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Imperfect Competition and Political Economy in Trade

Imperfect Competition and Political Economy: The New Trade Theory in Agricultural Trade Research. Edited by Colin A. Carter, Alex F. McCalla, and Jerry A. Sharples. Boulder, CO: Westview Press, 1990, 270 pages, \$32.95

Reviewed by Daniel Pick

Read this book if you are thinking about using imperfect competitive or political economy models in your trade and policy analysis. It contains thorough references on the most recent developments in these trade theories.

The 1989 summer symposium sponsored by the International Agricultural Trade Research Consortium was devoted to new developments in trade theory and implications for agricultural trade research. Seven papers from the symposium became chapters of the book, which is divided into two main themes. The first, in pieces by Krishna and Thursby, Richardson, Thursby and Thursby, and MacLaren, pinpoints issues of imperfect competition and international trade. The other, in pieces by Moore, Ray, and de Gorter and Tsur, examines political economy and its implications and trade modeling.

The opening two chapters extensively review literature on the current theory of international trade and imperfect competition (Krishna and Thursby), as well as survey the empirical estimates and approaches in the literature (Richardson). The surveys are weak in their limited applicability to international agricultural trade research. Anania, discussing Krishna and Thursby's paper, says of the existing theoretical models of imperfect competition "Both settings appear far from allowing the extension of the results reached to international agricultural market policy analysis."

Richardson's writing on the existing empirical estimates of measuring national welfare contains a long reference list that emphasizes the literature on general equilibrium models. Empirical applications of computable general equilibrium models have gained popularity among agricultural economists who find them useful for policy analysis.

Thursby and Thursby furnish an empirical application of a duopoly model to Canadian and U.S. wheat exports to Japan by using an industrial organization approach in modeling wheat trade. This type of reconciliation between international trade and industrial organization has been applied recently in many empirical studies. Industrial organization models offer an alternative approach to investigate the role of market structure in international trade. Helpman and Krugman¹ noted that decisionmakers in agriculture may take advantage of the pervasive role of institutional arrangements to break away from price-taking behavior. They advocate more fully exploiting the link between international trade and models of industrial organization. The shortcomings of this type of approach, as used by Thursby and Thursby, are covered in the discussion by Veeman.

MacLaren discusses the issue of differentiated products as applied to international trade theory in general and agricultural trade in particular. He mentions the weakness of using the Armington model, pointing to other approaches that can be used in modeling international trade in differentiated products.

The book's other segment on political economy of trade contains two survey papers by Moore and Ray and ends with a structural model of political economy and trade for agriculture presented by de Gorter and Tsur.

The book contains: (1) "Introduction" by Colin A. Carter and Alex F. McCalla, (2) "Trade Policy with Imperfect Competition: A Selective Survey" by Kala Krishna and Marie C. Thursby, (3) "International Trade, National Welfare, and the Workability of Competition: A Survey of Empirical Estimates" by J. David Richardson, (4) "Strategic Trade Theory and Agricultural Markets: An Application to Canadian and U.S. Wheat Exports to Japan" by Marie C. Thursby and Jerry G.

Thursby, (5) "Implications of New Trade Theory for Modeling Imperfect Substitutes in Agricultural Trade" by Donald MacLaren, (6) "New Developments in the Political Economy of Protectionism" by Michael O. Moore, (7) "Empirical Research on the Political Economy of Trade" by Edward John Ray, (8) "The Political Economy of Agricultural Policy and Trade" by Harry de Gorter and Yacov Tsur, (9) "Summary" by Stephen L. Haley and Jerry Sharples.

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¹E. Helpman and P. R. Krugman, *Trade Policy and Market Structure*, The MIT Press, Cambridge, MA, 1989.

Moore summarizes the new developments in the theory of political economy, while Ray surveys the empirical research literature on the political economy of trade. Since both surveys are conducted by economists not necessarily familiar with agricultural policies, it is left to the reader to try to link the existing models to the reality of agriculture.

At its conclusion, the book develops a structural model of the political economy of agricultural policy and trade. De Gorter and Tsur offer a model in which pol-

iticians and parties compete for votes. The model then tries to explain the patterns of trade and policies. The model, however, suffers from some shortcomings that are well addressed in the discussion by Honma.

Overall, I recommend the book to those who are interested in research applied to international trade and the determinants of policies. In particular, the reader will find the survey chapters most useful in exploring the new theories of imperfect competition and political economy.

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