

Legalization for Survival: Third Party Participation in WTO Disputes and Bureaucrats in Left-leaning Governments

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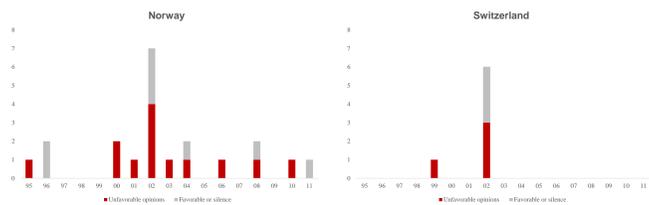
Overview

- **Why are some WTO member states more likely to participate as third parties in trade disputes in which the US is a respondent?**
 - Left-leaning governments → More 3rd party participation
 - Why? Free trade-oriented trade officials working with protectionist left politicians attempt to legalize trade policies to gain discretion from politicians by technicalizing the issue area.
- **Why are some more likely to present opinions unfavorable to the US?**
 - Left-leaning governments → vocal dissenters of US protectionist trade practices in defense of domestic exporters
 - Why? Absence of alliance between leftist politicians and exporters allows bureaucrats to sell their service of protection at higher prices to exporters
- **Is this an artifact of anti-Americanism or leftist support for free trade?**
 - No
 - If so, we should observe the same relationship between partisanship and initiation of trade disputes which attracts more public attention and immediate effects. But we do not observe this.

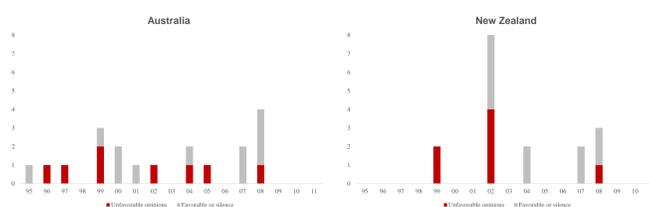
Puzzle

Two contending theories ...

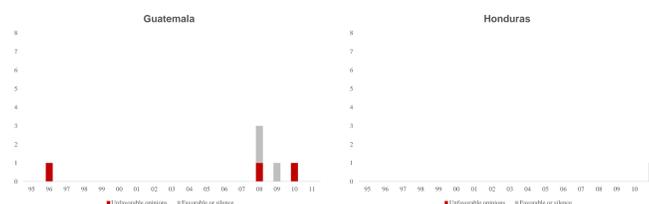
- Higher GDP → Legal capacity → Participation & Dissenting opinions?
- Higher export ratio → Higher stakes → Participation & Dissenting opinions?



Norway with lower GDP + lower US export/GDP ratio
frequent participation + dissenting opinion



Australia, despite the similar US export/GDP ratio as NZ,
more frequent participation overall



Guatemala with 1/2 the US export/GDP ratio of Honduras's
six times more frequent participation + dissenting opinion

Participation may NOT simply be about higher stakes or affordability!

Theory of Organizational Survival

- **Assumption 1:** Left-wing politicians favor protectionist trade policies, and right ones are free trade-oriented (H-O theory in labor scarce economies)
 - **Assumption 2:** Elected politicians rely on trade officials with expertise to follow through with their campaign pledges on trade policy
 - **Assumption 3:** Bureaucrats aspire to enhance professional standing of their organizations in the public sphere
 - **Assumption 4:** Trade officials favor free trade
 - **H1:** Left-leaning governments are more likely to participate as interested third parties in WTO disputes against the US
- Why? Bureaucrats' attempts of legalization → Technicalization of trade policies → More discretion from protectionist politicians*

- **H2:** Left-leaning governments are more likely to submit third party opinions unfavorable to the respondent (US) in disputes.

Why? No politicians-exporters alliance → Exporters' demand for free trade policies increases → Bureaucrats gain rent (i.e. outside employments) by presenting opinions in defense of exporters and build legal precedents

- **H3:** Left-leaning governments are more likely to initiate trade disputes against the US (expecting null effect)

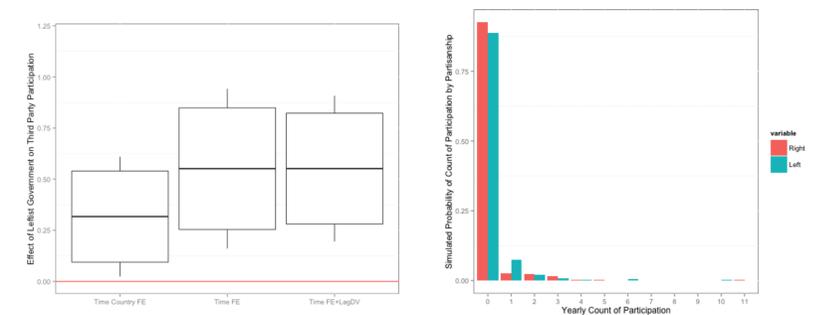
Why null effect? Bureaucrats cannot exploit principal-agent slack due to high public attention to initiation of trade disputes

Data & Design

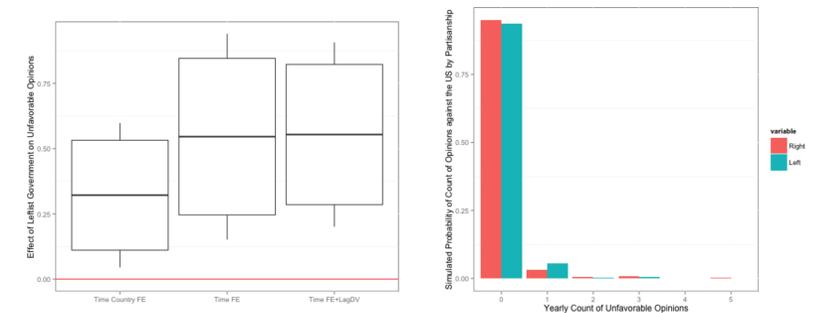
- **Scope**
 - 114 WTO trade disputes where the US is respondent (1995-2011)
 - WTO member states + Democracies
- **Observations (Country-Year)**
 - H1: Count of third party participation by each member
 - H2: Count of opinions against the US submitted by each member (Expert coding of third party opinions in panel rulings, original dataset)
 - H3: Count of disputes initiated by each member against the US
 - Source: WTO website + panel reports
- **Explanatory variable:** Incumbent party ideologies from Manifesto Project Database + Coding by author
- **Negative binomial models**
 - Highly zero inflated
 - Used time fixed effects for all models to account for the yearly time trend
 - Standard errors clustered at the state level

Findings

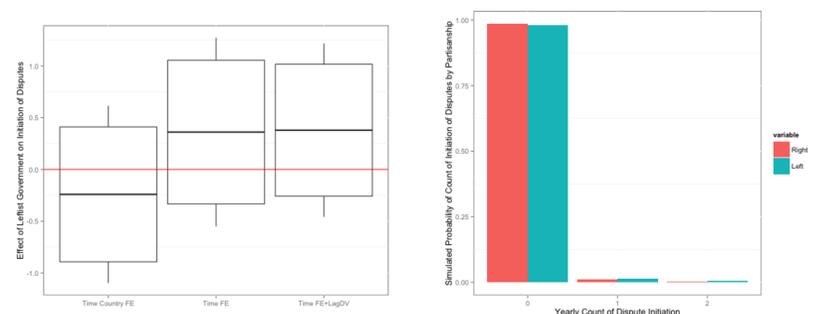
- **Test 1**
 - Outcome: Yearly count of 3rd party participation in US-related trade disputes
 - Explanatory variable: Leftist government
 - Controls: GDP, Export to the US, Diplomatic capacities, PTA with the US



- **Test 2**
 - Outcome: Yearly count of 3rd party opinions unfavorable to the US



- **Test 3**
 - Outcome: Yearly count of dispute initiation against the US



Does It Matter?

- Third party participation: costless means of influencing international trade laws by free riding on dispute initiators + goes without domestic public scrutiny
- BUT, its impact on international trade laws is high (Busch & Reinhardt 2006): By preventing diplomatic settlement, participation leads to creation of legal precedents → has lingering effects on int'l trade laws
- What are the consequences?
 - Institutional bias in WTO: Are leftist govs freeriding on others?
 - Domestic politics: Democratic deficit in trade policies