

Introduction

Research on the political economy of trade policy in economics and political science experienced a renaissance during the 1980s and continued to grow rapidly in the 1990s. Broadly speaking, this literature attempts to explain why trade policies that protect national industries exist and change over time. Especially for economists, the existence of protectionism is a policy phenomenon worth studying because of an existing consensus that freer trade is (usually) preferable from the point of view of a nation as a whole. Social scientists from both disciplines have addressed two analytical questions. One concerns the determinants of the *structure* of protection within countries, and the other concerns the determinants of the *level* of protection across countries or for a given country over time. Economists have also focused on the political economy of the choice of protectionist instruments.

The study of the political and economic causes of protectionism is quite extensive, dating back at least to the 1930s. For example, Schattschneider (1935) argued that U.S. tariffs raised in 1930 through the Smoot-Hawley legislation were the result of pressures exerted by organized economic interest groups. In spite of its long tradition, the literature on the political economy of protectionism remains fragmented, and different analysts tend to emphasize a variety of explanations. In addition, there are few comprehensive treatments of the political and economic determinants of trade policy in developing countries. There are very few studies of episodes of rising protection in developing countries that are systematically compared with

episodes of liberalization, Hira (1998) being an exception. Finally, there are very few statistical analyses of the evolution of “openness” indicators in developing countries for extended periods of time or of the determinants of trade policy changes in a developing country.¹

This study is an incursion into this field. It is composed of five chapters. Chapter 1 covers the economics and political science literature on the political economy of protection. Its main contributions are, first, its interdisciplinary approach, which is more comprehensive than existing reviews; and second, the fact that it builds a theoretical framework for the purpose of illustrating the arguments presented by key authors.

This review differentiates between studies that provide explanations of the structure of protection within countries and those that explain the level of protection across countries and over time. The review also identifies authors who have paid attention to economic conditions, interest-group pressures (or distributive conflicts), domestic institutions, economic ideas, and ideologies. This categorization of the determinants of trade policies is now standard in the literature (for example, Bhagwati 1988; Odell 1990; Rodrik 1995).² Although work by economists also attempts to explain why certain protectionist policy instruments are chosen over others (for example, quotas versus tariffs versus subsidies), this strand of the literature is not a central feature of the material discussed in the present study.³ This question is certainly interesting, but an appropriate treatment requires data that are not available over long periods of time (particularly for developing countries).

The level of protection is the main focus of political scientists and Latin American specialists because of the history of the so-called import-substitution industrialization (ISI) period that emerged in the region during the interwar period. Moreover, as is well known, “deliberate” import-substitution through government policies in Latin America was characterized by a complex set of multiple instruments, ranging from tariffs, quotas, and import prohibitions to industrial development banks. Hence, disentangling the political motivations behind the use of one instrument over another seems daunting and impractical (see, among many others, Macario 1964; Hirschman 1968; Kaufman 1990; Thorp 1992; Bulmer-Thomas 1994; Thorp 1998).

Chapter 2 provides an historical overview of Chilean trade policy since 1810. The main contributions of this chapter are its comprehensiveness and a new categorization of Chilean historical periods, based on concepts proposed by Goldstein (1993). The chapter covers two aspects of Chilean trade policy. The first part looks at the evolution of empirical measures of trade “openness,” namely, ratios of trade to gross domestic product (GDP). In

turn, the country's trade policies since 1810 are analyzed along two dimensions: frequency of policy changes and direction. The policies, presented in chronological order in Appendix C, are classified as "protectionist" or "liberal" depending on whether they create incentives for factors of production to move into import-competing or non-tradable economic sectors.

The descriptive analyses of openness and policy changes reveal that the path toward higher levels of openness and liberal policies was interrupted sometime between 1910 and 1939. The analyses are based on data from Braun et al. (1998), on secondary sources (such as Will 1957; Cortés Douglas et al. 1980; Edwards and Edwards 1991; French-Davis et al. 1992), and on primary sources drawn from legislative debates that took place during the period of institutionalization of Chilean protectionism.

Because of the apparent importance of the period, Chapter 2 also examines the political, institutional, and ideological context from 1910 to 1940. Using the terminology proposed by Goldstein (1993), Chilean history is then divided into the following five periods: (1) the rise of the small open economy (1810–1910), (2) the period of instability and "delegitimization" of free-trade ideas (1911–1927), (3) the "institutionalization" of protectionism (1927–1956), (4) the period of macroeconomic instability and the "delegitimization" of protectionism (1956–1973), and (5) the period of unilateral trade liberalization (1974 to the present).

Chapter 3 presents the results from two complementary econometric analyses. Both rely on a newly constructed data set of Chilean economic statistics dating back to 1810 presented by Braun et al. (1998). The first econometric exercise applies time-series techniques to trade-to-GDP ratios from 1810 to 1995. The objective of this analysis is to empirically determine the years in which Chile experienced a "structural break" in these ratios. Hence, the study empirically identifies the turning point when Chile changed its historic course from a movement toward higher levels of openness to one that progressively reduced the country's exposure to international trade.

The second econometric exercise is complementary to the first, model-free approach. It attempts to empirically identify the determinants of Chilean trade policy changes from 1830 to 1995. The years of these changes are taken from the chronology presented in Appendix C. The set of explanatory variables includes economic and period-dummy variables motivated by the existing literature. The main contribution of Chapter 3 is the application of modern econometric techniques to the political economy of Chilean trade. No comparable empirical analysis has been conducted for a developing country.

Chapter 4 covers the period between 1974 and 2000, when Chile went

through a period of intense liberalization. It relies on an earlier analysis (Edwards and Lederman 1998) and provides an update of this previous work. The focus is on the role of economic ideas and interest groups in promoting this significant change in Chile's trade policy regime. In addition, Chapter 4 argues that various compensation schemes were used during the military dictatorship of General Augusto Pinochet to maintain a minimum of political support in favor of trade liberalization. This chapter's main contribution to the literature is its analysis of the political economy of reforms (as opposed to their economic consequences, which have been analyzed by many), particularly the analysis of how various groups benefited from different economic policies. Chapter 5 summarizes the conclusions of the study, briefly discusses potential avenues for future research, and speculates about the future of Chilean trade policy in light of the findings of the present study.