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BOOK REVIEW

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Narrowing the Channel: The Politics of Regulatory Protection in International Trade

by Robert Gulotty

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Gulotty's study of the politics of regulatory protection is well-suited for a world where differences in productivity are captured in firm-level outcomes. It looks back, in a sense, on the norms and principles of our existing multilateral trade regime under the General Agreement on Tariffs and Trade/World Trade Organization that were developed when productivity differences existed across countries. At the same time, it is very much focused on the politics of regulatory protection in our day, when much of trade protection has shifted toward behind-the-border measures.

Gulotty notes two important features of regulatory measures. First, there is a public policy element in that regulatory policies generally serve to provide information to consumers and ensure that products meet standards of quality in health and environmental factors. Second, and this is the focus of this book, regulatory measures impose fixed costs on firms in the production of goods, and they function as a tariff or a tax. To meet quality standards, firms must register their products for testing and certification, after which the products are labeled and relayed to the retail market. Regulatory policy imposes fixed costs because the same registering, testing, and labeling applies no matter the quantity of products sold. As testing and certification are expensive, the costs are likely to be prohibitive for small firms. Such high fixed costs tend to push smaller and less productive producers out of the market. The exit of these firms lowers the variety of products available on the market and raises the prices of those that remain. Such a process is advantageous to larger and more productive firms, as they face fewer competitors and are able to charge higher prices to cover the fixed costs of regulation. As large firms stand to gain vis-à-vis small firms in their capacity to absorb the costs of regulatory measures, they are the political economy force that supports regulatory protection in trade.

At the level of national policy, the study advances the concept of *entangled mercantilism*, in which governments adopt regulatory policies that provide protection for large multinational firms whose global production networks contribute to the local economy through local operations. As regulatory protection incurs fixed costs for firms, they are especially advantageous for large and productive firms embedded in production networks on a global scale. The scenario is one of cooperation between home governments and global firms, and often between host governments and global firms from abroad. These multinational enterprises promote and pursue the adoption of regulatory barriers, and governments internalize the profits, at times even engaging in profit-sharing with foreign firms. As Gulotty notes '[r]egulatory power is still bound by national borders, but profits, and so national interests, need not be' (5). This argument raises important questions about the gains governments obtain in providing multinational firms with regulatory protection. What are the gains for governments beyond tariff revenues, that is, when regulatory protection involves behind-the-border barriers? In particular, do sitting governments obtain electoral benefits from adopting regulatory barriers in favor of large multinational firms? More research can further illuminate the costs and benefits for governments of such cooperation.

Firms are at the center of Gulotty's study of regulatory protectionism. Large multinational firms are the drivers of the new protectionism that relies on regulatory barriers such as product standards, testing, and certification. In Gulotty's story, today's regulatory regimes have the effect of concentrating global production and trade among a few large firms, chasing small firms out of the market in the process. This is what happened when the discovery of dangerous levels of toxic lead led to the overhaul of the US regulatory regime governing children's toys. The passage of the Consumer Product Safety Improvement Act (CPSIA) in 2008 led to a significant increase in the cost of testing to meet safety standards. Small companies exited the market when they could not cover the costs of testing, while large firms such as Mattel and Hasbro actually backed the CPSIA as they were able to absorb the costs of testing and subsequently pass them onto customers.

The book provides evidence on the political economy of entangled mercantilism across three very interesting cases. Each examines state–society interactions and contestation between large and small firms, and between domestic and foreign firms. A case study of regulatory barriers to trade employs submissions by WTO member states of specific trade concerns (STCs) to the WTO Technical Barriers to Trade (TBT) Agreement, which records queries from member countries on TBT-related regulatory measures adopted by other WTO members. The incidence of TBT-STCs is proposed as a measure of regulatory protection, which is strongly predicted by high levels of loyalty receipts indicative of the activities of multinational firms in a given economy. The second case study focuses on the European Union's REACH initiative in 2001, which established the European Chemical Agency and adopted an extensive set of regulations for registering, testing, and possibly the banning of certain chemicals in Europe. The analysis shows how REACH imposed fixed costs on firms of approximately 50,000 Euros per product, which had the effect of driving out smaller firms from the market. In the consultation phase leading up to the passage of the REACH legislation, large firms such as Dow Chemical and BASF articulated their support while smaller firms protested against the prohibitive costs of testing that the regulations would entail. An examination of the consequences of REACH shows that after 2007 when the legislation was fully in effect, patent filings by the top 10 firms rose more than twice that of the next 40 firms, thus indicating the concentration of economic activity in the largest firms.

The third case study investigates the political activism and success of smaller domestic firms, applied to the US food industry. At the center of this analysis is the US Food Safety Modernization Act (FSMA), legislation passed in 2011 that marked the most significant regulatory shift in governing food safety since the era of the Great Depression. In this chapter, Gulotty examines the political contestation between small domestic firms and small foreign firms in influencing the passage of FSMA. The analysis finds that domestic and foreign small firms do not coalesce against larger producers. Rather, the political access that domestic firms have did not incentivize cooperation with small foreign firms. The FSMA bill was legislated with the Tester–Hagan amendment that explicitly exempted small domestic farms (with total average sales below USD 500,000) from the stringent new regulations governing food safety and the prevention of food-borne illnesses. Active foreign industry calls for a higher sales threshold (USD 1 million) to identify 'small' firms were unsuccessful. Together, these three empirically oriented chapters provide clarity on the key theoretical arguments of the book on the relationship between global production and regulatory protection. The rule-making process for regulatory protection favors global industry players over smaller foreign exporters. At the same time, the political channels available to small firms in countries such as the United States provide them an advantage over small foreign firms in exerting political influence.

Future research on the political economy of trade can build on Gulotty's study to further investigate the political role of multinational firms in today's global economy. First, adding on another layer to the market dynamics of large and small firms is the politics between incumbent and new firms. In examining the political economy of regulatory policy, existing scholarship has highlighted the competition and contestation between incumbent firms, firms that already adhere to the regulatory requirements, and firms that must now adopt them either as existing firms or new entrants into the market (Fontagné and Orefice, 2018; Sköld, Freij, and Frishammar, 2020;

Yang, 2020). The domestic political dynamics regarding which standards to adopt are just as likely to be driven by incumbent firms as by large multinational firms at the center of this study. Where incumbent firms are also the large multinational firms, interests in formulating a policy of entangled mercantilism would converge. Where they do not overlap, however, is likely to be the arena of intense economic competition and political contestation.

Gulotty's concept of entangled mercantilism also raises questions about international cooperation on regulatory policy. The mercantilism in entangled mercantilism highlights national interest as a determinant of regulatory policy. Extended to the international realm, does such a regulatory stance portend more cooperation or more contestation or even competition between countries? At the time of writing, the finance ministers of the G-7 countries have reached an historic agreement to impose a minimum 15% corporate tax on multinational firms, the economic and political actors central to Gulotty's study. The agreement is historic as an instance of international cooperation to govern multinational firms. One can also imagine scenarios of contestation and competition when it comes to adopting regulatory frameworks, such as on safety standards for children's toys or in the chemical industry. Gulotty's study calls for future research on the conditions under which entangled mercantilism is likely to produce conflict or cooperation among governments. New insights on the political role of multinational firms, sometimes under the label of the 'geopolitics of business' in affecting interstate cooperation would be equally valuable. In light of such current events as G-7 cooperation on global minimum corporate tax, the political economy of regulatory protection is set to become ever more interesting as an avenue for productive scholarship in international political economy.

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