State Power And The Structure Of International Trade

Posted on July 31, 2022

Introduction

International trade is often explained through prices, comparative advantage, transportation costs, and consumer demand. Stephen D. Krasner's influential 1976 article "State Power and the Structure of International Trade" argues that these economic explanations are incomplete. The degree to which the world economy is open is also shaped by the interests and capabilities of states, especially the most powerful states. Governments do not approach trade as neutral market referees. They consider national income, growth, domestic stability, security, and relative power.

The original essay correctly recognized the importance of state interests, hegemony, tariffs, and the relationship between domestic and international politics. However, it attributed the core article to Robert Keohane and treated Keohane's 1997 retrospective commentary as if it were the original theory. Krasner wrote the 1976 article; Keohane later assessed its influence and limitations in "Problematic Lucidity." This expanded analysis explains Krasner's argument, evaluates its evidence, incorporates Keohane's critique, and considers how contemporary trade fragmentation demonstrates both the continuing value and the limits of state-power theory. (Keohane, 1997)

Krasner's Research Question

Krasner seeks to explain the structure of international trade, which he defines primarily as the degree of openness to the movement of goods. Why are some historical periods marked by lower tariffs and expanding trade while others are characterized by protection, imperial preference, or fragmentation? Economic theory may explain why trade can increase total welfare, but it does not automatically explain why governments choose particular rules.

His state-power approach begins with the assumption that governments act to pursue national goals. These goals are not identical and may conflict. A policy that increases total income could weaken a politically important industry, increase dependence on a rival, or destabilize employment. Trade openness is therefore a political outcome produced by the distribution of power and the preferences of states.

The Four National Interests

Aggregate National Income

Open trade can increase total national income by allowing specialization and access to cheaper or more varied goods. A large, technologically advanced economy may benefit from expanded markets, while a smaller state may gain access to products it cannot efficiently produce. Yet gains are distributed unevenly. The existence of aggregate benefit does not mean every sector, worker, or region benefits.

Economic Growth

Trade can support growth through larger markets, competition, investment, and technology diffusion. Governments may nevertheless protect infant industries, strategic sectors, or politically influential producers. Whether openness promotes long-term growth depends on institutions, infrastructure, education, industrial capacity, and the terms on which countries enter global markets.

Social Stability

Rapid exposure to imports can displace workers and concentrate losses in particular communities. Even when consumers gain through lower prices, visible job losses can generate political opposition. Governments may use tariffs, subsidies, adjustment assistance, and social policy to manage these effects. Krasner’s inclusion of stability is important because trade politics cannot be understood from national totals alone.

Political Power

Trade can change relative capabilities. A state may avoid dependence on a rival for weapons, energy, semiconductors, medicines, food, or critical minerals even when imports are economically efficient. Export controls and sanctions can be used to deny technology or revenue. In this sense, economic interdependence can create both mutual benefit and strategic vulnerability.

Hegemony and Trade Openness

Krasner’s best-known proposition is that a hegemonic distribution of potential economic power is likely to produce an open trading structure. A dominant state possesses a large, productive economy and can gain from access to foreign markets. It may also absorb adjustment costs more easily than smaller states, use influence to reduce barriers, provide finance or security, and create international rules.

Britain in the nineteenth century and the United States after the Second World War are central examples. British industrial strength supported a movement toward freer trade, although empire, coercion, and unequal treaties complicate any description of that order as purely liberal. After 1945, the United States supported institutions and negotiations that reduced tariffs and rebuilt allied economies. The General Agreement on Tariffs and Trade created a multilateral framework that later developed into the World Trade Organization. (“World Trade Organization”, 2024)

Hegemony is not sufficient by itself. A dominant state may protect sectors, use discriminatory arrangements, or restrict trade for security reasons. Other states must also accept or adapt to the system. Domestic coalitions, institutional design, historical memory, and ideas about legitimate policy affect whether power produces openness.

Historical Testing and Its Difficulties

Krasner evaluates several historical periods and compares changes in the distribution of power with changes in trade openness. This broad historical method makes the argument ambitious, but it also creates measurement problems. Power can be measured through national income, productivity, trade shares, military capability, financial influence, or technological leadership. Openness can be measured through tariffs, trade volumes, exchange controls, discriminatory blocs, or the treatment of capital and technology.

Historical periods rarely change for one reason. The interwar collapse of trade reflected war debts, the Great Depression, unemployment, banking crises, protectionist politics, exchange controls, and the failure of international cooperation. State-power theory highlights the absence of effective leadership, but domestic and institutional explanations remain necessary.

Causality can also run in both directions. Powerful states shape trade rules, but participation in trade can create power by supporting industrialization, revenue, technology, and alliances. A theory that treats power as prior to trade may miss this feedback.

Keohane’s “Problematic Lucidity”

Robert Keohane’s 1997 essay praises Krasner’s article for defining a research agenda with unusual clarity while calling that clarity problematic. The original model directs attention to state power but simplifies the state and the international environment. Later scholarship opened the state to examination by studying legislatures, bureaucracies, firms, labor, interest groups, and electoral coalitions.

Keohane also emphasizes strategic interaction and institutions. States do not make trade policy in isolation. They anticipate retaliation, negotiate packages across issues, and operate through rules that provide information and reduce uncertainty. Institutions cannot erase power, but they can affect how power is exercised and how agreements survive changes in leadership.

The critique does not make Krasner irrelevant. It changes state-power theory from a complete explanation into a starting framework. Power identifies who can shape options; domestic politics explains preferences; institutions explain how cooperation is organized; and economic analysis estimates the costs and benefits of alternative policies.

Domestic Politics and the “Two-Level” Problem

A government negotiates internationally while managing domestic approval. Exporters may favor access to foreign markets, import-competing industries may seek protection, consumers may prefer lower prices, and security institutions may demand restrictions. The final position can reflect bargaining power rather than a single national interest.

Trade policy also creates geographic and class divisions. Benefits such as cheaper goods may be dispersed, while factory closure is concentrated and politically visible. Governments that promote openness without adjustment policies can lose public support. Social insurance, retraining, regional investment, and labor standards are therefore part of the political sustainability of trade.

Businesses are not merely domestic actors. Multinational firms organize production across borders and can influence several governments. Supply chains blur the distinction between foreign and domestic products. A tariff intended to protect national manufacturing may raise costs for local firms that import components.

Institutions, Rules, and Unequal Influence

International institutions provide forums for negotiation, notification, dispute settlement, and monitoring. They can make commitments more credible and allow smaller states to challenge measures through agreed procedures. Still, formal equality does not remove differences in legal capacity, market size, or bargaining leverage.

Power may operate through agenda setting: defining which subjects are negotiated, which exceptions are recognized, and whose standards become global. Technical rules, intellectual property, subsidies, data regulation, and environmental requirements can redistribute advantage even when tariffs are low. Contemporary trade structure therefore includes more than border duties.

Institutions also reflect earlier distributions of power. The postwar order was shaped strongly by the United States and its allies. As economic power shifts, disputes emerge over representation, enforcement, and the boundaries between legitimate national policy and unfair discrimination.

Contemporary Geoeconomic Fragmentation

Recent trade patterns make Krasner’s focus on state power newly visible. Governments increasingly use export controls, investment screening, sanctions, industrial subsidies, local-content rules, and supply-chain security policies. Semiconductors, clean-energy technology, telecommunications, medicines, food, and critical minerals are treated as strategic assets rather than ordinary commodities.

WTO research using trade data through early 2024 found signs that trade flows had become more sensitive to geopolitical distance, including friend-shoring. WTO monitoring also reported an increase in trade-restrictive measures and a large stock of import restrictions. IMF research describes geoeconomic fragmentation as a strategic reversal of cross-border integration and warns that trade rerouting may offer short-term opportunities to connector countries while increasing long-term vulnerability.

These developments support Krasner’s argument that national security and relative power shape openness. They also demonstrate its limits. Global production networks are so interconnected that abrupt separation can impose costs on the states initiating it. Firms reroute trade, adapt technology, and lobby governments. Middle powers and connector economies exercise agency rather than merely following a hegemon.

Hegemony in a Multipolar Economy

The current economy is not neatly organized around one uncontested economic leader. The United States remains central in finance, technology, security alliances, and consumer demand; China is a leading trader and manufacturer; the European Union uses the size of its market to shape standards; and other economies possess strategic resources or production capacity. Power is multidimensional and issue-specific.

A state may be dominant in advanced computing, another in battery supply chains, another in energy exports, and another in regulatory influence. This distribution makes a single-hegemon model less precise. It may also produce overlapping systems rather than total deglobalization: trade continues, but routes, technologies, and standards become more politically segmented.

Evaluating the Theory

State-power theory succeeds because it prevents analysts from treating trade as an automatic result of economic efficiency. Governments choose rules, enforce sanctions, negotiate agreements, and determine which dependencies are acceptable. The theory is particularly strong when explaining why economically costly restrictions may persist for strategic reasons.

Its weakness is reduction. “The state” can conceal conflict among institutions and groups. Material power alone cannot explain ideas, law, identity, corporate strategy, or the durability of international institutions. Historical correlations between hegemony and openness are not always consistent, and openness itself can alter the distribution of power.

The strongest approach combines levels of analysis. International power shapes the bargaining environment; domestic politics shapes policy preferences; institutions shape cooperation and enforcement; firms shape production networks; and economic conditions shape the costs experienced by citizens.

Conclusion

Stephen Krasner’s “State Power and the Structure of International Trade” remains foundational because it explains trade openness as a political structure rather than a natural market condition. States pursue income, growth, stability, and power, and dominant states can play an important role in creating or undermining open trade. (Krasner, 1976)

Robert Keohane’s later critique shows why clarity must not become oversimplification. Domestic coalitions, institutions, strategic interaction, and transnational firms complicate a state-centered model. Contemporary geoeconomic fragmentation confirms that security and power are central to trade policy, while the continued resilience of global exchange shows that interdependence constrains even powerful governments. Krasner’s theory is therefore most useful not as a complete answer but as the beginning of a layered analysis of who shapes trade, why they do so, and how economic openness is maintained or reversed.

Works Cited

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