

Trade as a Foreign Policy Issue: A Bilateral Micro Perspective*

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Abstract

In an international system where cooperation appears increasingly at risk, a central question is to what extent citizens constrain governments by supporting the norms of the liberal international order. We, therefore, examine how much the mass publics in the United States, Australia and Germany value reciprocity as a key cooperative principle in international trading relations. This analysis requires that we use a bilateral perspective that departs from the common approach to examine trade preferences unilaterally without consideration of the behaviour and characteristics of the trading partner. Our survey experiments show that reciprocity continues to play an important role, especially towards traditional allies. However, a significant share of unconditional, non-cooperative attitudes exists, especially towards China. Variation in these responses are best explained by citizens' perceptions of the other country as political adversary as concerns for relative gains become more eminent. Trade and foreign policy issues, thus, are more strongly intertwined than often assumed. To the extent that the growing anti-globalization sentiment in many countries is rooted in these international political considerations, the threat to trade cooperation is more fundamental than existing studies suggest.

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1 Introduction

Reciprocity, i.e. rewarding responses to cooperative initiatives and the threat of punishment for non-cooperation, is a key principle of the liberal international order. Under reciprocity, governments refrain from initiating uncooperative policies because they anticipate that the retaliatory behavior of the other state will make them worse off. Since reciprocity is one of the most promising strategies to induce cooperative behavior (Axelrod, 1984; Keohane, 1986), it is institutionalized in pivotal liberal international institutions. An example is the dispute settlement mechanism of the WTO, which helps to ensure that countries only punish others if the latter previously violated WTO rules (e.g., Sattler, Spilker and Bernauer, 2014; Bechtel and Sattler, 2015).

With the growing importance of anti-globalization attitudes, this cooperative principle is now being increasingly challenged. In many important countries of the global economy, political and economic nationalism is on the rise with detrimental effects on inter-state relations. Internationally, nationalism places much less emphasis on reciprocity and cooperation and thus risks undermining the rules-based international system. Domestically, it becomes harder to maintain public support for open economy politics because nationalism increasingly politicises international economic relations. These developments manifest themselves in the growing economic tensions between the U.S. and China, but also between the U.S. and European countries (The Economist, 2018; New York Times, 2018).

In an international system where cooperation appears increasingly at risk, a central question is to what extent citizens constrain governments by supporting cooperative reciprocal behavior (Milner, 1992). We, therefore, examine how much the mass publics in the United States, Germany and Australia value reciprocity as a key cooperative principle in international trade. It is plausible that voters increasingly tolerate non-reciprocal policies in an international system with changing power relations, in which international political and economic concerns are becoming increasingly intertwined (Gilpin, 2001). Voters, thus, should be less supportive of cooperative trade policies towards political adversaries than towards allies (Chilton, Milner and Tingley, 2017). This is the case especially if voters are worried that the other country benefits relatively more from cooperation than their own country (Gowa and Mansfield, 2004; Mutz and Kim, 2017)

The results from our survey experiments show that reciprocity continues to play an important role in all three countries, especially towards traditional allies, such as Canada, Germany, or Japan. However, a significant share of unconditional, non-cooperative attitudes exists towards non-allies such as China and Russia. Variation in these responses are best explained by perceptions of the other country as political adversary. The political perceptions of the other country matter because concerns for relative gains are more eminent for adversaries. A substantial share of respondents is willing to accept lower absolute gains in exchange for greater relative gains for their home country. In Australia and Germany, this willingness to forgo absolute gains is greater for political adversaries than for allies. In the U.S., this difference is smaller, but respondents become more undecided when they have to choose between absolute and relative gains towards a political adversary.

These findings suggest that citizens view trade policy not only as a means to maximize income, but also as a foreign policy instrument that can be used to pursue national

political goals in the international arena (Baldwin, 1985). International politics, thus, is an important determinant of trade attitudes in addition to personal material interests (e.g., Margalit, 2011; Jensen, Quinn and Weymouth, 2017). This is consistent with attitudes towards other foreign economic policies, such as bailouts in the Eurozone (Bechtel, Hainmueller and Margalit, 2014) or regulation of foreign investment (Chilton, Milner and Tingley, 2017). The findings also confirm that sociotropic considerations, such as ideology and national or group-specific distributional concerns, play an important role for evaluations of foreign economic policy (Mansfield and Mutz, 2009; Mutz and Kim, 2017).

Our analysis of reciprocal behavior in trade politics requires that we depart from the common approach to examine citizens trade preferences unilaterally, i.e. without consideration of the behaviour of the trading partner and its political relations with the home country of citizens (Scheve and Slaughter, 2001; Kuo and Naoi, 2015). This shift from attitudes towards general economic openness in this previous literature towards bilateral trade relations in our analysis is consistent with the nature of globalization in the past decades (Spilker, Bernauer and Umaña, 2016). Increases in economic openness nowadays is primarily the result of preferential trade agreements (PTAs) that are negotiated on a bilateral or regional rather than a multilateral basis (Manger, 2009; Mansfield and Milner, 2012; Dür, Baccini and Elsig, 2014). Our bilateral perspective, thus, captures a key aspect of globalization in the current international system.

Finally, the results imply that cooperation within the Western bloc finds broad societal support despite current frictions among Western countries over trade policy. In contrast, non-cooperative strategies towards potential political competitors are unlikely to disappear and may even increase. Precisely when examining Chinese-U.S. economic relations, therefore, these concerns for international political competition need to be taken into account. To the extent that the growing anti-globalization sentiment is rooted in these international political considerations, a revival of solutions proposed by embedded liberalism, i.e. the moderation of the distributional consequences of openness through compensatory measures (Hays, Ehrlich and Peinhardt, 2005; Nooruddin and Rudra, 2014), is not sufficient. Instead, the threat to trade cooperation and the multilateral trading system is more fundamental than often assumed.

2 A Bilateral Approach to Trade Attitudes

2.1 Reciprocity and Cooperation in Trade Politics

Reciprocity is an important pillar of the rules-based international order. It is defined by Keohane (1986) as “exchanges [...] in which the actions of each party are contingent on the prior actions of the others in such a way that good is returned for good, and bad for bad.” (p.8). It is an appealing principle by revealing the possibility for cooperation even in an anarchical international context (Axelrod and Keohane, 1986). Reciprocity can promote cooperation in mixed-interest situations, such as international trade, in which political actors are tempted to defect, which ultimately leaves them worse off. The multilateral trading system, thus, institutionalizes and oversees reciprocal behavior to increase the prospects of cooperation in international trade politics.

The role of mass public opinion is important for the stability of reciprocity. Even

though the role of public opinion for foreign policy is debated, public opinion at least constrains politicians in their range of policy options they select (Milner and Tingley, 2013; Tomz, 2007). Issues surrounding trade, such as exports and imports are highly salient by being the most tangible form of international economic exchange. Existing research accordingly shows that there appears to be a positive effect between public opinion and tariff policies, especially in democracies (Mansfield, Milner and Rosendorff, 2002; Scheve and Slaughter, 2007). The public is therefore likely to reward governments that adhere to cooperative reciprocity, as long as voters themselves support this principle. This domestic constraint is relaxed if voters value international cooperation less. In the worst case, violations of international cooperative principles have their roots in the public itself when populist leaders hope to win votes by disregarding these principles.

An analysis of public attitudes towards reciprocity requires that we depart from the common approach to examine trade preferences unilaterally. So far, studies were mostly interested in voter attitudes towards economic openness in general as opposed to trade policy towards specific countries. This approach is consistent with the workings of a multilateral trading system, in which many countries jointly decide to liberalize trade and hence increase the openness of the world economy. In this literature, attitudes towards openness are regarded as epiphenomenal to personal economic concerns, e.g. the individuals' skill level and the sector or firm of employment (e.g., Scheve and Slaughter (e.g., Scheve and Slaughter, 2001; Owen and Johnston, 2017; Baccini, Pinto and Weymouth, 2017).¹ More recently, the literature highlighted sociotropic considerations, such as community and national benefits (Colantone and Stanig, 2018; Guisinger, 2017) as well as non-material concerns, such as ideology (Herrmann, Tetlock and Diascro, 2001; Mansfield and Mutz, 2009).

An analysis of reciprocity, however, requires a bilateral approach that takes into account the behavior and characteristics of a particular trading partner. This approach is useful because most trade policy initiatives nowadays involve specific country groups or pairs, e.g. in the form of preferential trade agreements (PTAs) (Manger, 2009; Mansfield and Milner, 2012; Dür, Baccini and Elsig, 2014). Increases in globalization, thus, are the result of PTAs rather than multilateral efforts to promote openness. In these bilateral negotiations, the political relations between individual states matter much more than for negotiations in a multilateral system. As an example, citizens take into account the prior behavior and characteristics of other countries when evaluating their own government's foreign economic policy (Chilton, Milner and Tingley 2017, Spilker, Bernauer and Umaña 2016). Similarly, recent reversals in trade openness and threats to launch a trade war occur on a bilateral basis when one country directly targets another country. This is true for all countries, but it is also particularly important for great-power relations, such as in the Chinese-U.S. context (Foot, 2006).

Which role, then, does reciprocity play in such a strategic context for citizens? At the most general level, research proposes that reciprocity is one of the few cross-cultural norms (Simmel, 1950; Bowles and Gintis, 2011) because it can generally be found as an important "principal component" in all moral codes (Gouldner, 1960; Gächter, Kölle and Quercia, 2017). To the extent that these norms translate into attitudes towards international interactions, individuals should therefore care about the prior policy of the other

¹See Kuo and Naoi 2015 for an overview.

state and answer a “kind”/“unkind” policy initiative with a “kind”/“unkind” response. Applied to trade politics, this means that, as a baseline, voters also respond reciprocally to the economic policy initiative of the other state, i.e. a cooperative policy initiative should be reciprocated by a cooperative response and vice versa.

Besides these deeper, normative reasons, economic theory provides good reasons why a large part of voters should support reciprocal trade policies. Even though the distributional effects of trade are strong (Autor, Dorn and Hanson, 2013; Baccini, Pinto and Weymouth, 2017; Jensen, Quinn and Weymouth, 2017), standard models of trade suggest that trade has broad, positive effects for society as a whole (Grossman and Helpman, 1995; Bhagwati, 2004). Political research has highlighted that free trade constitutes a public good that benefits a large range of voters through its positive impact on economic growth and consumer prices (Mansfield, Milner and Rosendorff, 2002). As long as these benefits are sufficiently dispersed across society, a majority of citizens should be interested in lasting cooperation in trade politics. As a result, voters, on average, should support reciprocity in international trade politics.

H1: Individuals, on average, respond to a cooperative policy initiative with a cooperative policy response and to a non-cooperative policy initiative with a non-cooperative policy response.

2.2 Trade and Foreign Policy

Despite this general adherence to cooperative reciprocal norms, voters can deviate from this norm for political-economic reasons and tolerate or even demand non-reciprocal behavior in trade policy. In an international system with changing power relations, international political and economic concerns are becoming increasingly intertwined. International political concerns, thus, can be an important determinant of trade attitudes in addition to personal material interests. To what extent this is the case, differs across country pairs, however. For long-term political allies, security concerns should be less eminent. When countries are actual or potential political adversaries, however, concerns about relative gains are likely to play a more important role for bilateral trade relations. To the extent that voters understand international economic affairs as a foreign policy issue (Bechtel, Hainmueller and Margalit, 2014), they take these international political concerns into account when assessing trade policy towards another country.

Traditionally, political analyses of international economic relations have highlighted how international political competition is a key determinant of foreign economic strategy (Viner, 1948; Gilpin, 1975, 1987). During the uncontested U.S. hegemony of the past decades, these international political concerns increasingly moved into the background. In line with these developments, political economy research focused more on the domestic distributional determinants of trade preferences and trade policy as discussed above. But with the rise of China and the changing distribution of power in the international system, it is plausible that not only domestic, but also international political motives increasingly inform foreign economic policies (again).² If this is the case, trade policy

²As Gilpin (2001) predicted, “economic issues certainly have become more important since the end of the Cold War. ... It is misleading, however, to draw too sharp a distinction between international economic and security affairs. While the weight placed on one of the other varies over time, the two spheres are intimately joined, always have been, and undoubtedly always will be” (p. 22).

will be particularly affected because it is a central aspect of economic statecraft, i.e. the use of economic means to pursue foreign policy goals (Baldwin, 1985; Mastanduno, 1998).

If trade policy in fact is seen as a foreign policy instrument, trade attitudes and policies should diverge across country pairs depending on the political relations of the two countries. Most importantly, trade policy towards long-term allies should differ from trade policy towards countries that are or could become political adversaries. The gains from trade essentially entail increased efficiency in domestic resource employment (Gowa and Mansfield, 1993). Thereby, economic resources become liberated for military purposes (Hirschman, 1945; Baldwin, 1985). For security reasons, however, states are forced to pay close attention to the potential military power of other states. Correspondingly, trading with an adversary entails security externalities, as the gains from trade can be employed for more military spending (Gowa and Mansfield, 1993, 2004). Trading with an ally, on the other hand, represents a positive externality. There are good reasons to believe that voters are aware of these considerations. For instance, public opinion reacts strongly to national interest concerns and varies across allies and adversaries in important economic areas, such as foreign investment (Chilton, Milner and Tingley, 2017).

A key mechanism that distinguishes trade policy responses towards allies and adversaries is about relative gains (Grieco, 1988). Economic cooperation often produces unequal gains for trading partners even if both countries benefit from it in absolute terms. For instance, trade can lead to more efficiency gains, a higher long-term growth rate or a greater strengthening of critical industries in some countries than others. The sensitivity to such unequal, relative gains is particularly high when the possibility exists that the two states will engage in a political conflict in the future (Powell, 1991). If unequal gains from trade can be turned into a military advantage for the other country at the expense of the other, then these concerns constitute a constraint that inhibit cooperation. In contrast, cooperation is more feasible even in case of unequal gains if the use of force can be rule out. Relative gains strategies among the major powers, thus, can crowd out principles of reciprocity (Lieberman, 1996). In line with this logic, many studies find that who the other country is does indeed matter for foreign economic policy attitudes of the mass public (Herrmann, Tetlock and Diascro, 2001; Spilker, Bernauer and Umaña, 2016).

For voters who take into account the broader national interests when evaluating foreign economic policies, these international political considerations are important. There is, in fact, ample evidence that voters rely heavily on aggregate and not only personal material effects when evaluating trade policy. For instance, voters base their evaluations on broader economic, community and national benefits and are inequity averse (Lü, Scheve and Slaughter, 2012; Guisinger, 2017). Moreover, they distinguish between different groups and how these groups benefit relative to each other (Mutz and Kim, 2017). Relative gains between in- and out-groups, which not only include different societal groups but also different countries, form a fundamental aspect of trade policy evaluations. Voters, thus, are likely to distinguish between countries that are or could be an international political adversary in the future, and those who are unlikely to be an international political competitor.

Several implications follow from this discussion. At the most general level, voters, on average, respond differently to policy initiatives by different countries. Depending on

the role of the other country in international politics and its political relations with the home country of the voters, the share of voters who perceive the other country as an ally or adversary differs. For instance, more U.S. voters should perceive Canada as an ally compared to China. As a result, the average response to Canadian trade policy initiative should be more cooperative than the average response to Chinese trade policy initiatives.

Second, the preferred policy responses of voters to the policy initiative of another country varies by their perception of the other country as ally or adversary. Those voters who consider a trading partner as an ally should also be more likely to support a cooperative, reciprocal response. Those who consider the same trading partner as an adversary should be more likely to choose a non-cooperative, non-reciprocal response. Finally, voters should be particularly sensitive to unequal relative gains if the other country is an adversary. This yields the following hypotheses:

H2a: The average response to a trade policy initiative by another country differs across countries.

H2b: Citizens perceiving the other country as an ally are more likely to support cooperative responses. Citizens perceiving the other country as an adversary are more likely to support non-cooperative responses.

H2c: Citizens are more likely to forgo greater absolute gains of a cooperative response in favor of greater relative gains of a non-cooperative response if the other country is a political adversary.

3 Research Design: Strategy and Countries

We use a survey experimental design because it lends itself to effectively examine what difference it makes when the object of study is systematically changed in some way. In our case, on the one hand, the foreign economic policy initiative varies. Therefore, a survey experimental setup is well-suited for gauging the effect of reciprocity. On the other hand, the trading partner changes so that we can examine whether there are differences across trading partner countries.

We conduct two studies. The first study follows a factorial design and include vignette treatments varying the policy characteristics. In our case, this means that cooperative and non-cooperative foreign economic policy initiatives, i.e. tariff decreases and increases, from different countries are proposed to the respondent. The respondent is then asked which policy their own government should pursue in response to the initiative of the other country. This study allows us to examine to what extent respondents in different countries deviate from cooperative reciprocal principles and how the preferred response varies by trading partner. This part tests hypotheses 1, 2a and 2b. The second study encompasses a more complex experiment seeking to test the causal mechanism on relative gains. Respondents are asked to select from two policy responses entailing different benefits and losses for their own country and the trading partner. This pairwise comparison of trade policy options has the objective to examine the relative gains mechanism proposed by hypothesis 2c.

In these experimental designs, the effect of policy is gauged by randomly assigning survey participants to different groups. This randomisation neutralises participants' unobserved heterogeneity (Auspurg and Hinz, 2015). Each survey participant has an equal chance of being selected into a group and only the treatment group will receive the manipulation. In contrast to observational data, survey experiments have the advantage of addressing the problem of causal inference by decreasing the risk that a third variable can explain the relationship between cause and effect, in our case between the policy of the other country and policy preferences of citizens (Holland, 1988).

Selecting a survey experiment as the methodological approach naturally also has shortcomings. For instance, the temporal component of Axelrod's seminal argument that reciprocity induces cooperation in the long term cannot be gauged by a one-shot study. Furthermore, it should be noted that looking at attitudes that are stimulated by exposing the respondent to a treatment cannot guarantee that the respondent would act upon the given response in the real-world (Morton and Williams, 2010). Despite these considerations, we believe that conducting these survey experiment is beneficial because no study to our knowledge until now has examined the influence of reciprocity and the characteristics of the trading partner on trade policy attitudes. We thereby develop further the literature on individual trade attitudes by incorporating such previously unexamined contextual factors.

The survey experiments were conducted in three different countries: the U.S., Australia and Germany.³ We selected this diverse set of countries to examine to what extent respondents in countries that play different roles in the international political and economic system respond differently. All the countries represent important trading nations, but the international political concerns and political relations to other countries vary. The U.S., for instance, is the global hegemon, even if its hegemony is currently in decline. Australia is a major regional power of the Asian and Pacific area. Moreover, Germany is a European power that is not necessarily a political challenger, however, it is a leading export power.

For our analysis, we conducted experiments embedded in population surveys in August 2018. The survey were conducted by *respondi*, a survey company that uses different country-specific online access panels. Respondents were selected from these access panels based on quotas on age and gender. The samples were restricted to voting-age nationals under 70. For each country, the sample size is around 1100 (valid responses).⁴ The following sections address two studies conducted in the three aforementioned countries.

4 Bilateral trade attitudes in three countries

4.1 Experimental design

A bilateral approach necessitates mentioning (1) a prior policy initiative and (2) varying the trading partner. Thus, we examine (1) what effect a different policy initiative and (2) what effect a different country offering the policy initiative has on the policy response.

³A pilot was conducted in February 2018 with a convenience sample from the U.S. with Amazon's Mechanical Turk Platform.

⁴Australia: n= 1084, Germany: n= 1093, USA: n= 1104.

The different countries therefore serve as a manipulated mediator arm (Acharya, Blackwell and Sen, 2016; Tomz and Weeks, 2013).

After reading a brief introduction into this section of the survey, respondents are presented with a policy initiative from different countries.⁵ These policy choices include either an increase, a decrease, or no changes in tariffs on imports from the home country of the respondent. Respondents randomly are assigned to one policy initiative per trading partner. The policy initiative, thus, is the treatment that a respondent receives. In addition, we vary who the trading partner is. Mentioning concretely who the trading partner enhances the validity and reliability of our design as survey respondent often tend to “fill in the blanks” (Mutz and Pemantle, 2015). In our context, this would mean respondents simply assuming that the trading partner is e.g. China when no mentioning of a trading partner is made. In our experiments, all respondents see a policy initiative from five countries. The sequence, in which the countries were presented, was randomized. For the U.S., we selected Canada, Japan, Germany as traditional allies. Whilst Canada presents a traditional and proximate ally, Germany is also an important U.S. ally on the European continent. Japan is also a U.S. ally, even though in the 1980s similar accusations were directed towards it as towards China nowadays. For Australia and Germany, the U.S., UK and Japan are included in our analysis as allies. For all countries, China and Russia were selected as countries that represent non-allies.

Table 1: Overview of the experiment for U.S. - Chinese trade policy

Vignette 1: cooperative initiative	Suppose China strongly decreases its tariffs on goods produced in the U.S. that are exported to China. Which of the following policies do you think should the U.S. government pursue when it comes to trading with China?
Vignette 2: no policy initiative	Suppose China does not change its tariffs on goods produced in the U.S. that are exported to China. Which of the following policies do you think should the U.S. government pursue when it comes to trading with China?
Vignette 3: non-cooperative initiative	Suppose China strongly increases its tariffs on goods produced in the U.S. that are exported to China. Which of the following policies do you think should the U.S. government pursue when it comes to trading with China?

The outcome variable is the preferred policy response by the respondent. We ask all

⁵All respondents receive the following introduction: “In the following, we ask for your opinion on trading relations with the U.S. and a number of countries. The scenarios that you will describe possible trade policies by different trading partners of the U.S. The U.S. government can respond to these policies by the other countries in three possible ways: A.) It can keep tariffs on imports from the other country as they are. B.) It can increase tariffs on imports from the other country, which may protect domestic jobs, but may also may raise consumer prices. C.) It can decrease tariffs on imports from the other country, which may reduce consumer prices, but also may expose domestic jobs to increased competition.”

respondents to choose one out of three possible policy response by their own government, or to select the option “Don’t know”. These policy responses include either an increase, a decrease, or no changes in tariffs on imports from the trading partner. Together with the policy initiative of the other country, this policy response indicate the preference for a reciprocal or inverse strategy, i.e. conditionally cooperative / uncooperative or unconditionally cooperative / uncooperative policy response towards to other country. An example of the exact formulation of the vignette for the U.S. can be found in table 1.

We additionally collect the following variables. First, we ask respondents to place the mentioned countries on an ally-adversary scale, which varies from 0 (adversary) to 10 (ally) (see Figures 9), 10 and 11 in the Appendix. This question was asked before the experiment. We also account for competitiveness of the sector of employment as a covariate. In particular, we rely on Acemoglu et al. (2016) and the standard SITC codes to categorise the different sectors to examine whether respondents “win” or “lose” from trade with the other country. With Balassa’s (1977) Revealed Comparative Advantage, we can calculate whether the sector of employment (broken down to the SITC code level) has a comparative advantage with regard to the other country.⁶ To tap respondents’ level of skill and education, we request them to tick the highest obtained degree. We additionally ask for ideology, age, gender, region of origin and income.

4.2 Findings

Figures 1, 2 and 3 show the responses for all the treatments for the U.S., Australia and Germany. The figures clearly show that reciprocal behavior is very common in all three countries and towards almost all trading partners. The overall pattern is largely symmetric, i.e. the distribution of the responses changes strongly with the policy initiative of the other country as expected. Moreover, the reciprocal response to tariff increases by the other country is especially pronounced in the U.S. and Australia, and particularly when China or Russia is the country that pursues this non-cooperative policy. Most respondents are conditionally cooperative and uncooperative, depending on the behavior of the other country. The overall responses, thus, are reciprocal, whilst negative reciprocity is more pronounced than positive reciprocity. This largely supports H1, which suggests that responses are reciprocal on average.

Nonetheless, the figures also clearly show that a substantial number of respondents is unconditionally uncooperative. As the left columns of figures 1, 2 and 3 show, a cooperative initiative does not result in a reciprocal effect on the policy response attitudes of a significant share of respondents. The same is true for the situation in which the other country proposes no change, as the middle columns of the same figures show. Among the three countries that we examine, German respondents, on average, are the most reciprocal, while U.S. respondents are the least reciprocal. For the U.S. and Australia, we see that the “Decrease” and “Increase” scenarios are not symmetric in their response distribution, particularly towards Russia and China. Instead, the share of respondents who prefer no change or an increase in tariffs after these two countries proposed to decrease

⁶Data obtained from the Comtrade database of the World Bank, which provides data from 2016 for bilateral trade data on the SITC code level. If the value was higher than 1, the industry was coded as competitive. If the value was lower than 1, the industry was coded as non-competitive (with regard to the other country).

US responses to different countries

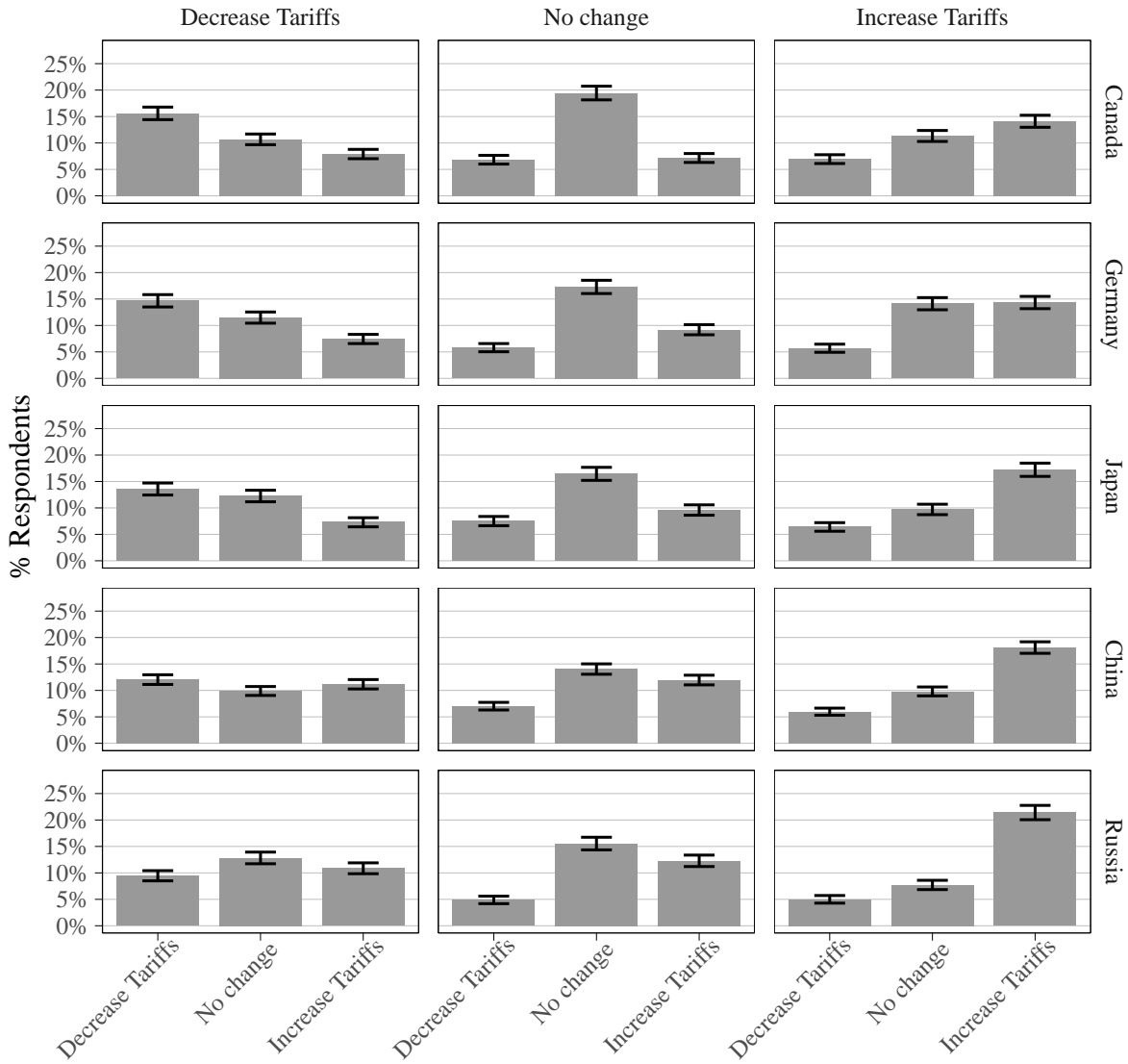


Figure 1: U.S. Responses

Australian responses to different countries

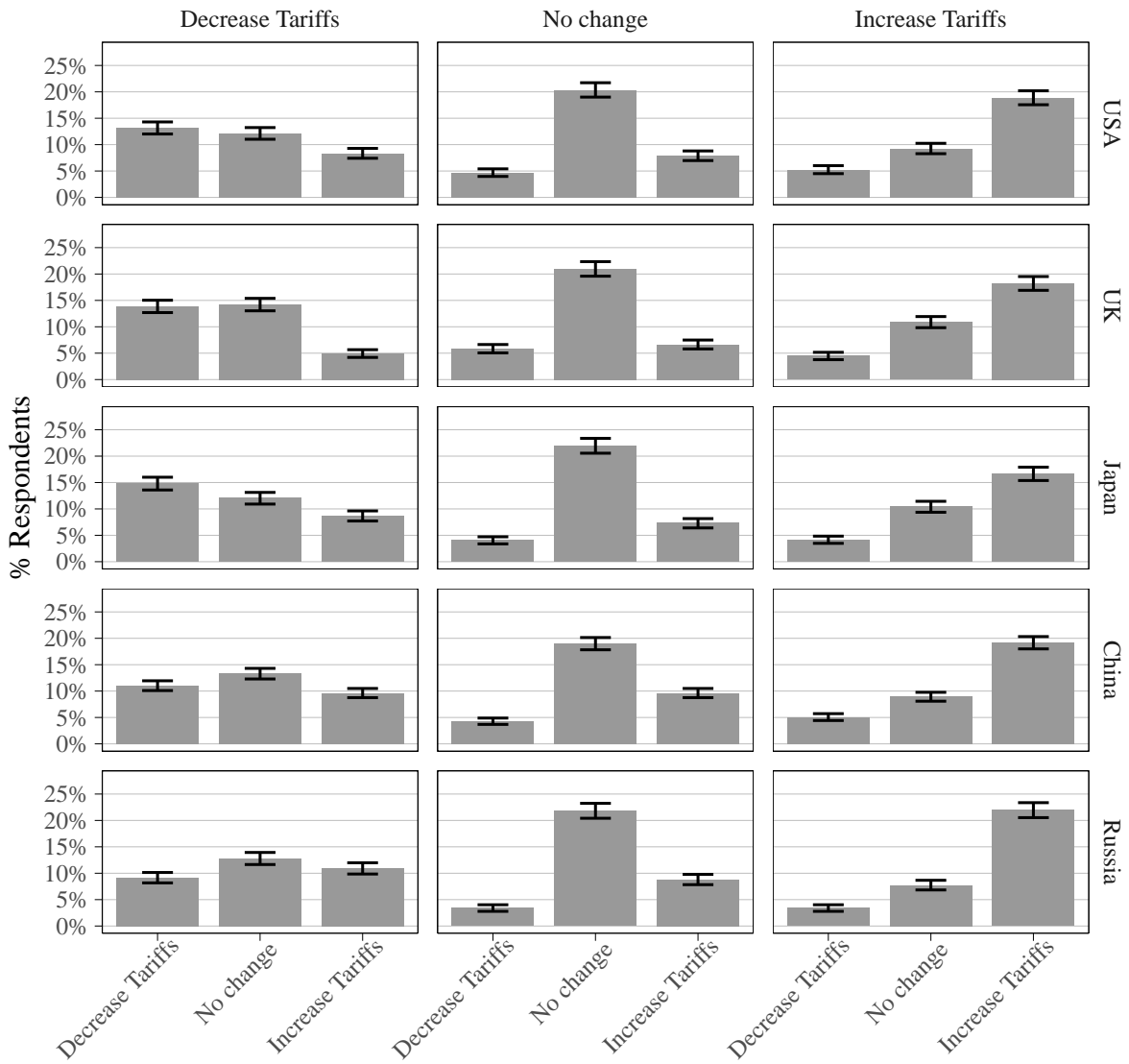


Figure 2: Australian Responses

German responses to different countries

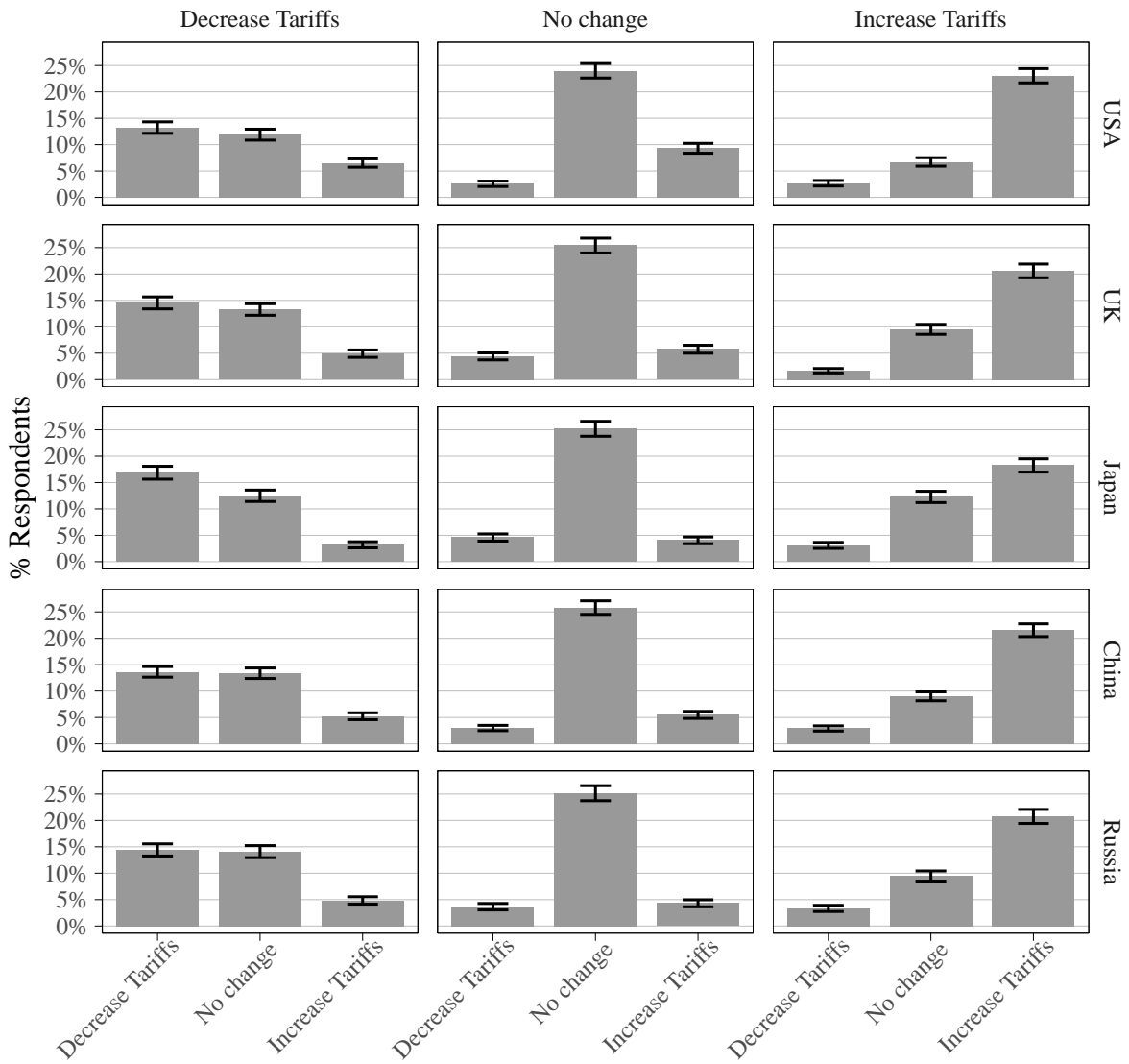


Figure 3: German Responses

tariffs is quite large. And it is considerably larger than for the other three countries that we examine.

Figure 4 confirms this overall conclusion in a more concise way. It shows the predicted average response towards each country given the policy initiative of this country. In this analysis, a tariff decrease is coded as -1, no change as 0 and an increase as +1. We can see that the average response to an increase is positive, i.e. respondents on average prefer to increase tariffs as well. The average response to no change is generally zero, i.e. respondents on average prefer to keep tariffs stable. The average response to a decrease is negative, i.e. respondents on average prefer to decrease tariffs as well. The big exceptions are Russia and China. For these two countries, U.S. and Australian respondents on average respond with no change or an increase in tariffs to a decrease or no change, respectively. German respondents seem to react fairly similarly to all five countries.

We further examine the divergent responses for different trading partners in figures 5, 6 and 7. These figures show the differences in the average responses across trading partners and treatments for the three countries. In other words, figure 5 shows how the average responses of U.S. citizens to the same policy initiative, e.g. “decrease”, differ across countries in the left column of figure 1. Since for the U.S. Canada is the reference category, figure 5 shows how the estimated responses for Germany, Japan, Russia and China differ from the response to Canada.

The figures confirm that respondents react very differently to different trading partners. For the U.S., respondents largely respond in the same way to policy initiatives from Germany and Japan as they do to initiatives from Canada. But they respond very differently to policy initiatives from Russia and China. Whatever these two countries propose, U.S. respondents on average react much more uncooperatively to these initiatives than to the same initiative by the other three countries. Although these aggregate effects do not allow us to say much about the causes of these diverging responses, they are still plausible. Russia and China are the two countries that have posed the greatest international political challenges to the U.S. in the past years. This seems to be reflected in bilateral trade attitudes of citizens.

The results are similar for Australia, although they are less pronounced and the details differ. Again, Australian respondents react more uncooperatively to cooperative initiatives by China and Russia, compared to their response to a U.S. initiative (baseline). They respond more cooperatively toward cooperative initiatives from the UK. For no policy changes and tariff increases, they respond similarly across countries, except for Russia, which they punish more for non-cooperative initiatives. Again, the results are consistent with our intuition. Australia is fairly directly affected by China and also Russia and their political operations in the Pacific region. It also has had special relations with Great Britain for historical reasons.

In comparison, German citizens react differently. Generally, they respond less cooperatively to all countries than to Japan. The strong, non-cooperative behavior towards the U.S. can be explained with the current frictions in trade policy between the EU and the U.S.. Nonetheless, the size of this non-cooperative response is surprising. The UK is also punished more compared to Japan, but primarily when it threatens to increase

tariffs. This could be explained by the tensions surrounding Brexit. Clearly, German respondents are most cooperative towards Japan. This seems to suggest that German respondents value the Japanese approach to international politics and trade, which is similar to their own. Both countries try to stay out of international conflicts while trying to benefit from international trade as much as possible. Possibly, Germans mix political and trade issues less than citizens of the other two countries and mostly punish those that pose a threat to German ambitions to maximize exports and trade.

Table 2: Covariates for U.S. responses

	Canada	Germany	Japan	China	Russia
<i>Treatments</i>					
Decrease Tariffs	-0.239*** (0.058)	-0.333*** (0.059)	-0.253*** (0.061)	-0.156** (0.063)	-0.163*** (0.060)
Increase Tariffs	0.210*** (0.059)	0.127** (0.059)	0.265*** (0.061)	0.199*** (0.063)	0.260*** (0.059)
<i>Covariates</i>					
Ally Perception	-0.031*** (0.011)	-0.010 (0.010)	-0.016 (0.011)	-0.021** (0.009)	-0.010 (0.009)
Ideology	0.059*** (0.009)	0.049*** (0.009)	0.043*** (0.009)	0.053*** (0.010)	-0.004 (0.010)
Education	0.027 (0.022)	0.019 (0.022)	0.009 (0.023)	0.041* (0.024)	0.049** (0.022)
RCA	-0.064 (0.468)	-0.245** (0.119)	-0.088 (0.071)	0.087* (0.052)	-0.049 (0.030)
Age	-0.003* (0.002)	-0.001 (0.002)	-0.002 (0.002)	0.003 (0.002)	0.007*** (0.002)
Female	-0.036 (0.049)	0.024 (0.049)	0.029 (0.051)	-0.039 (0.051)	-0.056 (0.049)
Constant	0.113 (0.496)	0.274* (0.166)	0.181 (0.160)	-0.294* (0.157)	-0.195 (0.129)
Observations	919	897	889	912	902
Adjusted R ²	0.110	0.098	0.094	0.070	0.079

Note: * $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$

Finally, we examine how a number of covariates help to explain variation in preferred policy responses among respondents. In addition to the perception of other countries as allies or adversaries, we take into account a range of other variables that were identified as potentially relevant determinants of individual trade attitudes. The results are in tables 2, 3 and 4. We find that the perception of the other country as ally or adversary plays

Responses to different initiatives

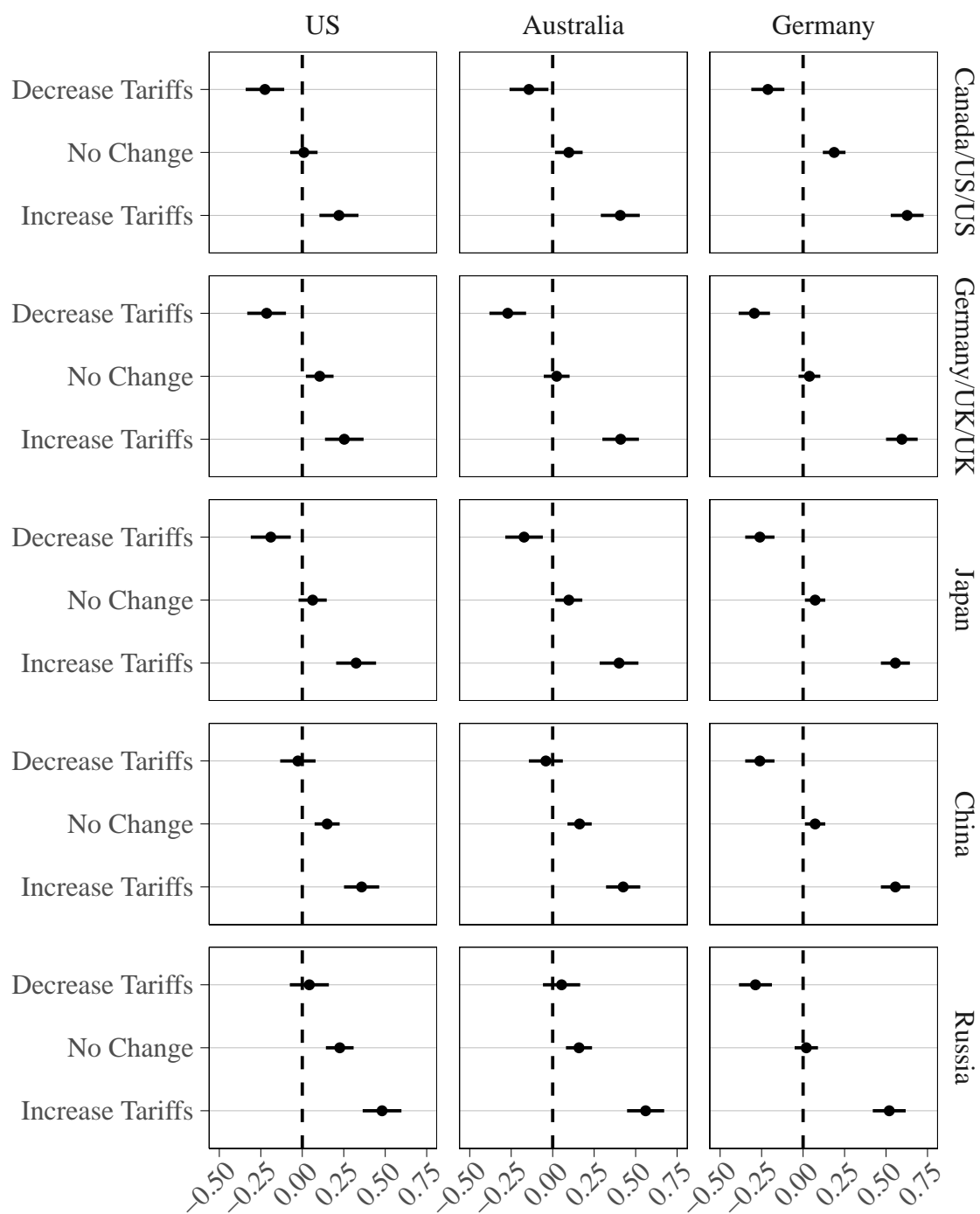


Figure 4: Average response to policy initiative by country and trading partner; point estimate with 95% confidence interval.

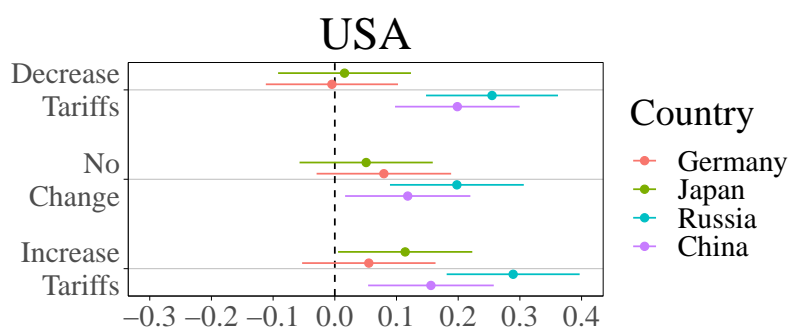


Figure 5: Differences in U.S. responses across interactions of trading partners and treatments; the reference country is Canada.

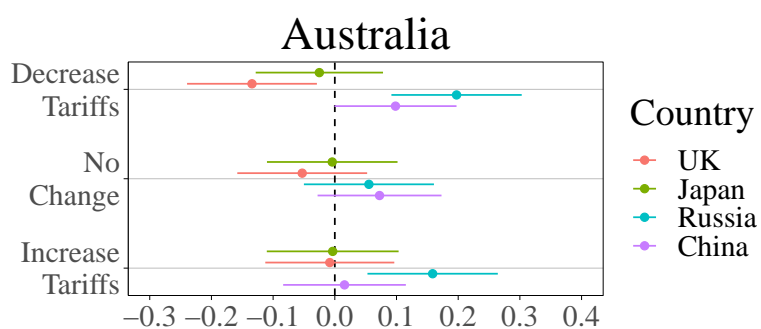


Figure 6: Differences in Australian responses across interactions of trading partners and treatments; the reference country is the U.S.

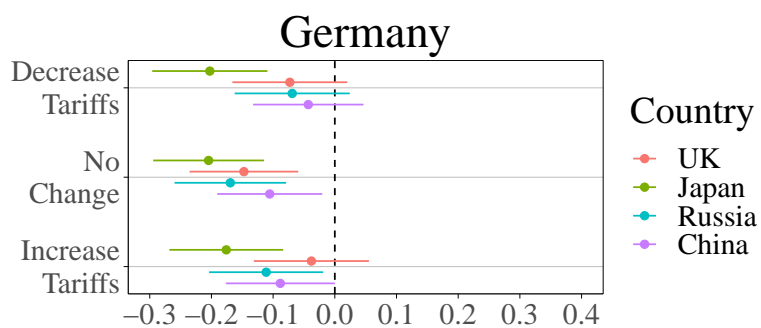


Figure 7: Differences in German responses across interactions of trading partners and treatments; the reference country is the U.S.

Table 3: Covariates for Australian responses

	US	UK	Japan	China	Russia
<i>Treatments</i>					
Decrease Tariffs	-0.247*** (0.061)	-0.305*** (0.057)	-0.256*** (0.058)	-0.153** (0.060)	-0.121** (0.058)
Increase Tariffs	0.295*** (0.061)	0.401*** (0.057)	0.298*** (0.060)	0.281*** (0.059)	0.395*** (0.058)
<i>Covariates</i>					
Ally Perception	-0.032*** (0.011)		-0.057*** (0.012)	-0.052*** (0.011)	-0.039*** (0.011)
Ideology	-0.016 (0.012)	-0.0001 (0.011)	0.030*** (0.011)	0.025** (0.012)	0.010 (0.012)
Education	-0.013 (0.019)	0.014 (0.018)	-0.001 (0.019)	-0.028 (0.019)	-0.005 (0.019)
RCA	-0.002 (0.009)	0.007 (0.030)	0.048 (0.042)	0.010 (0.032)	0.006 (0.029)
Age	0.001 (0.002)	0.002 (0.002)	0.0001 (0.002)	0.00005 (0.002)	0.001 (0.002)
Female	0.093* (0.050)	-0.007 (0.048)	0.057 (0.049)	0.095* (0.049)	0.056 (0.048)
Constant	0.160 (0.138)	-0.096 (0.130)	0.089 (0.140)	0.182 (0.137)	0.065 (0.129)
Observations	846	841	833	854	823
Adjusted R ²	0.100	0.149	0.122	0.094	0.111

Note: * $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$; ally perception for UK was not available.

Table 4: Covariates for German responses

	US	UK	Japan	China	Russia
<i>Treatments</i>					
Decrease Tariffs	-0.398*** (0.051)	-0.323*** (0.048)	-0.323*** (0.048)	-0.361*** (0.050)	-0.311*** (0.050)
Increase Tariffs	0.450*** (0.051)	0.553*** (0.049)	0.553*** (0.049)	0.445*** (0.049)	0.481*** (0.050)
<i>Covariates</i>					
Ally Perception	-0.054*** (0.009)	-0.051*** (0.010)	-0.051*** (0.010)	-0.060*** (0.011)	-0.060*** (0.009)
Ideology	-0.005 (0.011)	-0.009 (0.010)	-0.009 (0.010)	0.012 (0.010)	0.0003 (0.010)
Education	-0.070*** (0.021)	-0.034 (0.021)	-0.034 (0.021)	0.005 (0.021)	-0.032 (0.021)
RCA	0.050 (0.102)	0.045 (0.110)	0.045 (0.110)	0.013 (0.067)	0.108 (0.147)
Age	-0.002 (0.002)	-0.003* (0.001)	-0.003* (0.001)	-0.001 (0.002)	-0.004*** (0.002)
Female	0.022 (0.042)	0.048 (0.041)	0.048 (0.041)	0.097** (0.041)	0.042 (0.042)
Constant	0.490*** (0.171)	0.263 (0.169)	0.263 (0.169)	0.046 (0.154)	0.183 (0.199)
Observations	940	931	931	914	905
Adjusted R ²	0.242	0.275	0.275	0.243	0.257

Note: * $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$

an important role for bilateral trade preferences.⁷ In all countries, the ally-adversary variable has the expected impact: if an individual perceives the other country as an ally, then this person is less likely to prefer an increase in tariffs towards the other country. In the U.S., this is the case for Canada and Russia. For Australia and Germany, this effect is even stronger and statistically significant for even more trading partners, although the exact effects vary. In Australia, for instance, ally perception of China is more important than of Russia. For German respondents, ally perception of Russia is more important than for Australia.

For the U.S., moreover, the ideology of an individual matters: if a respondent is more conservative, then this person is more inclined to prefer an increase in tariffs.⁸ In nearly all models, education and the competitiveness of the sector of employment do not have a statistically significant influence on the response. The degree of ally perception of the trading partner and the ideological alignment appear to be more important.

Overall, our results show that reciprocity matters in all three countries for average responses to trade policies of the respective five trading partners. This supports hypothesis 1. Nonetheless, a substantial share of unconditionally uncooperative attitudes exist, especially towards non-allies, like China. Respondents differ in the policy responses they select by supporting cooperation with some countries but not with others. This is consistent with hypothesis 2a. Deviations from cooperative reciprocity is best explained by political perceptions and ideology. Reciprocity accordingly appears to be more relevant when confronted with a political ally rather than adversary. This supports hypothesis 2b.

5 The concern for relative gains

5.1 Experiment Design

Our second study is a pairwise comparison of different trade policy responses. The aim of this exercise is to present respondents with vignettes that can vary in many different attributes. This approach is useful for our purpose because respondents are confronted with a situation that varies on multiple dimensions. First, the other country can be a political ally or a political adversary. Second, the other country offers a policy initiative, which can be to decrease, keep or increase tariffs. And third, the possible policy responses by the own country have varying implications for absolute and relative gains that the two countries incur. Our setup allows us to examine how respondents jointly evaluate these varying policy characteristics in different political settings.

Our analysis is theoretically grounded in a game-theoretic setup in which the two countries interact as described above (cf. also appendix table 6). We follow Powell's (1991) seminal analysis of relative vs. absolute gains in international relations to derive the payoffs of the two countries.⁹ This model can be motivated with the national, aggre-

⁷Ally-adversary perception was coded on a ten-step scale, from -5 (strong adversary) to 5 (strong ally), with 0 for neutral. The question was presented to the respondent as follows: To what extent do you view the following countries as political allies or adversaries?

⁸Ideology was coded as follows: -5 for left and 5 for right on a 10-point scale

⁹Our game, cf. appendix, is a modified version of Powell's "Neoliberal Institutional Model" (p. 1307).

gate payoffs from trade, including jobs, prices and economic efficiency. Most importantly, the model entails a trade-off between relative and absolute gains for the home country of a respondent.¹⁰

Our game offers different scenarios to present to the respondents. In some, respondents are confronted with a trade-off between relative and absolute gains. In others, the maximisation of absolute gains coincides with the highest relative gains for one's own country. An example of a scenario involving a trade-off is shown in table 5. Here, the other country proposes to decrease tariffs. The best response to this policy initiative assuming that respondents maximize absolute gains for their own country would be to choose Policy A. But if respondents choose this best response, the own country gains relatively less compared to the other country. In contrast, if the respondent deviates from this best response and opts for either 'Keep' as in Policy B, then the own country gains absolutely less, but relatively more.

In continuation of our analysis of study 1, we designed the game so that reciprocity corresponds to the choice of absolute gains. This allows us to efficiently assess whether relative gains crowd out principles of reciprocity. By consequence, in the comparisons in which a trade-off between absolute and relative gains appears, the choice of absolute gains (and thereby forgoing relative gains for one's own country) corresponds to a reciprocal policy response. Likewise, choosing relative gains (and accordingly forgoing absolute gains for one's own country) amounts to the non-reciprocal, inverse policy response.

Additionally, as shown in table 5, respondents receive information on the political relations between their country and the other country, i.e. whether it is an ally or adversary. In the presentation of all scenarios, the difference between the absolute gains of both countries are the respective relative gains for each country and show whether the own country loses more or less than the other country. In this example case, if the respondent weights relative gains more than absolute gains, she should opt for Policy B rather than A. If absolute gains are weighted more than relative gains, Policy A should be selected.

To gain a better understanding of respondents' rationales when assessing the trade-offs, we include an open-ended question in which we ask respondents to explain their reasoning for the selection. To analyse these results, we rely on Structural Topic Models (STM) for Open-Ended Survey Responses according to Roberts et al. (2013). This method has the following advantages. First, it allows us to analyse large quantities of short texts systematically. Second, by presenting us with the predominant reoccurring topics in this large body of text, it allows us to gain a better grasp at the possible mechanisms at hand, particularly with regard to relative gains and the political alliance with

His 'free trade' option (F) is equivalent to our 'Decrease' option. His 'closure' option (C) is equivalent to our 'Increase' option.

¹⁰Powell sets the payoff of a closed economy (C, C) to 0. We start from the idea that our respondents live in a relatively open economy, in which closure means that the countries lose relative to the current situation, which is why we set negative payoffs for the situation in which both countries increase tariffs (Decrease, Decrease). Since payoffs are ordinal, these differences do not change the game. This is mostly important when we transform the game into the experiment below. We also adapt payoffs such that the other country benefits relatively more from free trade in order to highlight the possibility of relative gains more.

Table 5: Example scenario for U.S.

Other country	Political adversary Decreases its tariffs on U.S. goods.	
Policy Response by U.S.	Policy A	Policy B
Expected impact on the economy	Decrease tariffs	Keep tariffs unchanged
United States	benefits a lot	benefits
Other country	benefits a lot	loses
Difference	U.S. benefits less	U.S. benefits more

the other country.

5.2 Findings

The main results for study 2 are shown in figure 8. In our analysis we focus on the scenarios involving a dilemma between absolute and relative gains. Figure 8 shows the policy options respondents selected when confronted with the trade-off. Generally, the policy option of absolute gains is popular amongst the largest proportion of respondents. By extension, and like in study 1, most respondents are supportive of a reciprocal policy response to the policy initiative of the trading partner.

Similar to study 1, U.S. respondents react differently than German or Australian respondents by not preferring relative gains when confronting an adversary. This may be because American citizens are more consumer-oriented and perhaps are generally not so worried about the relative position of their country as they still see themselves as the undisputed hegemon. But even in the U.S., the proportion of “Don’t know” responses is higher for adversaries than allies. Thereby, U.S. respondents (like German respondents) are less certain which policy to select if the trading partner is an adversary.

Overall, we consistently find evidence for the importance of the political relation with the trading partner. This relation, however, is less strong for the U.S. In Australia and Germany, the proportion of respondents selecting the policy response entailing relative gains for one’s country was higher for an adversary than for an ally. Correspondingly, the ratio of choosing absolute gains (and thereby forgoing relative gains), was lower in all three countries for political adversaries compared to allies. We therefore find evidence for our third hypothesis *H2c* that relative gains matter, especially when confronted with an adversary. Of course, the effects do not appear to be very large but given that we confronted respondents with a highly involved setup, finding systematic variation is nonetheless striking.

In support of these findings, the answers to the open-ended question reveal that relative gains concerns, as well as the political relation with the trading partner matter to the respondents. The diverse topics range from reciprocity/fairness to international political competition/differences between countries, absolute vs. relative gains and the domestic

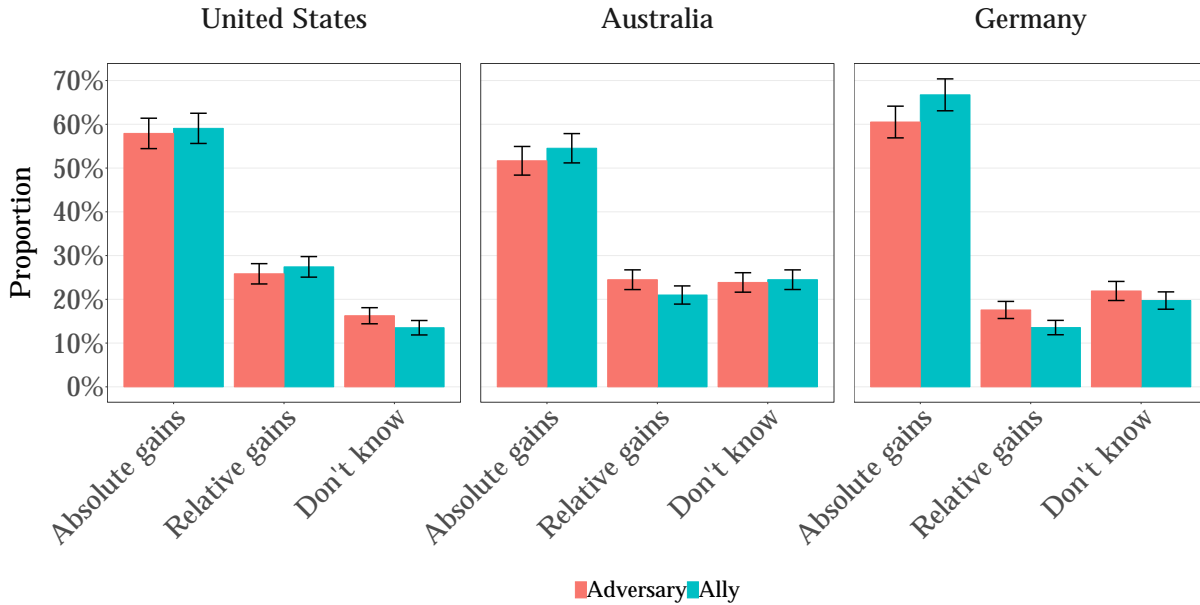


Figure 8: Ally vs. adversary and type of choice

economy.¹¹ E.g. one respondent, invoking principles of fairness, claims: “If the country is a political ally, there should be a fairness in trade with them”. Similarly, an Australian citizen writes: “A political adversary shouldn’t benefit more than Australia.” Another explains: “no need to piss of our allies and create a trade war.” In contrast, another, referring to exploitation by other countries, argues: “I think the US should benefit more because we have been overly generous for years and other countries have taken advantage of the US. It’s time to start thinking of ourselves for a change. Trump is doing that right now. And I approve.” Relating to individuals consumer concerns, another participant writes: “Raising tariffs mean raising prices on US goods drastically. I cannot afford this.”

In sum, the responses shows that many individuals approach the question in a sociotropic manner, i.e. caring about the overall national impact of a policy. Notions of fairness feature prominently in the responses, especially when confronted with an ally. This means that with an ally the policy initiative matters more. Fairness appears less in conjunction with an adversarial country. Here, who the other country is appears to matter more.

6 Conclusion

This paper analyses to what extent the mass public in the U.S., Australia and Germany support reciprocity as a key cooperative strategy towards trading with other countries. Our main finding is that the mass publics generally support principles of reciprocity in trading relations with other nations. However, citizens’ attitudes differ depending on the country they are economically interacting with. Whilst reciprocity is supported on average, we observe important deviations from this (cooperative) baseline. These deviations can be explained through variations in the perceptions of the trading partner. Particularly for the cooperative policy response, we find that depending on whether the other

¹¹The STM analysis has only been done for the U.S. We intend to incorporate our findings for the other countries in a later version of the paper. Cf. appendix for STM results.

country is perceived as an ally or adversary matters. This supports the view of differing security externalities between allies or adversaries based on the heightened sensitivity to relative gains when confronted with a political adversary.

Our bilateral approach, thus, yields interesting new insights into trade politics in the contemporary world economy. It reveals that international political concerns play a much greater role for trade attitudes than previously assumed. This is particularly important as the overarching context of the international trading system has become more susceptible to bilateral considerations. The system has shifted from multilateral designs to more bilateral approaches during the past few decades. When trade relations become increasingly bilateral, reciprocity and cooperation in trade relations is more appealing with certain countries than with others, depending on the political relations with the other country. Our findings suggest that the sources for these unconditionally uncooperative attitudes appear to relate to concerns of relative gains and their implications for international political competition. Trade policy, therefore, is not only seen as a means to maximize income, but also as a foreign policy instrument that should be used to pursue political goals. These concerns are not visible when the general attitude of voters towards economic openness is examined.

These results pose a challenge for the stability of the international liberal order. First, the political constraint that nationalist leaders face is relaxed if voters increasingly mix international political and economic issues. During the uncontested U.S. hegemony of the past decades, these international political concerns may have increasingly moved into the background. But owing to shifts in international power and the rise of China, the increasing politicisation of trade issues in the wake of rising populism and economic nationalism might have gained renewed importance. Second, and like other existing research, we show that individuals do not solely base their attitudes on their personal economic well-being. This underlines the difficulties of upholding cooperation in international trading relations if international political concerns are eminent. In particular, compensating the “losers” from international trade does not suffice. This poses a crucial obstacle for upholding open-economy politics in the long run and challenges the functioning of liberal international institutions, like the WTO.

Further research should explore more how to address this increasingly tenacious obstacle to the international liberal order. However, although our analysis shows that concerns beyond individual economic self-interest matter, we regard this as a complementary finding to important existing research showing that material effects of international trade are indeed influential. We merely argue and show that in the current context of shifting power relations, rising populism, anti-globalization attitudes and economic nativism, concerns of political competition on the international level cannot be overlooked and need be addressed simultaneously.

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A Ally perception

Respondents were asked the following question:

[Australian and US version] “To what extent do you consider the following countries as political allies or adversaries of Australia/the U.S.?”

[German version] “Inwieweit betrachten Sie die folgenden Länder als politische Verbündete oder Gegner?”

Ally–Adversary Perception of US citizens

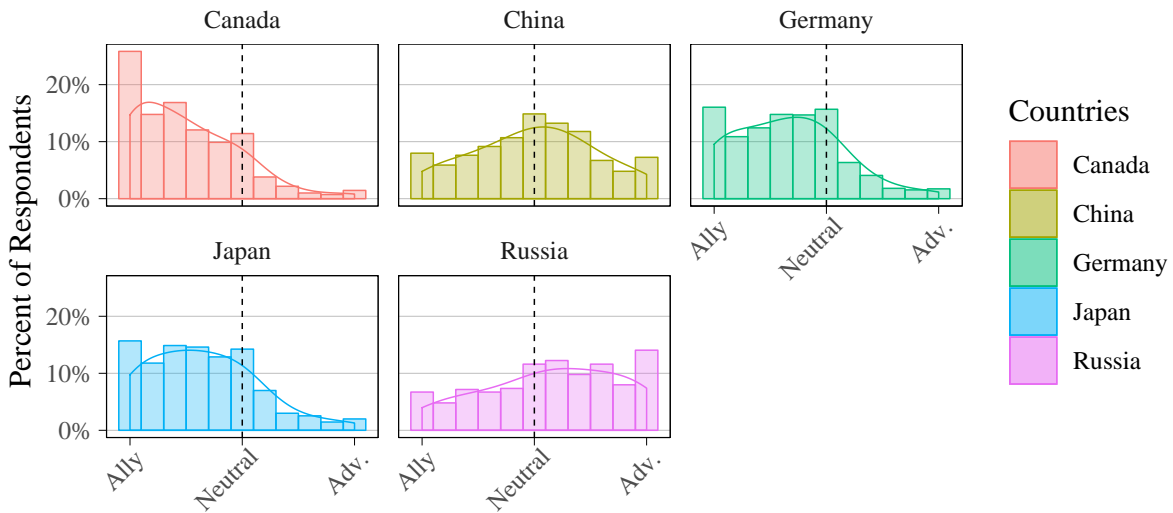


Figure 9: U.S. Ally-Adversary Perception.

Ally–Adversary Perception of Australian citizens

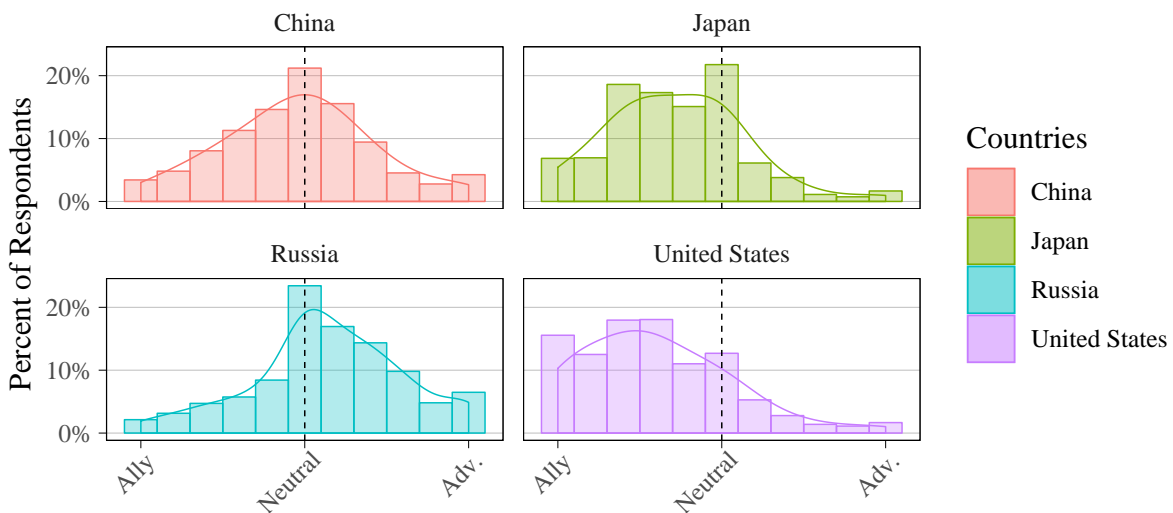


Figure 10: Australian Ally-Adversary Perception.

Ally–Adversary Perception of German citizens

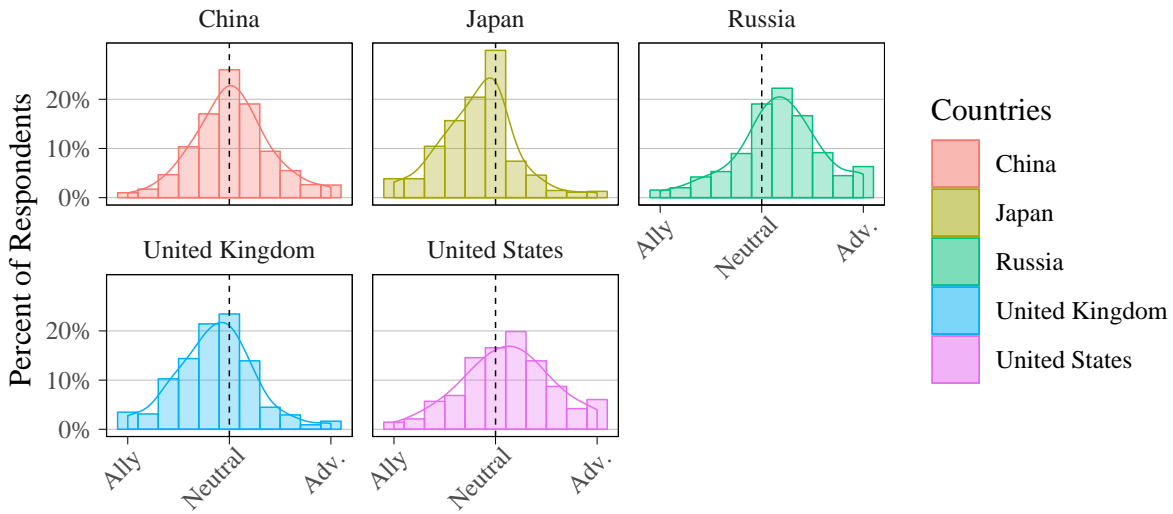


Figure 11: German Ally-Adversary Perception.

B Study 2 Pairwise comparison

Table 6: Trade game with absolute vs. relative gains trade-off

		Other country initiative		
		Decrease	Keep	Increase
Own country response	Decrease	2, 4	-1, 1	-4, 0
	Keep	1, -1	1, 2	-3, -1
	Increase	0, -4	-1, -3	-2, -2

Note: blue-shaded cells represent best responses to the initiatives from the other country; grey-shaded cell represent deviations from these best responses, for which an absolute- vs. relative-gains trade-off exists; non-shaded (white) cells represent deviations from the best responses, for which absolute and relative gains coincide.

Table 7: Translation of payoffs into words

Absolute gains		Relative gains	
Payoff	Wording	Difference	Wording
4	} ‘benefits a lot’	+4	‘loses much less’
2		} ‘benefits more’ (if abs. payoff > 0) ‘loses less’ (if abs. payoff < 0)	+2
1	‘benefits’		0
0	‘neither / nor’		
-1	} ‘loses’	-2	} ‘benefits less’ (if abs. payoff > 0) ‘loses more’ (if abs. payoff < 0)
-2			
-3	} ‘loses a lot’	-4	} ‘loses much more’
-4			

C Structural topic model

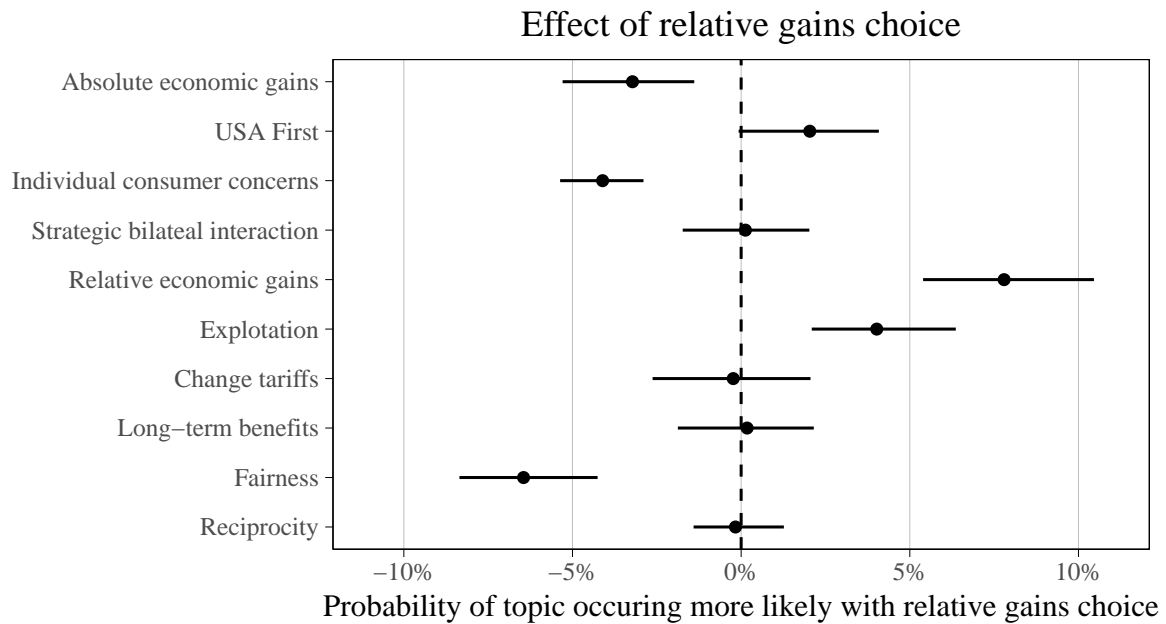


Figure 12: Probability of topic occurring when selecting “relative gains”.