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Book Review

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Power Plays: How International Institutions Reshape Coercive Diplomacy. By Allison Carnegie. Cambridge: Cambridge University Press, 2015.

Do international institutions foster international cooperation? Previous research has focused on how international institutions can solve collective action problems among countries in particular issue areas (e.g., international trade) by reducing transaction costs, providing information, and extending time-horizons. Allison Carnegie argues that existing studies omit an additional mechanism through which international institutions can overcome coercive policies that impede international cooperation. Specifically, Carnegie's book shows that international institutions serve as a commitment device for countries to assure one another that they will forego certain coercive policy tools in their interactions. *Power Plays* develops a compelling and original theoretical account of the cost-benefit assessment countries make when deciding to join the World Trade Organization (WTO). Carnegie provides extensive quantitative and qualitative evidence that pairs of countries with disparate interests and capabilities benefit the most from WTO membership because their bilateral trade is the most likely to be constrained by the expectation of extortion in the absence of joint membership.

Power Plays highlights the "political hold-up problem": countries will be reluctant to make a sunk investment that will increase the levels of cooperation, even when doing so will benefit both parties, if they anticipate that their partners will renege on the agreement unless certain policy changes they want are made first. This transpires because the country that has already made an investment will have no option but to comply with the coercive request as the value of its earlier investment is higher within the relationship than outside of it. International institutions can solve this hold-up problem by putting constraints on certain coercive policy tools. For example, trade between Taiwan and China was negligible until both countries joined the WTO; Taiwan feared that increased

trade would increase China's bargaining power. Once both were members, however, WTO rules on nondiscrimination and the institution's effective dispute settlement mechanism insured Taiwan against China's using trade barriers to hold it hostage. The cross-strait trade as well as capital investments soared thereafter, and China has quickly become Taiwan's biggest trading partner. Although China may still use nontrade policy tools to coerce Taiwan that are not directly constrained by its WTO membership, removing major policy instruments related to trade diminishes China's coercive power.

This important study has a number of implications for research in international political economy. First, it shows that political disparity between countries can be the most severe barrier to international trade. Unlike existing frameworks that emphasize the domestic politics of trade policy making and firm-level productivity differences in explaining trade flows, *Power Plays* highlights the strategic calculus of countries in the international system. That is, the political willingness to credibly protect relation-specific investments can promote trade. In fact, recent studies show that a stable contracting institution is an important source of comparative advantage even after controlling for economic determinants of trade (Levchenko 2007; Nunn and Trefler 2014). The evidence provided in the book further shows that institutional membership can improve a government's "political" comparative advantage. It is worth noting, however, that the logic applies specifically to the investment made by countries toward other countries. As Carnegie states, the book is concerned with the "hold-up problems between governments rather than between firms, or governments and firms" (10). Thus, researchers should not only distinguish the choice made by firms from the one made by governments but also focus their analysis on targeted investment toward countries' partners. Although chapter 4 examines the increase in overall capital investment as well as the bilateral trade volumes of products that tend to require relation-specific investments empirically, it would be useful to also directly investigate partner-specific policy outcomes chosen by states.

Second, *Power Plays* offers a novel way of understanding the effects of international institutions. In contrast to conventional studies, it finds that dissimilar countries benefit the most from joint membership. This important insight prompts further research questions. Why do like-minded countries succeed in creating international institutions (e.g., Downs, Roche, and Barsoom 1998)? Under what conditions do strong states limit their coercive policy options? When examining bilateral trade, how can one parse out whether increases in bilateral trade are due to the ability of institutions to mitigate the hold-up problem or the result of other mechanisms? The theory also implies that WTO membership would increase the extensive margin of trade (whether countries trade certain products at all) rather than the intensive margin (how much they trade) because countries will not make any investment if they suffer from a severe hold-up problem. This is consistent with the recent finding by Dutt, Mihov, and Van Zandt (2013) that the effects of the WTO are concentrated on the extensive margins. Although Dutt et al. (2013) do not consider the hold-up problem, future research should further examine whether the increase in trade at the extensive margin is driven by products tied specifically to partners with dissimilar political interests.

Finally, the book exemplifies the highest methodological standards. Chapter 2 offers a formal model that clarifies the strategic interaction between governments and generates a set of testable hypotheses on the effects of WTO membership. Chapters 5 and 7 provide numerous historical and anecdotal examples with careful qualitative process-tracing methods that deepen readers' understanding of the mechanisms at play. The empirical analyses in chapter 4 are based on a large number of observations at the directed dyad-industry level from 1989 to 2000. However, the empirical analysis includes highly correlated variables such as gross domestic product (GDP), GDP per capita, alliance relationship, joint membership in WTO,

and membership in regional trade agreements, among others, to say nothing of country-year fixed effects and directed dyad-industry fixed effects. Such a specification introduces the possibility of overfitting—the results might be driven by a small number of observations with variation-in-treatment status. In fact, WTO membership status does not vary over time for most countries. To avoid overfitting, future research should incorporate regularization techniques, especially given the availability of massive data sets and highly correlated measures (Friedman, Hastie, and Tibshirani 2001).

Power Plays offers a novel theoretical framework for understanding the role of international institutions. Carnegie convincingly argues that international institutions can fundamentally change the ways in which countries use coercive diplomacy in the anarchical international system. In fact, the political hold-up problem is prevalent in international affairs and is not limited to international trade. This review does not cover all of the book's valuable insights. Scholars of international relations must read *Power Plays*, as it offers new ways to understand international cooperation and conflict.

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