

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

**Boram Lee**

Departments of Government, Harvard University (boramlee01@fas.harvard.edu)

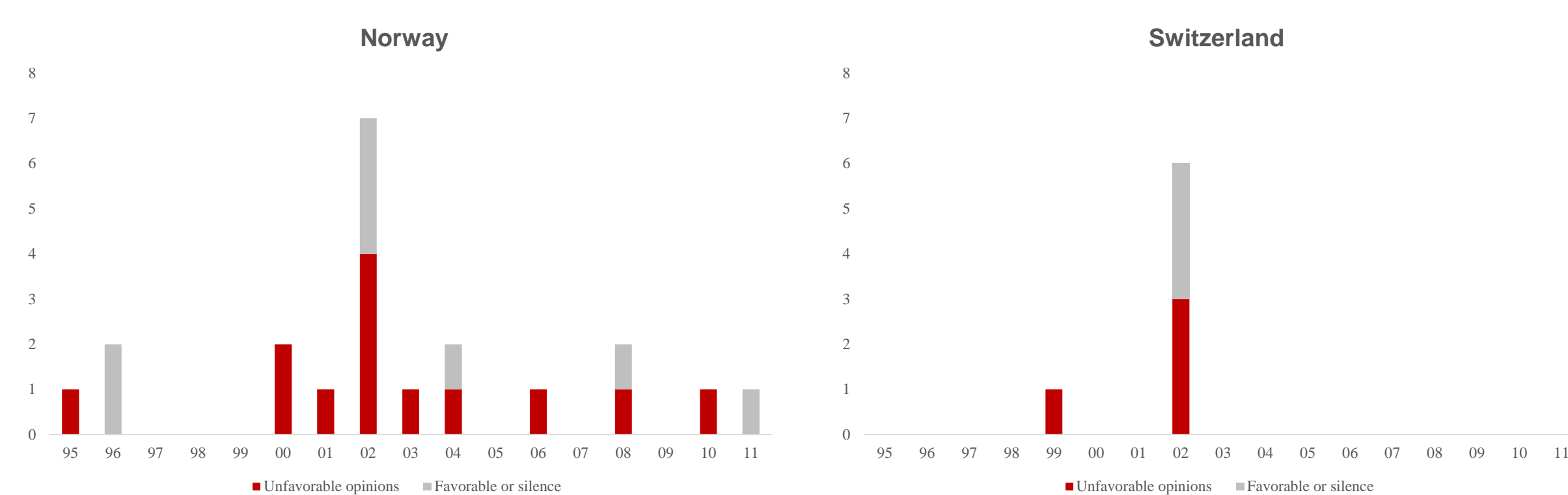
## Overview

- **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 3<sup>rd</sup> 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.

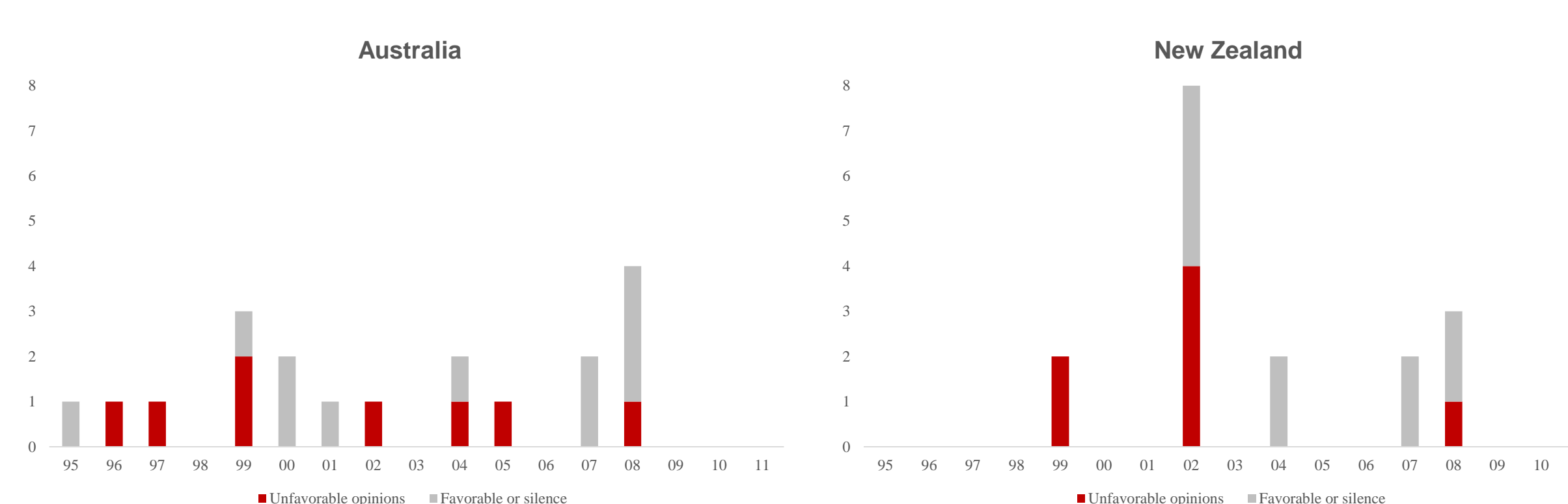
## Puzzle

### Two contending theories ...

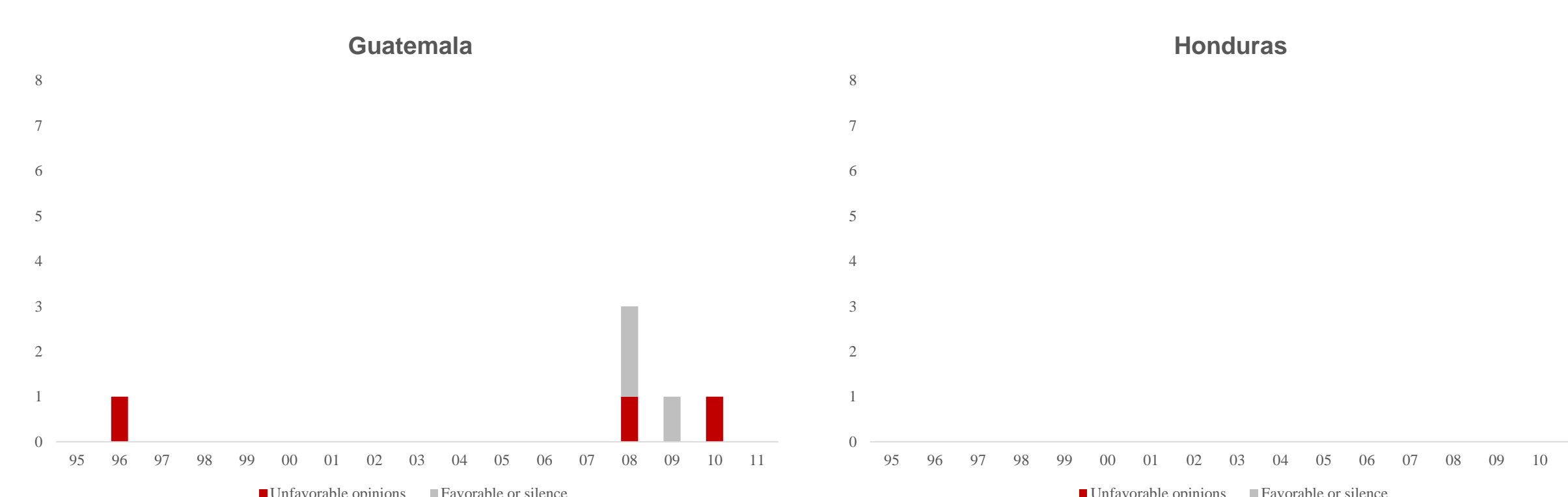
- Higher GDP → Legal capacity → Participation & Dissenting opinions?
- Higher export ratio → Higher stakes → Participation & Dissenting opinions?



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)

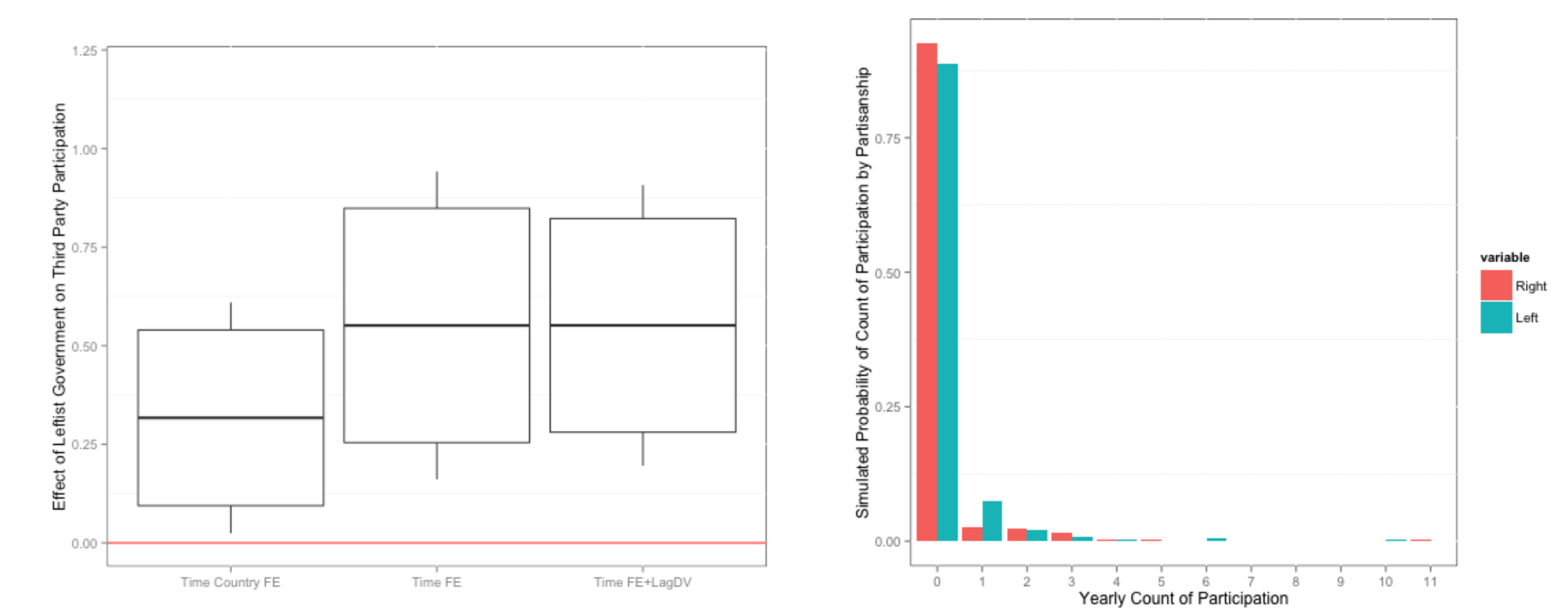
*Why null effect? Bureaucrats cannot exploit principal-agent slack due to high public attention to initiation of trade disputes*

## Data & Design

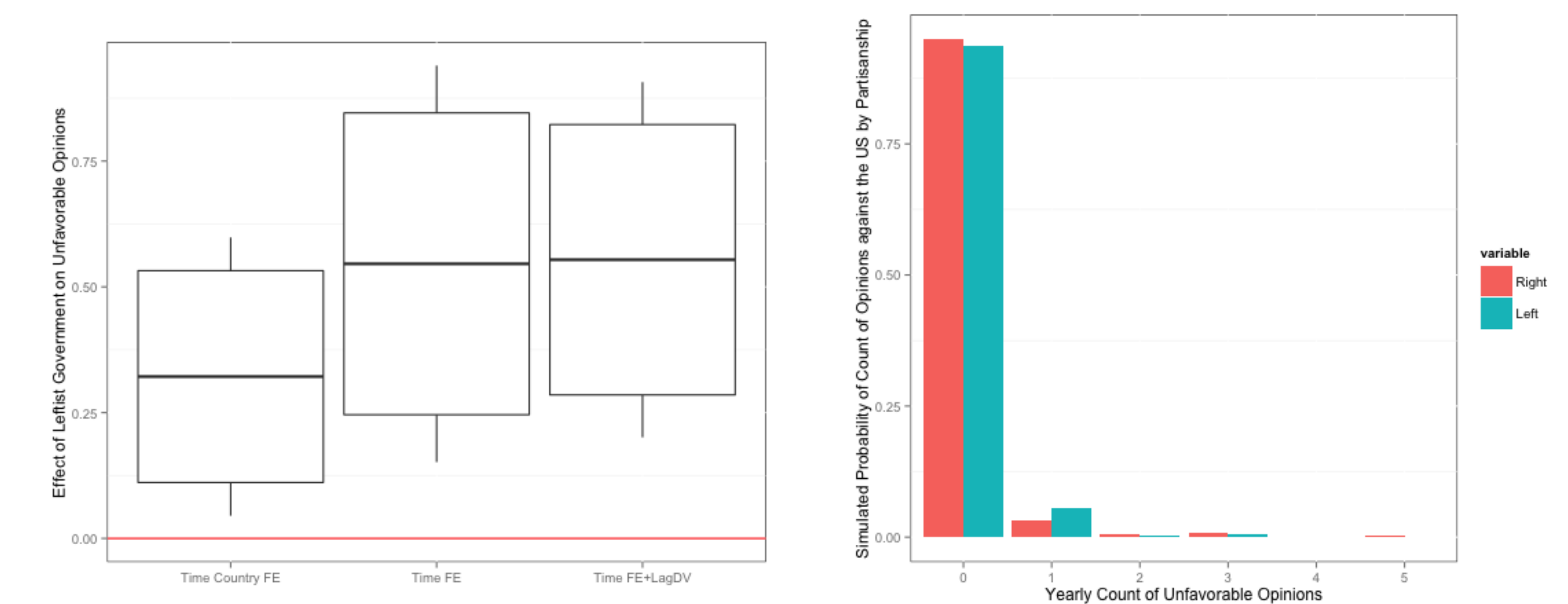
- **Scope**
  - 114 WTO trade disputes where the US is respondent (1995-2011)
  - WTO member states + Democracies
- **Observations (Country-Year)**
  - H1: Count of third party participation by each member
  - H2: Count of opinions against the US submitted by each member (Expert coding of third party 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

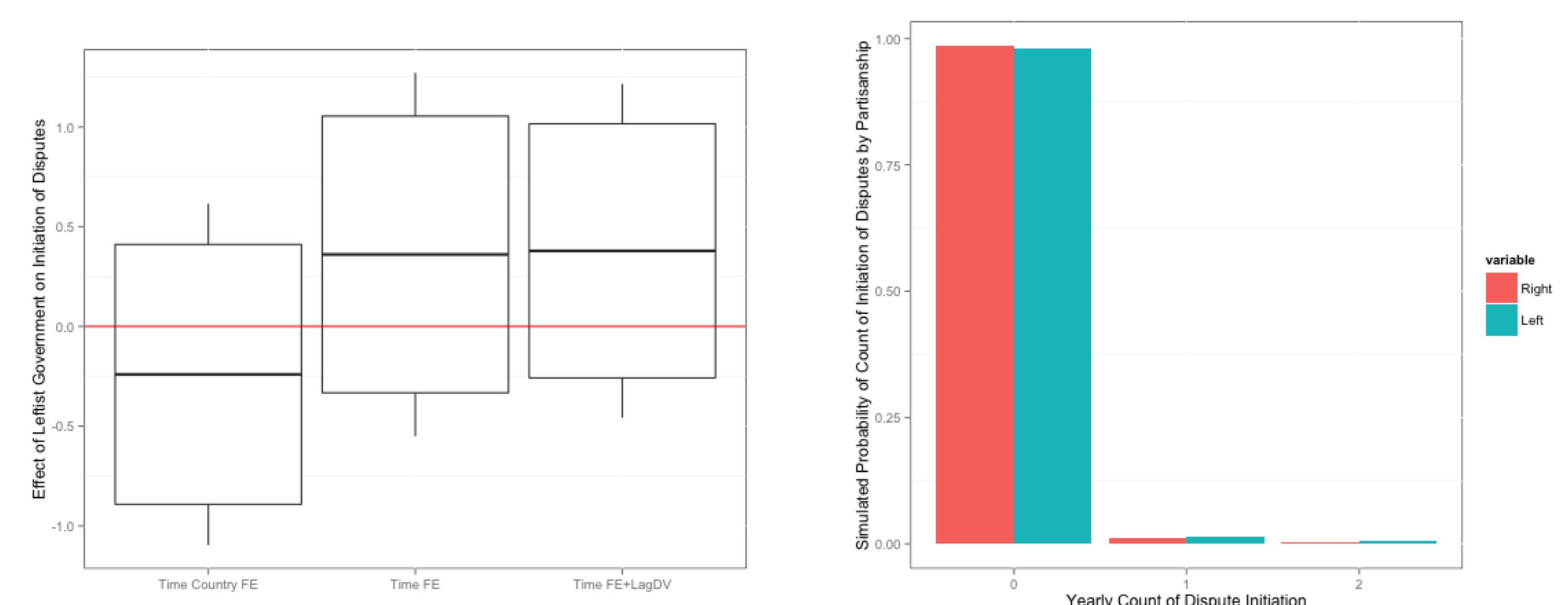
- **Test 1**
  - Outcome: Yearly count of 3<sup>rd</sup> party participation in US-related trade disputes
  - Explanatory variable: Leftist government
  - Controls: GDP, Export to the US, Diplomatic capacities, PTA with the US



- **Test 2**
  - Outcome: Yearly count of 3<sup>rd</sup> 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