

# The Ebb and Flow in the US Trade Policy: Does The Hegemonic Stability Theory Have Explanatory Power?

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**Abstract:** This article focuses on the trade policy of the United States (US) from the end of the 19th century until today. It aims to account for the ebb and flow in the trade policy of the US over time and examine the explanatory power of the Hegemonic Stability Theory (HST) to explain this change. The study first sheds light on the main premises of the HST on the trade policy of hegemony. After discussing what the theory says for the trade policy of a hegemonic power in different periods of its hegemony, the study focuses on different periods of the US hegemony. A special focus is given to the US trade policy under Trump. A critical examination on the HST is provided by exploring how the different arguments of the theory perform when they meet the reality of changes in US trade policy over time. As a concluding remark, the study argues that although the HST can account for the changes in the US trade policy to some extent, there is the need to go beyond it and to focus on the dynamics of the US domestic politics as well to understand the trade policy of Washington in its fullest sense.

**Keywords:** The United States (US), Trade Policy, Hegemonic Stability Theory, Free Trade, Protectionism, Trump

## ABD Ticaret Politikasındaki Değişim: Hegemonik İstikrar Teorisi Açıklama Kapasitesine Sahip mi?

**Özet:** Bu makale 19. yüzyıldan bugüne Amerika Birleşik Devletleri (ABD)'nin dış ticaret politikasına odaklanmaktadır. Çalışmanın amacı zaman içinde ABD'nin dış ticaret politikalarının neden değiştiğini açıklamak ve Hegemonik İstikrar Teorisi'nin bu değişimi açıklama kapasitesini test etmektir. Makale ilk olarak Hegemonik İstikrar Teorisi'nin hegemonların uluslararası ticaret politikası ile ilgili temel görüşlerini ele alacaktır. Teorinin bir hegemonun hegemonyasının değişik dönemlerinde ticaret politikaları ile ilgili tartışıklarına değinildikten sonra, ABD hegemonyasının değişik dönemleri incelenecektir. Trump döneminde izlenen ticaret politikası da özellikle irdelenecektir. Hegemonik İstikrar Teorisinin ABD'nin ticaret politikasındaki değişimleri ne derece açıklayabildiği eleştirel olarak değerlendirilecektir. Çalışma temel olarak, Hegemonik İstikrar Teorisi'nin ABD'nin ticaret politikasındaki değişimi bir dereceye kadar açıklayabildiğini, bu değişiklikleri tam anlamıyla açıklayabilmek için ABD'nin iç politika dinamiklerini incelemenin gerekli olduğu sonucuna varmaktadır.

**Anahtar Kelimeler:** Amerika Birleşik Devletleri (ABD), Ticaret Politikaları, Hegemonik İstikrar Teorisi, Serbest Ticaret, Korumacılık, Trump

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## **I. Introduction**

As a sub-field of International Relations (IR), International Political Economy has grown in significance and attraction since the Détente period of the Cold War in the mainstream analyses. When the relations between the United States (US) and the Soviet Union (SU) were quite tense during the Cold War, the utmost concern in the discipline of International Relations (IR) was the threat of a nuclear war. As International Security - another sub-field of the IR - covered this issue, International Political Economy lacked popularity.

As a result of Détente, the tensions between the US and the SU abated. This situation enabled the scholars of IR to shift their attention to other issues, including the economic ones. The collapse of the Bretton Woods system and quadrupling of oil prices following the OPEC oil boycott in 1973 also contributed to the increasing significance of economic issues in IR. As a result, mainstream International Political Economy gained strength at the expense of International Security.

The end of the Cold War has been good news for International Political Economy, too. While the threat of nuclear war waned significantly, globalization intensified as formerly isolated communist countries were integrated into the global capitalist system. These two factors led to the increasing popularity for International Political Economy.

Recently, the decline of the US economic power and the challenge posed by the People's Republic of China to the hegemony of the US have led some scholars including Graaff and Apeldoorn (2018) and Ikenberry (2011) to utilize the International Political Economy to understand and account for the new situation. The US President Donald Trump's attempts at "making America great again" by resorting to measures including trade restrictions attract significant attention.

This article focuses on the trade policy of the US from the end of the 19<sup>th</sup> century until today. Globalization has proved to be the main setting of the time period under consideration despite serious interruptions due to world wars. It is critical to account for the US trade policy because it is the most important country shaping the trade regime of the 20<sup>th</sup> century, not only thanks to its economic might but also its influence over the world economy. As the beginning of the 21<sup>st</sup> century has been marked by debates on the declining power of the US, it is also necessary to provide insight on how this decline would affect international trade.

The study examines whether the Hegemonic Stability Theory (HST), an approach within International Political Economy, has the explanatory power to account for the ebb and flow in the trade policy of Washington over time. As the main argument, the study argues that although the HST can account for the changes in the US trade policy to some extent, there is the need to go beyond it and to focus on the domestic politics as well to understand the trade policy of Washington in its fullest sense.

The study first sheds light on the main premises of the HST and its relevance for the subject matter of this article. After discussing what the theory says for the trade policy of a hegemonic power in the different periods of its hegemony, the study focuses on different periods of the US hegemony. A critical examination of the HST's explanatory power is provided by exploring how the different arguments of the theory perform when they meet the reality of changes in the US trade policy over time.

## II. The Hegemonic Stability Theory (HST)

Initially, hegemony was considered within the confines of military power in IR. Political scientists in the sub-field of International Political Economy of International Relations have come to view economic power as a feature of hegemonic control more recently. With the new interest, the studies over economic sources of hegemony have come to focus on power capacities and behaviors of the hegemonic powers. Some emphasize power capacities and describe hegemonic power as the predominance over the control of raw materials, production of goods, markets, and capital. Others opt for a behavioral definition. For those abiding by a behavioral definition, the hegemon is the state with the ability to formulate the rules and the arrangements for the global economy (Nye, 2004: 61).

In this study, hegemony is defined not only in terms of power capacity and the ability to regulate the behavior of others. The study also considers the willingness to use this power to shape the actions of other states by setting and enforcing the rules of the game in international political economy. Therefore, following Gilpin (2001: 94-102), the hegemon is defined as the dominant power with both the political, economic and other resources and willingness to lay down and enforce its rules in the international political economy.

Having defined hegemony in this way, the rest of this section will focus on the HST. The establishment of HST can be dated back to the Charles P. Kindleberger's study published in 1973 although it was Robert O. Keohane who named the theory as such. The studies by Robert G. Gilpin and Stephen D. Krasner are also considered within the realm of this theory. Below, there is a review of the studies of these three scholars.

Kindleberger belongs to the Liberal tradition and his arguments about the stability of the hegemonic systems are based on the game theory. He argues that international economic stability is a collective good to the benefit of all states. Small and medium-sized states know that their individual contributions won't be enough to provide public goods. Therefore, they are not expected to contribute to the provision of public goods. Rather, they tend to free ride and pursue their individual interests. As a result, the public goods of stability and free trade won't be available in an international system composed of only small and medium-sized countries. Only a hegemon possesses enough power and motivation to provide

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these public goods (Webb and Krasner, 1989: 184). Therefore, for Kindleberger, one hegemon required for a stable world economy (Kindleberger, 1981: 247).

Krasner is another scholar important in the HST. Coming from the Realist tradition, he argues that the interests and capabilities of states with the aim of maximizing national interest set the structure of the international trade (Krasner, 1976: 317). He emphasizes that empirical data largely substantiate the argument that if there is a hegemonic distribution of economic power in the international system, this brings about an open trading system (Krasner, 1976: 318).

In fact, in order to establish a system of free international trade and to maintain it, hegemonic powers bear considerable costs. Hegemons shoulder this burden because it is in their interest to do so. First, free trade adds to the aggregate national income of a hegemon. Second, it also boosts the hegemon's rate of growth when it has technological superiority, and its production capacity is growing. During this time, hegemons don't need to protect infant industries as less developed states do. Therefore, they can utilize the opportunity of the open markets to the maximum extent. Third, hegemons do not face the risk of instability that the opening to international markets poses because they can easily reallocate their factors of production; especially labor, as they are mobile (Krasner, 1976: 320).

Gilpin's view on the relation between free trade and hegemonic powers also needs to be examined before providing a general assessment on the issue. He argues that although economists prefer and advocate free trade instead of protectionism, restricted trade has been the norm whereas free trade has been the exemption (Gilpin, 2001: 196). The free trade was observed only for 30 years, between the abolition of Corn Laws (1846) and the rise of protectionist tariffs in 1870s. Trade protection increased gradually until the end of World War II. The increase was especially rampant up to and during the Great Depression. After the World War II, liberalization and growth of international trade were observed, mainly thanks to the consecutive rounds of the General Agreement on Tariffs and Trade (GATT) negotiations, carried on under the leadership of the US. The tide turned in the mid-1970s. Stagflation worldwide and the New Protectionism overturned the growth and liberalization of trade. The US proved to be a major actor in New Protectionism with its nontariff barriers against imports from Japan and other countries (Gilpin, 2001: 197).

For Gilpin, the role of a hegemon is vital for an open trade system. He argues that a stable liberal economic system was never experienced in the absence of a hegemon (Gilpin, 2001: 93). In the absence of a hegemon; cooperation cannot survive due to the compliance problem. Hegemons ensure international cooperation and avoid defection by means of carrots and sticks (Gilpin, 2001: 97). External pressures coming from a strong state are instrumental in forcing a state to remove its trade barriers (Gilpin, 2001: 96).

Thus, for the HST, the role of hegemonic powers is quite crucial for a free trade system. In addition to disciplining and harmonizing the behavior of other states, hegemonic powers provide assurances. Thanks to these assurances, other states eschew beggar-thy-neighbor strategies and dare to open their markets (Milner, 1998: 113). With their open markets, hegemonic states also offer a model for economic development for others to emulate. To achieve the economic development of hegemons, other states tend to follow the hegemon and eliminate trade barriers. Hegemons can also resort to military force to coerce weak states to open their borders. However, this option is not effective when it comes to middle-size states (Krasner, 1976: 322).

HST holds that while a hegemonic power establishes a stable economic order, its decline results in global instability. When applied to the specific field of international trade, the theory posits that whereas hegemony brings about an open trade system, its weakening leads to closure and protection (Stein, 1984: 357). The US power experienced the decline starting with the end of 1960s but free trade ensued. As this was not in accord with the arguments of the HST, Webb and Krasner (1989) engaged in explaining why free trade prevailed despite the decline in the US power. They first provided a statistical analysis supporting the argument that the US was on decline. However, they emphasized that this weakening was not enough to bring about the fall of the free trade system yet. They argue that the US still enjoyed primacy in the world economy in many fields at the time of their writing. They validate their claims by statically showing that the US had the largest economy, the highest standard of living, the largest share of world trade and investment in 1989 (Webb and Krasner, 1989).

The end of the Cold War and the unipolar structure of the world politics in the 1990s abated the discussions on the US' decline. However, the Global Financial Crisis of 2008, the rise of China and the Trump's presidency resulted in a renewed interest in HST and the weakening of Washington. Many started to argue that now the end the US hegemony has become a reality (Gills and Patomäki, 2017: 92) and the viability of current liberal trade system has become a central concern.

In this context, Layne argues that the liberal international order that the US formed after WW II is in shambles now and Trump is a symptom, rather than a cause, of this situation. He views Trump's election as a populist reaction to the impacts of globalization. He also adds that the world's center of gravity is shifting from Euro-Atlantic to China (Lane, 2018: 90). Ikenberry also focuses on the Trump's trade policies. He argues that as the US is the backbone of the current order, it will collapse if the US pulls out. For him, if that happens, Trump would manage in cutting slightly better trade agreements for his country. However, he would trade these slight improvements for the 70 years of efforts of his country to build a system rendering the US more influential and affluent (Ikenberry, 2017: 4). Stokes provides an explanation of Trump's protectionist policies by emphasizing that the US is leaving its hegemonic responsibilities because the cost

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of continuing its hegemony outweighs the benefits to the country (Stokes, 2018: 134).

As the founder of the HST, Kindleberger argues that it is not possible to maintain the stability of the world economy based on hegemony in the long run. The threat can come from outside in the form of an aggressive rival. The change can also originate from inside. The hegemon can become exhausted over time due to the increasing costs. Increasing free-riding also poses an important problem, which the hegemon finds more challenging over time (Kindleberger, 1981: 251). When recent studies on the reasons for the decline of the US as a hegemon are examined, it is seen that Layne include both internal and external factors preparing the US decline. He emphasizes that excessive consumption and insufficient savings, sustained trade, current account, and budget deficits and the climbing national debt have weakened the American economy (Layne, 2012: 411). As for the external causes, he focuses on the increasing economic power of China, Russia, and India at the expense of the US (Layne, 2012: 413). He forecasts that as the US continues to decline, it won't be able to provide common goods including opening its domestic market to other states (Lane, 2012, p. 420). Acharya argues that by the late 2000s, the US experienced not only a relative but also an absolute decline. For him, internal weaknesses and mismanagement besides the Neo-con policies of Bush period have hastened this decline (Acharya, 2018: 81). Nye focuses on that the populist policies of Trump and he argues that they threaten Liberal international order more than the rise of China (Nye, 2019: 64).

Scholars also question what kind of an order would replace American-led liberal order. Graaff and Apeldoorn note that the future of liberal world order will be shaped by the rise of China and by the reactions of the United States to the challenge posed by China (2018: 113). Ikenberry argues that "less desirable alternatives" including "regional blocks or bipolar rivalries" would be experienced (Ikenberry, 2011: 32). Acharya notes that the US will remain a major power, however, it will be devoid of the power to set the rules in areas including international trade (Acharya, 2018: 120).

The literature focusing on the US decline, and the resulting increasing protectionism is vast, but it is beyond the scope of this study to examine them all. Instead, beginning with the next section, the study examines how the premises of HST have been manifest when they are applied to the US trade policy.

### **III. The US Trade Policy in the 19<sup>th</sup> Century and the Interwar Years**

Protectionism marked the US trade policy in the 19th century. High tariffs introduced in the Civil War remained intact apart for a short period in the 1890s (Krasner, 1975: 325). Only Russia rivaled the US in protectionism. The US became the most protectionist state when Russia involved in trade liberalization in 1868. It will remain so until the Underwood Tariff Cuts of 1913 (Lindert, 2000: 454). At that time, tariffs were considered a source of revenue or

a protectionist device to safeguard the US market for domestic producers. Tariffs were not viewed as a bargaining chip to obtain safe export channels. Exports were of subordinate interest (Meyer, 1978: 62).

After the First World War, the US reduced tariffs through consecutive rounds of international trade bargains. However, these were compensated by a combination of import quotas, health and security controls, voluntary export restraints and irregular embargoes (Lindert, 2000: 455).

One reason behind this protectionism was the protectionist pressure on the Congress. As a result, while the manufacturers were provided with cheap raw materials through a free list of materials, which was enacted by the Congress, the exporters and consumers were mostly neglected (Bailey, et al., 1997: 309) As a result, the US was really away from free trade in the 19th century and after the First World War.

As for the international setting of the US trade policies, Britain was the hegemon of the 19th century. British hegemony brought about the globalization of the markets, open international trade, the emergence of multinational corporations, and the gold standard system. In line with the premises of the HST, all these created stability for Europe at least. World War I weakened Britain severely and put an end to the British hegemony and stability it created. Rampant protectionism and competitive devaluations replaced free trade and the gold standard system, respectively (Milner, 1998: 114).

As far as its production capacity concerned, the US surpassed the Great Britain at the end of the 19<sup>th</sup> century. It has also had a clear power advantage in transportation. It also came to provide military protection for commerce by the end of the First World War. Having the largest and most productive industry in the world at that time, The US financed the war spending and supplied the largest part of the war material. New York replaced London as the financial center of the world by the end of the war, too (Frieden, 1988: 60).

However, the US lacked an important competent of hegemony at that period: the willingness to shoulder the burdens of providing a free trade system. Instead, after the war, Washington opted for distancing itself from the troubled affairs of Europe and Asia with the hope that such a policy would save the country from paying unnecessary costs. This was an unfortunate period: while the British lacked the capacity to reduce the tariffs and restore the gold standard, the US was unwilling to take the necessary steps to correct the economic ills (Kindleberger, 1986).

The US unwillingness was clearly illustrated by the tariffs passed by the Congress after the war (Milner, 1998, p. 114). The US trade policy before 1934 was mainly based on imposing heavy duties on imports to protect domestic industry and to create revenues for the federal administrations. As a result, the tariff issue was viewed as a domestic and fixed issue (Grimwade, 1996: 5). In 1921, The Emergency Tariff Act increased the duties on imported agricultural products. This act was passed to protect US producers in the face of declining

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prices after the end of the war. This would be followed by 1922 Fordney-McCumber Tariff Act, which increased the tariffs in the manufacturing sector (Grimwade, 1996: 5).

This chain of tariffs would continue with the Smoot-Hawley Tariff of 1930, which increased the average tariff on imports to the United States by approximately 40 percent (Milner, 1998: 114). The US president of that period, Hoover, neglected the appeal of various economists, who called for vetoing the Smoot Hawley Tariff Bill. The increase in the US tariffs led the rest of the world to retaliate. As the timing of this tariff coincided with that of the Great Depression, the US foreign trade decreased significantly (Crafts and Fearon, 2010: 293).

The protectionist policies across the world increased even more after Britain went off the gold standard on 19 September 1931 and devalued Sterling. Other countries either let their currencies to depreciate or increased their tariffs to avoid cheap imports. After Britain's devaluation, the dramatic increase in restrictions on trade and payments harmed world trade severely. From 1929 to 1932, it decreased by 25 percent. Nearly half of this fall can be attributed to higher tariffs besides non-tariff barriers to international trade (Eichengreen and Irwin, 2010: 876-877).

Economic historians widely advocate that pursuing a trade policy based on such high tariffs in interwar years conflicted with the US interest. Whereas before World War I, the US had been a net importer of capital, it gained the position of a large net exporter of capital by the end of the war. As the countries borrowed from the US needed to export to the large the US market to earn foreign currency, this change required a trade policy based on low tariffs (Grimwade, 1996: 6). The US also became a net exporter of commodities by the end of the war. Half of this export was made up of finished and semi-finished products. A large and growing market was required for these products as they were made under the circumstances of increasing returns or decreasing average costs. As the domestic market was not able to absorb the increasing supply anymore, it was necessary to find new markets abroad. The trade policy based on high tariffs was detrimental in this respect. The other states were unwilling to offer the US producers easier access to their markets in the face of high US tariffs (Grimwade, 1996: 5).

While explaining the trade policy of the US, relying on HST makes sense if one wants to understand the international setting of these policies. Despite this strength, the theory ignores the struggle between the protectionists and liberals inside the country. However, to understand the reasons behind the US unwillingness to shoulder the burdens of hegemony, it is necessary to look inside the US. Below there is a discussion on the domestic dynamics preparing for the dramatic change in US trade policy.



Beginning with the Civil War, Congress had enjoyed complete control over tariff reduction deals. Whereas the Republicans passed high tariffs, the Democrats opted for lower ones when they were in power. Democrats were particularly concerned about the reaction of trading partners' reaction to Republican Smoot-Hawley Tariff: the increased tariffs on the US exports (Irwin and Kroszner, 1999: 668).

After their electoral victory in 1932, Democrats carried out an important change in the trade policy of the US by passing the Reciprocal Trade Agreements Act (RTAA) in 1934. With this act, Congress authorized the president to conclude agreements reducing tariffs with foreign countries without taking the approval of the Congress. For years, the Republicans called this transfer of authority to the executive in question and pressurized to annul it. However, by the late 1940s, Republicans came to terms with the act, which resulted in a significant fall in tariffs from 50 percent in early 1930s to nearly 13 percent (Irwin, 1998: 325).

Republicans, who could have annulled the RTAA once they resumed power, declared their support for the renewal of it in their 1948 election campaign. This eventual support of Republicans became instrumental in providing stability and permanence of the RTAA. Without their support, post-Second World War free trade initiatives including the GATT could have been impaired. The reason behind this change is related to the increasing power of exporters in the US politics. In 1934, Republicans were only sensitive to the interest of the US manufacturers that favored avoiding the competition of the imports. The RTAA improved export chances and strengthened exporters. It also motivated the export-oriented producers to lobby more effectively. As a result, exporters became able to put sufficient pressure on the Republicans to give up their support for high tariffs. (Irwin and Kroszner, 1999: 654).

Some bilateral agreements, which signified a departure from earlier US trade policy, were concluded after 1934 to liberalize the US market and gain reciprocal liberalization outside the country (Rhodes, 1993, p. 231). Even before the war ended, the Roosevelt Administration formulated a proposal for an international trade organization and demanded authority from the Congress to cut tariffs (Baldwin, 1984: 7). In 1945, the Congress granted the president the authority to cut tariffs by up to 50 percent (Goldstein and Gowa, 2002: 157).

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This section has shown that the HST can only account for the change in the US trade policy partially. As discussed, the relative strengthening of exporters in the US and their effective lobbying played an important role in reducing the tariffs. Since the HST almost ignores the domestic factors preparing for a change in the trade policy of a hegemon, it cannot provide an effective explanation for the liberalization of the US trade policy.

#### **IV. The US Trade Policy during the Cold War**

The achievements of reciprocal trade agreements brought about legitimacy and impetus for more liberalization of the US trade policy in the post-Second World War period. After the war, the US leadership relied on earlier successes of bilateral agreements to establish a new trade regime based on fair competition and non-discrimination (Rhodes, 1993: 231).

After World War II, the US continued its policy of reducing tariffs. As discussed, before World War II, it pursued a policy of cutting tariffs on a bilateral basis. With the GATT process, this policy was transformed into cutting tariffs on a multilateral basis (Grimwade, 1996: 5). The role of the US was key to the establishment of the GATT. Being the only commercially powerful state after World War II, it set the rules of the post-war international trade regime. Britain and some other countries participated in the groundwork for the GATT, but the US was the real engine. Washington continued its support all through the history of the GATT (Eckes, 2000: 16-17).

In fact, the GATT was not the original aim. It emerged as a temporary tool to regulate trade but it went beyond that. During and after World War II, the US became the scene of intensive efforts to create the International Trade Organization (ITO). The efforts paved the way for multilateral negotiations for the charter of the organization at Havana in 1947–1948. However, these attempts were met with opposition at home. The National Association of Manufacturers advocated the idea that the Havana Charter would result in more harm than good. Some groups of organized labor were against the charter, too. When this domestic opposition was combined with the outbreak of the Korean War in June 1950, the Truman Administration gave up. (Toye, 2012: 392-395). However, the efforts to establish the ITO are still important because they brought the GATT into being and GATT negotiations culminated in the eventual establishment of the World Trade Organization (WTO) (Toye, 2012: 397).

Before dealing with the US trade policies within the GATT framework, it is necessary to explain why the US turned to support the GATT. The GATT did not mean to formulate a new grand setting for international trade. Rather, it codified the certain aspects of agreements Washington had negotiated since 1934. For instance, many of the clauses in the GATT agreement can be found in the US-Mexico Trade Agreement in 1942. Therefore, the GATT rules were more in line with the US interest compared to those of the Havana Charter. While the US initially secured guarantees against being out-voted in the GATT, with the US

guidance GATT moved towards consensus principle over time. The US was able to secure neither guarantees against being out-voted nor agreement on consensus principle in Havana negotiations (Goldstein and Gowa, 2002: 157-159). Therefore, in line with the arguments of Krasner and Gilpin of the HST, as a hegemon, the US supported the schemes for free trade only when it conformed to its national interest. This is manifest in the US' failure to ratify the Havana Charter in the face of opposition of producers and organized labor at home and its willingness to embrace the GATT.

The GATT was based on the principles of the most favored nation, i.e. non-discrimination among trade partners, and a reciprocal reduction of trade barriers. The timing and agenda of 8 rounds of the GATT negotiations were set by the US. These rounds brought about an impressive tariff reduction in manufactured goods. The US also performed stabilizer role by not closing its market in times of stress except for a short interval during the termination of gold-dollar convertibility in 1971 (Preeg, 1992: 81).

In the GATT, the principle of reciprocity was enshrined in the preamble, which formulates the general nature of relations, and in other provisions. These articles offered the US the means to respond to and punish inappropriate trade policies, such as dumping and state subsidization of exports. (Rhodes, 1993: 231). The official inclusion of reciprocity in the GATT functioned as a panacea for the US uneasiness over foreign competition. The notion of reciprocity symbolized the hope that the US would grant concessions only conditionally; when it was ensured that corresponding concessions for the US products would also be granted in turn (Rhodes, 1993: 231).

However, in reality, the US came to act contrary to its initial emphasis on reciprocity and tolerated many cases of free riding through the GATT history. The very beginning of the GATT process was a harbinger of the things to come. In the Geneva negotiations of 1947, the US mainly tried to trade the enduring protective measures of Smoot-Harvey for the lifting of British preferences and discrimination against American products. When the British resisted this attempt, Washington came to made important concessions on textiles and manufactures. The US presidents Truman and Eisenhower viewed these trade concessions as substitutes for foreign aid. Alarmed by the Soviet threat and keen to help a speedy recovery for Western Europe, the Department of State increased imports and tolerated some protective policies of its allies (Eckes, 2004: 63).

The US also tended to accept the preferential trading arrangements in Europe within the framework of European (Economic) Community or the Common Market, this toleration was a result of the political necessities of the Cold War period (Feinberg, 2003: 1020). The US desired its European allies to gain strength through European integration against the Soviet threat. This was again in line with the national interest of the US and the premises of HST. As Gilpin argued, as a hegemon, the US supported free trade only when it fitted its national interest. As discussed, Gilpin belongs to the Realist School of

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International Relations and Realism posits that national security concerns always prevail over economic matters. The prioritization of security matters and the toleration of practices that fell short of free trade during Cold War by the US support these arguments of the HST, in particular, and Realism, in general.

Notwithstanding these concessions, the US managed to radically liberalize international trade in the non-Communist block in the post-WW II period. In the support towards liberalization of trade in the US and its allies, the approval of what Ruggie called “embedded liberalism” played an important role (Ruggie, 1982 quoted in Gilpin and Gilpin, 2001: 98). Post-war trade liberalization came to be accepted in the First World because under embedded liberalism, although the economic systems of the countries were called liberal, the governments reserved their rights to intervene to promote full employment. During the Cold War, for decades, governments acted to compensate for the losses resulting from the opening of national markets to international competition (Gilpin and Gilpin, 2001: 98).

American policymakers and academics started to discuss the problem of reciprocity more intensively after the competitive decline of the US in the 1970s. Those advocating a reciprocal stance argued that accepting the faulty trading policies and free riding of some GATT members would undermine the application of free trade norms and encourage the uncooperative conduct of others. Others feared that the US preference of reciprocity in the form of retaliation would lead to the reemergence of pre-1934 protectionism in the country. This eventually could trigger a global trade war like the one in the 1930s, as other countries would also seek reciprocity as a response (Rhodes, 1993: 226).

In the 1980s, the change in US power was more easily observed. There was not a big change in the share of the US in global trade but the economy started to experience trade deficits. More importantly, the US lost its technological superiority vis-à-vis Japan, and thus its leadership role in industry. However, the US kept its market open to imports in this decade. Despite the challenge posed by increasing imports from Japan and other East Asian countries, apart from voluntary export limits on cars from Japan, the US proved to remain a liberal trader. For example, The US imports increased more than two-fold even in the textiles (Preeg, 1992: 82). Rather than resorting to import restrictions, Washington opted for exchange rate adjustment. This policy worked as after the Plaza Accord the trade deficit declined from 3.8 percent in 1987 to 1.1 percent of Gross National Product (GNP) (Preeg, 1992: 83).

To conclude this section, in the early Cold War years, the US tendency to ignore practices of its allies violating free trade regime for the sake of security considerations proved to be in line with the premises of the HST. In the last instance, these concessions were carried out on the ground of the US national interest. The lack of important changes in the US trade policy despite its relative decline in the 1980’s run opposite to the HST. The HST cannot account for the

timing of the policy change of a hegemon. This weakness will be more apparent in the coming sections.

### V. The U.S Trade Policy in the Post-Cold War Period

The Uruguay Round is a milestone for the development of multilateral trade order in history. Although the negotiations within the framework of this round started in 1986, i.e., before the end of the Cold War, they ended in 1994. Therefore, it is necessary to approach the Uruguay Round as a turning point for the post-Cold War international trade order. As the Round offered the US the opportunity to both widen and deepen the order it had established, it also opened new horizons for the HST.

The US had a key role in the initiation of this round. The series of free trade agreements that Washington signed in the run-up the Uruguay Round led the European countries suspect that the US leaned towards bilateralism. As such an attitude change on the part of the US could result in the dismantling of the GATT system, Europe toned down its objections to multilateral trade negotiations in the Reagan period. Big business and financial interest groups also pushed for a new round, as they feared that International Debt Crisis of the 1980s could culminate in a 1930s-type collapse of the world trade and finance (Eckes, 2004: 83). The negotiations proceeded very slowly and to achieve success, the US gave up its initial demand for important concessions in agriculture, resisted by France. 111 states signed the Marrakesh Agreement establishing the World Trade Organization on 15 April 1994 (Eckes, 2004: 84).

The end of the Cold War offered the US many opportunities to both widen and deepen the order based on free trade. As for the widening, the newly independent states of former the Soviet Union and the post-Communist states of Central and Eastern Europe, which had been isolated from the free trade regime founded by the US for long, came to accept free trade to a large degree. The integration of these states into the world economy through the realization of Liberal reforms proved to be an important priority for both Bush senior and Clinton administrations. As for the deepening, under US leadership, the GATT was transformed into the World Trade Organization as a result of the Uruguay Round. The Uruguay Round included the trade in services and intellectual property rights besides sensitive sectors like agriculture and textiles in the negotiations on free trade. The WTO has been also endowed with improved enforcement capabilities and a dispute settlement mechanism (Mastanduno, 2011: 165).

This policy of the US under Bush senior and Clinton can be explained by utilizing HST. Their periods are considered to be the unipolar periods, meaning that the US was the sole power then, as it was excessively more powerful than other power centers in the international system. US production was also higher than any other states in the world then, as Russia was quite weak, Europe was trying to adapt to the new situation through realizing European integration and

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China was yet to rise and challenge the US. Therefore, at that time as the US produced more than any other country in an efficient way thanks to its advanced technology, it needed an open trade system to export. Self-interest motivated the US to deepen and widen the order based on open trade. The US would shift from this policy once it experienced the decline and challenge of other powers.

In line with the HST, some changes in the US trade policy were observed in the Bush period with the decline of the American economic power. The US economy slowed from the middle of 2000 through the end of 2001 with unemployment rising from four to six percent. The overvalued dollar led to a current account deficit of approximately \$500 billion by 2002. The changes in the US trade policy, which can be interpreted as a response to slowing American economy, increase in unemployment and current account deficit, were really striking. The US imposed tariffs on an important portion of foreign steel deliveries to the United States. The administration and Congress also decided to reduce some textile imports from the Caribbean and Central America. New tariffs were imposed on lumber imports from Canada. Both Congress and the president supported a new farm bill maintaining considerable subsidies for U.S. agriculture, even though the United States had campaigned against subsidies abroad for years (Bergsten, 2002: 86).

Bush period was also marked by the policy of "competitive liberalization". In the field of trade, this policy aimed at promoting competition for entrance into the US market. The US opted for this policy for several reasons. Clinton administration failed to convince Congress to renew Trade Promotion Authority. In the absence of this authority, while the US' partners signed various bilateral and regional trade agreements in the 1990s, Washington stayed outside the newly emerging beneficial trade arrangements. Through formulating this policy, the US tried to catch up (Evenett and Meier, 2008, p. 34).

The al-Qaeda attacks against the US on September 11, 2001, also had an impact on Washington's trade policy. The US and its allies wanted to show that they were united and that they could enhance their cooperation after the events. This acted as a motivation for initiating Doha Round of the WTO in November 2001. Bush administration viewed trade as a mechanism to struggle against extremism and terrorism. Trade symbolized openness, peaceful exchange, integration, and mutual gains. In this way, international trade was considered a cure for violent extremism. Thus, the US connected economics and security in its war against terrorism once more (Evenett and Meier, 2008: 36).

As a senator, Obama voted against the Central American Free Trade Agreement. In his presidential campaign, which coincided with 2007-2008 Financial Crisis, he criticized the North American Free Trade Agreement (NAFTA). During his presidency, however, he tended to support the Trans-Pacific Partnership (TPP), a comprehensive trade agreement with 11 states in Pacific (Irwin, 2016, p. 84). Obama argued that TPP was necessary to ensure that the US maintains its role of rule maker in a region it faces the rise of China. He

emphasized the importance of writing the rules of trade while referring to The Transatlantic Trade and Investment Partnership (TTIP), too (Garrett, 2018: 261-2). This can be linked with the premise of the HST that hegemons support free trade only when it conforms to their interests. Obama came to support TTP and TTIP as a counter-measure against Chinese influence.

It is necessary to view these steps against the background of the stalemate in the Doha Round of the WTO. In Obama's period, there was no important breakthrough in multilateral trade negotiations in Doha and the round has come to be largely considered a failed round (Garrett, 2018: 277). This failure came as a result of the inability to reconcile conflicting views of the WTO members. As a declining hegemon, The US was not able to move the stalled talks forward this time. In the face of its failure to update the global trade order and rise or reemergence of powers like China, the US resorted to bilateral and trans-regional trade schemes (Garrett, 2018: 264).

US trade policy would experience more radical shifts once Donald Trump has become the president. The changes to come were observed even during the election campaigns of Trump and Clinton. Trade issues occupied an unusually important place in the election campaigns of presidential candidates in 2016. While Clinton expressed her concerns about free trade, Trump bluntly accused the open trade policy of causing problems such as the loss of jobs and the decline in wages. As since the end of the Great Depression, the US policy makers and public opinion generally advocated free trade, this represented a sharp attitude change (Noland, Robinson and Moran, 2016: 17-18).

Trump defended that there had to be tariffs on the products of companies moving their factories out of the US as this meant loss of jobs for Americans working in those factories. When he is told that this would be against the WTO rules, Trump responded by arguing that his administration would either renegotiate or withdraw from the organization. Moreover, in his campaign speeches, Trump emphasized that the US economy was deprived of nearly one-third of its production jobs since 1997. For him, this loss was a result of the North American Free Trade Agreement signed by Bill Clinton and China's membership of the WTO supported by Bill and Hilary Clinton. For him, these policies paved the way for the rise of China as well as the declining earnings of American workers (Mount, 2016).

The President's 2018 Trade Policy Agenda declares that Trump has ushered a new era in the US' trade policy in line with the 'America first' policy. Trump's trade policy is based on five pillars: supporting the US national security, bolstering the US economy, negotiating more favorable agreements, effective enforcement of US trade regulations, and improving the multilateral trading system. The new policy aims to tolerate no violations, cheating and economic aggression to protect national sovereignty and strengthen the economy. The Trump administration pledges to abolish inefficient and unnecessary regulations to make the US companies more competitive. The administration also promises

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to change or cancel agreements that contradict the US interest besides cutting new and better deals. Moreover, the new administration commits itself to block other countries' benefitting from unfair trading policies. All in all, Trump administration aims to reform the multilateral trade system, which is centered on the WTO. The WTO is criticized for being a safeguard for trade barriers, dumping and subsidies instead of creating more efficient markets. (Office of the United States Trade Representative, 2018: 2-3).

Trump has been swift to step into action. The US withdrew from the Trans-Pacific Partnership (TPP) negotiations shortly after he assumed office. He also doubled the amount of US imports that were subject to special protection in its first 100 days (Noland, 2018, p. 264).

Trump's trade policy towards China is particularly striking. So far, his administration has introduced three rounds of duties targeting only China:

- 25 percent tariffs on \$34 billion worth of goods going into effect on July 6, 2018
- 25 percent tariffs on \$16 billion worth of goods going into effect on August 23, 2018; and
- 10 percent tariffs on \$200 billion worth of goods going into effect on September 24, 2018 (Koty, 2018).

Since Trump took power, the Department of Commerce has launched 122 investigations into anti-dumping/countervailing tariffs. While 40 percent of these tariffs target Chinese products, they affect 31 countries in total (Levinson-King and Palumbo, 2018). Canada, the European Union (EU), South Korea and Mexico are the other biggest targets. Tariffs of Trump period cover 14.9 percent of the US imports and 304.8 billion worth of imports. While China has responded by imposing the biggest sum of tariff retaliation, Canada, the EU, Mexico, Russia and Turkey have also resorted to significant retaliations (Bown and Zhang, 2019).

These tariffs and countermeasures have become a thorny subject at the WTO. When the US imposed a 25 percent tariff on steel and a 10 percent tariff on aluminum starting on 1 June 2018, China, the EU, Canada, Mexico, Norway, Russia, and Turkey brought the case before the organization. While their first request to examine the US tariffs was blocked by Washington at a Dispute Settlement Body (DSB) meeting on 29 October 2018, the DSB accepted to establish panel on 21 November 2018 to examine US actions. The DSB also accepted four US demands to examine countermeasures of China, Canada, the EU, and Mexico. The US advocated that these tariffs were necessary to protect its vital security interest. Washington emphasized that steel and aluminum have a central role in national defense and Article 21 of the GATT authorizes such an exemption (The World Trade Organization, 2018).



At the G-20 summit in Argentina in December 2018, Trump and Xi Jinping, the president of China, discussed trade issues and Trump has agreed to suspend a considered rise in the tariffs from 10 percent to 25 percent for 90 days. The suspended tariffs were supposed to cover nearly half of the commodities that the US imports from China. (Bloomberg and Curran, 2019). Referring to the progress in talks between China and the US, Trump offered another suspension at the end of February 2019. The talks continued in March and April but they proved to be futile. As a result, on 10 May 2019, the US raised the tariffs from 10 per cent to 25 per cent. China retaliated by increasing tariffs on \$60 billion worth of US goods starting from 1 June 2019. The trade war between the two countries has continued with the US ban on Huawei and Trump's threats of new tariffs (Wong and Koty, 2019).

The failure of the Doha Round in the Obama period had already sent alarm signals about the future of the current trade order. However, the real cracks in the free trade system have become clearly visible in Trump's period. Trump's 'tariffic' policy and countermeasures adopted in response to it have led many people to question the viability of the post-WW II open trade system. As HST argued, instability and protectionist measures have emerged with the decline of the US. True to the premises of theory, The US has been increasingly intolerant of free riders. It is still premature to talk about the total collapse of the current multilateral trade order based on the WTO. However, if the current system falls apart and a new free trade system can't be established until the emergence of a new hegemon, the theory will be further strengthened.

## VI. Conclusion

This study examined the US trade policy beginning with the end of the 19th century to this date to understand whether Hegemonic Stability Theory can account for the ebb and flow in the US trade policy over time. The Realist version of the HST proved to be right in many aspects. The national interest guided the US trade policy most of the time. The examination of US trade policies in interwar, the Cold War and the Post-Cold War periods demonstrated that the US opted for an open trade policy when it enjoyed economic preeminence, and it shifted to protectionism when it faced economic decline and the rise of challengers. The weakening of the US has accompanied the emergence of instability in the world trade system as most vividly illustrated by the deadlock in the Doha Round and trade wars erupted in Trump period. As all these conform to the premises of the HST, it can be argued that the HST is able to account for the change in the US trade policy over time to some extent.

However, the Theory of Hegemonic Stability, especially its Realist version, has some weaknesses, too. First, even at the height of its power, the US sometimes made concessions to its trading partners. It was not always able to use carrots and sticks to ensure compliance as Gilpin argued. The US was not able to count on its military and economic power to set the terms in international political

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economy. However, as national security concerns of the US proved to be the reason preparing for these concessions as discussed in the section on the US trade policy during the Cold War, this cannot be regarded a complete negation of the Realist HST.

Second, as the analysis of passage and sustainability of the Reciprocal Trade Agreements Act showed, trade policy is not just a product of power politics at the international arena. Domestic politics of the countries interact with international politics to shape trade policies. As the analysis of the US politics demonstrated, there are various interest groups within states and when it comes to trade issues there are generally two camps: while one camp is for free trade, the other is against it. The struggle between these groups conditions the trade policy of a country to an important extent. Viewed in this context, as the Theory of Hegemonic Stability ignores the domestic forces shaping trade policy, it proves to be an inefficient tool to analyze the formulation of trade policy.

This inefficiency becomes more apparent if one engages in explaining the differences between the trade policies of Obama and Trump by only utilizing the HST. Although Obama came to power at the height of the 2007-2008 Financial Crisis, which can be considered a clear sign of weakening of the US power in the international political economy, Trump has opted for protectionism. It is necessary to consider the domestic dynamics besides international politics to explain the reasons for Trump's protectionism. Trump focused on the decreasing number of jobs and the losses of producers in his election campaign. Before him, the US trade policy was based on free trade because it was in the interest of most of the voters. The US consumers were able to buy goods at cheaper prices thanks to the free trade policy. However, it turned out to be impossible to maintain this policy. As the American economy started to run into trouble, people lost their jobs and the salaries decreased. Moreover, American producers faced decreasing demand and profits. As a result, it has become necessary to revise the US trade policy to meet voters' demands. Trump has been astute enough to address these concerns by highlighting trade issues in his election campaign. By criticizing Democrats' weak reaction against China's gains at the expense of American producers and workers, Trump has been able to portray himself as a real defender of American interest and gain popularity. Thus, it can be argued that the change in the US trade policy in the Trump period is associated with domestic political dynamics besides the changes in the global conjuncture.

In the light of this discussion, as a concluding remark, the study argues that although HST can account for the trade policy of the US as a hegemon to some extent, there is the need to go beyond it to understand the trade policy of hegemons, in general, and the US, in particular, in its fullest sense. The domestic and international politics interact to shape the trade policies of hegemons and they are not isolated from each other as the Realist version of HST suggests.

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