable goods – relative weight (and thus importance) in the economy.
the group of (ii) established developing democracies and (ii) newly democratized states. I then calculated the within-group mean of low skilled tariff and skilled tariff for each of the two groups mentioned above to extract figure 2.

Let us turn to figure 2 which shows the group mean of these two measures between established developing democracies and newly democratized states. Column B in this figure and a simple difference-of-means test shows that the mean of skilled tariff is substantially and significantly (in the statistical sense) higher than the mean of low skilled tariff in the immediate post-transition years for newly democratized states. In contrast, column A reveals that there is little or no difference between the mean of skilled tariff and low skilled tariff in the set of established developing country democracies. Figure 2 also shows that the mean of skilled tariff in newly democratized developing states is much higher than the mean of this measure for established democracies across the developing world. But the difference in the mean level of low skilled tariff between newly democratized states and established developing democracies is marginal. Hence, we learn from this figure that there exists a “skill-bias” in trade protection during the initial post-transition years in new democracies in that trade barriers on high skilled goods are much higher than those for low skilled goods in the post-transition years for these states.

Taken together, however, figures 1 and 2 unambiguously reveal that there is no simple inverse relationship between the emergence of new democracies and trade restrictions in the developing world, as suggested by some extant studies mentioned earlier. Instead these figures reveal that both aggregate measures of trade barriers (e.g. import duties) as well as industry-level tariffs – conceptualized here as the distinction in tariffs on goods produced by low skilled industries versus those produced by skill intensive industries – varies significantly across new democracies in the

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15 Data on output to calculate output-weights for goods produced by each industry at the 3-digit ISIC level listed in Table 2 is drawn from Milner and Mukherjee (2009b).
developing world. They also suggest that some but not all newly democratized states enthusiastically embraced trade reforms during the initial post-transition years.

As such, the two figures described in the previous paragraphs raise the following two questions: Why do import duties decrease in the immediate years following a democratic transition in some new democratic regimes across the developing world but not others? Why are tariffs on goods produced by skill-intensive industries significantly higher than tariffs placed on low skilled goods in the initial post-transition years in new democracies? Answering these questions is critical as it may help us to understand the link between new democratic regimes and trade protection. This is substantively vital given that the variation illustrated in figures 1 and 2 has not to the best of my knowledge been carefully studied by scholars. Addressing these questions is also important given that trade policy has critical economic consequences in developing countries. The next section thus provides some brief answers to the two questions posited above.

3 WHY TRADE PROTECTION VARIES ACROSS NEW DEMOCRACIES?

Various arguments can be put forth to address the first question which focuses on why but not all newly democratized states adopt trade reforms? One approach that can be used to answer the question posited above is to explore how the trade policy preferences of the empowered electoral majority in new democracies, namely workers, influence the trade policy responses of political parties in these states. To see this in more detail, consider a situation where political parties “strategically interact” in a Downsian setting with workers (i.e. labor) — a key productive group in society (who, as mentioned above, are also an electoral majority) — during the immediate post-transition period in a new democracy. Suppose that the trade policy preferences of workers in the new democracy are determined by their degree of inter-industry occupational mobility. As shown in some “demand-side” theories of trade policy, occupationally mobile workers tend to support trade liberalization as they gain
monetarily from higher levels of trade openness (Wacziarg and Wallack 2004; Mukherjee, Li and Smith 2009). Conversely, occupation-specific workers typically favor higher levels of trade protection because they are more likely to suffer from unemployment when import competition increases (Mukherjee, Li and Smith 2009).

Building on these “demand-side” claims in the literature, suppose further that the inter-industry occupational mobility of workers in the newly democratized state’s economy is sufficiently high. If this is the case, then it follows that the distribution of the worker’s occupational mobility in the economy will be positively skewed. In this positively skewed distribution, the median voter (who is also a worker) is more occupationally mobile than the mean voter. In other words, the median voter in this case will be a “mobile-type” individual characterized by a relatively high degree of occupational mobility across industries. This is important because when the median voter is indeed occupationally mobile between industries in the new democratic state, he or she is more likely to gain from more trade openness and will thus be receptive toward trade liberalization.

Note that in the Downsian equilibrium, the political parties in the newly democratized state will observe that the median voter’s level of inter-industry occupational mobility is sufficiently high and will thus recognize that the median voter favors trade reforms. Since the parties in the new democracy are interested to win the election, they have political incentives to appeal to the “occupationally mobile” median voter by reducing tariff barriers in equilibrium. The main hypothesis that emerges from this simple story is that policymakers in new democracies will reduce tariffs (that is adopt trade reforms) during the initial post-transition years if the inter-industry occupational mobility of workers in the economy is sufficiently high. Is this hypothesis empirically valid? I briefly assess this hypothesis by broadly evaluating the impact of a recently developed measure of inter-industry occupational mobility of labor (in short, inter-industry labor mobility) on import duties for the first five post-transition years across the 56 newly democratized developing states listed in table 1. This measure of inter-industry occupational mobility of labor (labeled here as labor mobility) has been
developed by Wacziarg and Wallack (2004) and Hiscox and Rickard (2005). The labor mobility measure is computed for each country-year in my sample by isolating the fraction of jobs that move from one industry to another independent of overall employment gains or losses. Let $E_{ij}^t$ denote employment in industry $j$ in country $i$ at time $t$. Hence

$$\text{labor mobility} = \frac{\sum_{j=1}^{N} |E_{ij}^t - E_{ij}^{t-\delta}|}{\frac{1}{2} \sum_{j=1}^{N} (E_{ij}^t + E_{ij}^{t-\delta})}$$

where the summation ($\sum_{j=1}^{N}$) is over all $N=30$ industries at the 3-digit ISIC level listed in table 2.

The difference between the term on the left and the term on the right in the numerator in equation 1 gives the employment changes that result from the pure shifts of jobs across different industries. The denominator in labor mobility computes the average of total employment for the industries in consideration between $t$ and $t-\delta$. I set $\delta = 1$ year given that I am interested to examine the impact of the labor mobility measure on import duties on for each of the five initial post-transition years across the 56 new democracies. The labor mobility measure is a continuous variable that ranges from low to high inter-industry occupational mobility.

The scatter-plot in figure 3 shows that higher levels of labor mobility indeed has a strong negative effect on import duties during the initial five post-democratic transition years. This indicates that higher levels of inter-industry labor mobility encourage policymakers in newly democratized developing states to embrace trade liberalization during the immediate post-transition period. Figure 3 also shows that import duties tend to be much higher in new democracies when labor mobility is low or, in other words, workers are characterized by a high level of occupational specificity. This is perhaps not surprising as a high level of occupational specificity in the labor force will ensure that the

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16 The term on the left of labor mobility refers to the number of job changes between $t$ and $t - \delta$ while the term on its right refers to the number of job losses or gains not offset by a gain or loss in other sectors.
median voter is occupationally-specific and will hence favor higher trade protection. This in turn will drive Downsian parties to raise trade barriers in the post-transition period. The simple scatter-plot shown in figure 3 therefore provides an intuitive account for why there exists variation in trade barriers across new democracies. That said, it needs to be studied in far more depth.

<<Insert figure 3 about there>>

The results discussed above are interesting but it merely tells us something about the correlation between labor mobility (or lack thereof) and trade protection in new developing country democracies. It does not, however, say anything about causality per se between democratic transitions and trade liberalization in developing countries. Furthermore, it may be possible that it is not the level of inter-industry labor mobility in new democracies but other alternative arguments that may account for why policymakers in some newly democratized states embrace trade liberalization immediately after the transition to democracy. For instance, there are sound reasons to suspect that in some new democracies “geographically concentrated” export-oriented industries – that are less susceptible to collective action problems owing to their geographic concentration – may have extensively lobbied their respective government to reduce trade barriers. Examples from the post-transition years in newly democratized states such as Brazil and Indonesia suggest that geographically concentrated export-oriented industries indeed put pressure on policymakers in these countries to slash tariffs. Others have suggested that new democracies in especially Central and Eastern Europe acquiesced to pressure from international institutions like the IMF and the World Bank to reduce trade restrictions (Shafaeddin 2006). Such pressure may have induced policymakers in these states to adopt trade reforms in the initial post-transition years. In short, the claims posited above as well as these alternative causal claims suggest that studies on trade politics need to develop parsimonious yet lucid causal theories to account for the variation in trade protection across “new democracies” that is illustrated in figure 1.

17 For the Brazil and Indonesia see UNCTAD (2005).
Let us next turn to briefly explore the second question posited earlier: namely, why are tariffs on goods produced by skill intensive industries substantially higher than tariffs placed on “low skilled” goods in the initial post-transition years in new democracies? A variety of explanations can also be put forth to answer this question. One could, for instance, invoke the Heckscher-Ohlin model to claim that the owners of skill intensive industries in newly democratized states – who are the scarce factor in these developing states and are thus hurt by trade liberalization – have incentives to lobby their government for protection from import competition.18 Policymakers in new democracies may raise tariffs or maintain high tariffs on goods produced by skill-intensive industries in response to such lobbying pressure.

Yet the preceding claim ignores the possibility that collective action problems associated with lobbying may make it extremely difficult for owners of skill-intensive industries to collectively exert pressure on politicians to increase trade restrictions. Another drawback with the aforementioned argument is that it overlooks significant heterogeneity in skill-industries within the developing economies of new (and even established) democracies. For instance, even though the electronics industry and the petrochemical industry in developing economies are classified as “skilled-intensive”, the fact is that the structure of these two industries and the price competition that these industries face from imported products in their product-market varies significantly. This example therefore suggests that heterogeneity in skill-intensive industries may lead to a situation where the trade policy preferences of the owners of different types of skill-intensive industries may vary enormously. Thus it might be unrealistic to argue that all or even most owners of skilled-intensive industries in new democracies lobby governments to obtain protection from import competition.

Given the potential shortcomings of the answer provided above, scholars need to look at alternative explanations for why tariffs on high skilled goods are relatively high in the post-democratic

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18 Milner and Mukherjee (2009b) present a variant of this claim to explore the political dynamics of industry-level tariffs in established and consolidated democracies across the developing world.
transition period. Space constraints in this essay make it impossible to discuss such alternative explanations in detail. Recent studies by economists that examine industry-level tariffs at the 6-digit ISIC level in developed and developing democracies, however, suggest that leaders in majoritarian democracies adopt higher trade barriers on goods produced by skill-intensive industries but reduce trade restrictions on low skilled goods such as agricultural products (Ardelean and Evans 2013). A cursory examination of my data on skilled tariff and low skilled tariff for new democracies (which was described earlier) shows that the claim summarized above does not hold for newly democratized states.

Specifically, the vast majority (73%) of the 56 new democracies in table 1 adopted the Proportional Representation (PR) or variants of the PR electoral system immediately after the transition to democracy. The mean of skilled tariff during the initial post-transition years in these new democracies that adopted the PR system is higher than the mean of low skilled tariff in these countries. It is also higher than the mean of both skilled and low skilled tariff in new democracies that adopted the majoritarian system. This indicates that focusing on the distinction between electoral systems may not be fruitful in accounting for why trade restrictions on goods produced by skill-intensive industries are high during the post-transition period in new democracies. Instead it might be worthwhile to pay more attention to how certain domestic industry-level characteristics within new democracies may shape the economic and political relationship between governments and industries in these states. This relationship in turn may potentially account for different patterns of trade protection that we observe at the industry-level in new democracies.

4 DOES TRADE OPENNES INFLUENCE DEMOCRATIZATION?

This essay has so far focused on whether and how the emergence of democracy influences trade protection in the developing world. Understanding the impact of democratization on trade
policy is undoubtedly a central area of research for students of International Political Economy. Yet political economists and scholars of comparative politics have suggested theoretically that there is a potential for reverse causality between democratic transitions and trade reforms; that is, higher levels of trade openness that result from trade liberalization may increase the likelihood of democratization in developing countries (e.g. Lipset 1959; Boix 2003; Acemoglu and Robinson 2006). The theoretical literature on the impact of trade openness on democratization is indeed quite rich. For instance, Lipset (1959) suggested almost five decades ago that trade can spark development and create a larger middle class, which in turn might foster the emergence of democracy.

Acemoglu and Robinson (2006) build on their well-known models of the link between inequality and democratization to explore how trade openness influences the prospects of democratic transition in developing states. Specifically, they incorporate a Stolper-Samuelson model of international trade, which assumes perfect labor mobility, and essentially argue that higher levels of trade openness (that produces increased trade integration) decreases income inequality in developing countries which consequently increases the probability of democratization in these states. This is because if one assumes that developing countries are labor-abundant in labor, then one would expect increased trade openness to increase real returns for labor (the relatively abundantly factor) and reduce real returns for owners of capital (the relatively scarce factor) under the Stolper-Samuelson theorem. This in turn reduces income inequality in these countries. Lower inequality then reduces the costs of tolerating democracy for elites in authoritarian developing countries as tax redistributions are less severe for elites when income inequality is low. In short, since greater trade openness reduces income inequality in labor-abundant developing authoritarian states and because lower inequality reduces the costs that elites may incur from a democratic transition, political elites in these states thus have incentives to adopt democracy.

In contrast to Acemoglu and Robinson (2006), Boix (2003) suggests that the effect of trade openness on democracy is contingent on the distribution of factors within a particular economy.
When skilled workers are the abundant factor, trade openness increases income inequality within society by driving up the wages of skilled workers and deflating the wages of already poorer low-skilled or unskilled workers. Growing income inequality in turn discourages democratization. Adsera and Boix (2002) argue that greater trade openness actually endangers democratic institutions in emerging democracies. They emphasize that in countries in which democratic institutions are less well established, interest groups that benefit from more trade openness might try to void democratic institutions and impose openness through a dictatorship.

A careful examination of the relevant empirical literature indicates that statistical support for the theoretical claim that trade openness positively influences democratization is either weak or at best conditioned by other domestic factors. Some studies, for example, find that trade openness does not have a significant effect on the likelihood that democracy may occur (Bussman 2002). Li and Reuveny (2003) find that trade openness is negatively associated with democratic institutions. Rudra (2005) suggests that the effect of trade openness on democratization is conditional on the bargaining power of labor in developing countries. The one exception is Lopez-Cordova and Meissner (2008) who find that trade openness positively influences democratization.

The studies cited in the previous paragraph employ samples that include developed and developing countries for their statistical tests as well as (in some cases) use a long temporal domain that typically includes observations from the late nineteenth century (Lopez-Cordova and Meissner 2008; Eichengreen and Leblang 2008). While including developed and developing countries in the sample and using a longer temporal sample range increases the generalizability of the reported results, it also raises the following question: Is there statistical support for the theoretical prediction that trade openness has increased the probability of democratization in developing countries in the previous 3-4 decades?

To address the question posited above, I briefly conduct a simple empirical exercise to check whether trade openness (the sum of exports and imports as a share of GDP) has a statistically positive
effect on the likelihood of democratization in sample of 128 developing countries from 1972 to 2008. To this end, I estimated a dynamic probit model with random effects to assess the statistical effect of trade openness on the dummy dependent variable, *democracy*. This dummy variable *democracy* is set equal to 1 for democratic countries that satisfy Przeworski, Alvarez, Cheibub and Limongi’s (2000) criteria for a democracy.\(^{19}\) In the dynamic probit specification, I introduced control variables such as log GDP per capita, ethno-linguistic fractionalization, log population and the number of past transitions to authoritarianism that are known to influence the probability that democracy may occur (for this see Przeworski, Alvarez, Cheibub, and Limongi 2000).

Estimates from the dynamic probit model, which are not reported to save space, reveal that the effect of *trade openness* on the dummy dependent variable *democracy* is positive but statistically insignificant. This result is further confirmed by the marginal effect in figure 4 (derived from the dynamic probit specification) which shows that the impact of trade openness on the predicted probability of democratization in developing countries is positive but statistically insignificant across the entire range of the *trade openness* measure. The result illustrated in figure 4 is preliminary. But it does confirm extant findings that cast doubt on the claim that trade openness positively influences democratic transitions.

<<Insert figure 4 about here>>

Researchers should not conclude from the consistent lack of robust statistical support for the effect of trade openness on the likelihood of democratization that this issue-area is not worth assessing in more depth. Instead, I believe that future research on democratic transitions and trade policy may potentially benefit more by rigorously evaluating *when* – rather than whether – trade openness may positively influence the probability of democratization in developing states. Doing so may help to empirically clarify the potential link between trade openness and democratization. This is

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\(^{19}\) Their criteria for a democracy are: (i) the chief executive and legislature must be directly elected; (ii) there must be more than one party in the legislature and (iii) incumbents must allow a lawful alternation of office if defeated in elections.
substantively necessary considering that proponents of the view that trade openness leads to
democratization arguably accept this causal relationship far too easily. Alternatively, those skeptical
tend to be excessively dismissive \textit{a priori} about the potential effect the trade liberalization may have on
the prospects for democratic transition in developing states.

5 CONCLUSION: FUTURE RESEARCH

The third wave of democratization across the developing world combined with the sharp
decline of trade barriers in these states has produced a rich literature that explores the impact of
democracy on trade policy. While much progress has been made with respect to unpacking the link
between democracy and trade policy, less attention has been paid toward understanding the political
dynamics of trade reforms during the initial post-transition years in newly democratized developing
states. That said, some studies have extensively theorized about why the emergence of democracy
fosters trade reforms. However, the most significant advance made in the study of democracy and
trade (as discussed in the previous sections) is empirical.

Despite the empirical progress made so far, it would be far-fetched to claim that scholars have
developed a thorough and comprehensive understanding of the design of trade policy in both newly
democratized developing states. Instead, for the remainder of this section, I briefly discuss three main
areas for future research that may help to move the research agenda on democracy and trade forward.
First and foremost, this essay has analyzed variation in tariff barriers such as import duties and output-
weighted industry level tariffs during the immediate post-democratic transition period. Yet an
important area of research on trade politics has shown that established democracies tend to use non-
tariff barriers (NTBs) rather than tariffs for protectionist purposes (Mansfield and Busch 1995; Kono
2006). This suggests that it may not be sufficient to simply explore easily observable tariff barriers in
newly democratized states given that developing country democracies may use NTBs as a non-transparent tool for protectionist purposes. Instead it may be worth exploring whether democratization in developing countries discourages or encourages the use of non-tariff instruments for trade protection. Doing so will be challenging given the paucity of reliable data on non-tariff trade barriers in the developing world. But given the importance of NTBs, it makes sense to at least broadly understand the relationship between democratization and the use of NTBs as an instrument for trade protection.

Second, I emphasized earlier that political scientists often use aggregate country-year measures such as import duties to assess the political economy of trade protection in developed as well as developing countries (e.g. Milner and Kubota 2005; Henisz and Mansfield 2006; Eichengreen and Leblang 2008). These measures are limited as they are not designed to capture substantial variation in industry-level tariff barriers across both new and established democracies in the developing world. This is unfortunate because I showed in an earlier section of this essay that even a cursory examination of industry-level tariff reveals that governments in newly democratized states tend to protect domestic skill-intensive industries from import competition. In contrast, policymakers in new democracies tend to reduce trade restrictions on low-skilled goods.

I presented some brief arguments that may explain why we observe the variation in industry-level tariffs posited above. Yet these arguments are at best a conjecture. It is difficult to provide a thorough answer here to the issue of variation in industry-level tariffs across new democracies given the space constraints in this essay. But the illustration in figure 2 certainly needs to be explored in greater empirical and theoretical detail. The intriguing relationship between the emergence of democracy and variation in industry-based tariffs also suggests that researchers should continue to develop trade policy measures that account for both cross-sectional and temporal variation in industry tariffs across developing countries rather than rely on standard aggregate tariff measures.
Third, some scholars debate whether or not capital account openness and trade liberalization are substitutes or complements for developing country governments (McKinnon 1991; Giavazzi and Tabellini 2005). A key lesson that one learns from this debate is that governments in newly democratized developing states may account for the extent to which their country’s capital account is open when deciding to adopt trade reforms. It is beyond the scope of this essay to explore the link between capital account openness and trade liberalization. But it might be worthwhile for scholars to explore (i) if capital account policies matter for trade reforms in newly democratized states and (ii) how domestic politics may potentially influence the simultaneous choice of capital account and trade reforms during the initial post-transition period.
REFERENCES


## Appendix

**Table 1** New democracies in the Developing World

<table>
<thead>
<tr>
<th>Country</th>
<th>Democratic Transition Year</th>
<th>First 5 post-Transition Years (includes transition year)</th>
<th>Country</th>
<th>Democratic Transition Year</th>
<th>First 5 post-Transition years (includes transition year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ISIC #</td>
<td>Description</td>
<td>S/L ratio</td>
<td>ISIC #</td>
<td>Description</td>
<td>S/L ratio</td>
</tr>
<tr>
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<td>--------------------------------------------------</td>
<td>-----------</td>
<td>--------</td>
<td>--------------------------------------------------</td>
<td>-----------</td>
</tr>
<tr>
<td>331</td>
<td>Wood Products except furniture</td>
<td>0.109</td>
<td>342</td>
<td>Printing and Publishing</td>
<td>0.397</td>
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<tr>
<td>323</td>
<td>Leather Products</td>
<td>0.091</td>
<td>354</td>
<td>miscellaneous petroleum &amp; coal products</td>
<td>0.414</td>
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<tr>
<td>311</td>
<td>Food Products</td>
<td>0.164</td>
<td>355</td>
<td>Rubber Products</td>
<td>0.396</td>
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<tr>
<td>111</td>
<td>Agriculture &amp; agri. raw materials</td>
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<td>Plastic Products</td>
<td>0.358</td>
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<tr>
<td>313</td>
<td>Beverages</td>
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<td>361</td>
<td>Pottery, China &amp; earthware</td>
<td>0.140</td>
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<tr>
<td>314</td>
<td>Tobacco</td>
<td>0.075</td>
<td>362</td>
<td>Glass and Glass Products</td>
<td>0.216</td>
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<tr>
<td>322</td>
<td>Wearing apparel except footwear</td>
<td>0.193</td>
<td>372</td>
<td>Nonferrous metal basic industries</td>
<td>0.392</td>
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<td>331</td>
<td>Wood products except furniture</td>
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<td>381</td>
<td>Fabricated Metal products</td>
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<td>332</td>
<td>Furniture except metal</td>
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<td>382</td>
<td>Machinery except electrical</td>
<td>0.426</td>
</tr>
<tr>
<td>324</td>
<td>footwear except rubber or plastic</td>
<td>0.216</td>
<td>383</td>
<td>Electrical machinery</td>
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<td>Other manufactured products</td>
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<td>Petroleum refineries</td>
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<td>Nonferrous metals</td>
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<td>341</td>
<td>Paper Products</td>
<td>0.391</td>
<td>385</td>
<td>professional goods &amp; scientific equipment</td>
<td>0.726</td>
</tr>
</tbody>
</table>
**Figure 1** New democratic regimes and import duties

![Figure 1](image)

**Notes:** Data sources used to compute the moving average of import duties are listed in the text.

**Figure 2** Tariffs for High and Low Skilled Goods in New and Established democracies

![Figure 2](image)
**Figure 3** Labor mobility and Import Duties in New Democracies

Notes: Scatterplot of Import duties against the index offender-industry labor mobility for the first five post-transition years for the 56 new democracies in table 1. Each point represents one post-democratic transition country-year for which both variables are observed. The scatterplot is overlaid with a dashed line, which is the pooled OLS best fit line that accounts for the within-country correlation of Import duties across time.

**Figure 4** Trade openness and transition to democracy