

Trade as a Potent Threat: A Firm-Centered Approach to Economic Statecraft

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Abstract

Today's economic interdependence among states has transformed firms into central actors in shaping security dynamics through their strategic business decisions. This paper aims to show the impact of a few elite firms' trade demands on security outcomes, in the context of the United States. The primary purpose of the 301 process is to redress US firms' grievances against trade barriers in their investment destinations, but the history of its usage has attested to its tactical use as political punishment on targeted countries, especially for emerging economies. Their lack of institutional capacity to retaliate, along with trade dependence on the United States make Special 301 targeting more effective. As a consequence, targeted emerging economies make an appeasing move by aligning their foreign policy preferences closer to the ideal point of the United States. To test the argument, I construct an original dataset with semantic estimates of US perspective on trade barriers vis-a-vis its trading partners, using the corpus of National Trade Estimate (NTE) reports published by the Office of the United States Trade Representative (USTR). Results find strong support to the influence of firm grievances on Special 301 process, vulnerability of emerging economies to Special 301, and its effect on the targeted countries' convergence of preferences with the United States.

Keywords: Trade, international security, economic statecraft, text analysis

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1 Introduction

Economic interdependence among states has rapidly grown with the proliferation of intra-industry trade and global value chains. We are witnessing more and more cases of the exploitation of interdependence by states with strong market power to coerce concessions from others, economically and politically. The latest example is the US-China trade war which spiked during the Trump administration, and has intensified under the Biden administration. The measures taken by the United States include banning on the Chinese imports of telecommunication devices, putting export controls on semiconductor chips, and imposing heavy tariffs on Chinese steel imports. The goal of the United States in this race is to clinch its leadership in high-tech capacity, followed by security capacity, over its emerging rival.

At the crux of economic statecraft are firms, as they are the main actors creating security externalities in the course of engaging in strategic business choices. The literature has started focusing on the role of firms, but the focus has been more on the response of firms in the face of government regulations and policies than firms taking part in the policymaking process (Aggarwal & Reddie, 2021; Farrell & Newman, 2019; Kalyanpur & Newman, 2019). Especially for the country like the United States, where firms play a crucial role in forming the overall trade agenda, it is important to closely examine firm-level demands to better understand outcomes relevant to foreign relations. The literature has pointed to the evidence of superstar firms exerting political influence on US trade policies. The goal of these firms is to eliminate trade barriers for expanding market access (Helpman et al., 2004; Osgood et al., 2017), as well as getting their intellectual property rights (IPR) protected in their investment destinations to keep their competitive edge (Drahos & Braithwaite, 2002; Sell, 2003). Their voices are the most clearly heard, because only superstar firms of an industry can overcome the entry barriers to political lobbying and sustainably engage in lobbying (Bombardini & Trebbi, 2012, 2020; Cowgill et al., 2021). Moreover, the Congressional delegation and oversight structure of US trade policy, involving the Office of the United States Trade Representative (USTR) and its advisory committees consisting of prominent firms of each industry, has allowed multiple access points for firms to exercise influence.

Countries can be deemed unaccommodating to US businesses if US MNCs express con-

cerns about certain barriers, and targeted by US government. Among the measures taken by the United States to redress the grievances is Special 301 process, which puts aggrieving countries on three stages in the Watch List and sanction them if they do not address the concerns, with retaliatory tariffs or revoke certain benefits. The primary purpose it serves is protecting the interests of US businesses, but at the same time, it carries political implications to the targeted countries. Special 301 process has a record of success in maneuvering developing nations to comply with the US expectations in political goals. Behind the birth of Special 301 was the large trade deficit the United States had run against some of prominent emerging economies back then, including but not limited to Argentina, Brazil, India, South Korea, and so forth (Draho & Braithwaite, 2002). The United States wielded Special 301 as a weapon to have them conform to the US standards. The key to success was the trade dependence of the emerging economies on the United States (Draho & Braithwaite, 2002), and their lack of institutional capacity to effectively retaliate (Gowa & Kim, 2005; M. Kim, 2008).

In search of the evidence for the firm-level interests shaping the US trade agenda, I focus on the National Trade Estimate (NTE) report published annually by the Office of the United States Trade Representative (USTR). Ever since the amendment in 1984 to the Trade Act of 1974, USTR has been vested with the authority to identify trading partners which fail to protect properties owned by US businesses according to the standards required by the United States. After formalized hearing of complaints from US firms, USTR has to draft an extensive report about each country in terms of various barriers to trade, which impedes the operation of US businesses in that country. The NTE report forms a basis of subsequent actions that the United States will take against each country, depending on the severity of the issues. This is the rationale behind publishing the NTE report every year. The series of these reports contains vast amount of information about the US perspective vis-a-vis each trading partner, including but not limited to import barriers, export subsidies, intellectual property rights (IPR) protection, and individually tailored chapters that only belong to a specific country. I utilize the corpus of these documents to take advantage of the richness of the information.

I construct a novel measure of the US evaluation of local market hospitality to US busi-

nesses vis-a-vis each trading partner out of NTE reports, from 2004 to 2022. I use the semantic analysis method proposed by Slapin and Proksch (2008), which extracts document positions relative to each other, to obtain the estimates of US perception vis-a-vis each country as a foreign market. A series of analyses conducted with this measure uncovers interesting findings that confirm or supplement the extant literature. US trade policy has a consistent structure targeting a few countries that are claimed to have obstructed US business operations in those countries. Firms' grievances are reflected in setting the tone of trade policy with regards to each trading partner, as the analyses using NTE position estimates and firm-level data reveal. US firm grievances have stronger effects on US policy towards emerging economies, represented as increased likelihood of Special 301 targeting and prolonged Priority Watch List status. The 301 targeting is not only a means to remedy the trade loss, but also a political punishment particularly to emerging economies not conforming to US demands. Analyses using United Nations General Assembly (UNGA) voting reveal that emerging economies accused of aggrieving US businesses attempt to reconcile the friction by aligning their preferences closer to the ideal point of the United States.

2 Theory

2.1 The Bond between USTR and US Superstar Firms

The recent major complaints raised by the United States have been concentrated on the impediments to more open market access and protection of intellectual property rights (IPR) in emerging economies. Such trend coincides with the expansion of intra-industry trade and subsequent deeper entrenchment in global value chains (GVCs) of superstar exporters (I. S. Kim & Osgood, 2019; Osgood et al., 2017). As the US elite firms has become more reliant on offshore outsourcing to run their business, their business interests in emerging economies with cheaper, abundant labor has grown rapidly, and so has their demand for trade liberalization in those countries to (1) cut the costs of importing intermediate goods (Baccini et al., 2018), and (2) expand the consumer base at the expense of local producers (Arkolakis et al., 2019). The superstar firms are empowered to secure market share and charge price markups using their intellectual property

rights (IPR), so they seek for IPR protection at the same time by intensively lobbying the US government (Drahos & Braithwaite, 2002). One of their major targets for lobbying is the Office of the United States Trade Representative (USTR), which guides the US trade policy agenda.

The role of USTR is crucial to formulating trade policies of the United States. US trade policymaking procedure is structured in a way that allows effective Congressional oversight through delegation to the USTR, with advisory committees composed of most productive firms representative of the industries as the primary information source (Sell, 2003). The top oversight committee is the Advisory Committee on Trade Policy and Negotiations (ACTPN), which is a product of the Trade Act of 1974, which was intended to empower domestic interest groups in trade policy. USTR delineates the role of the committee as follows: advising negotiation of trade agreements, operation of trade agreements in force, including preparation of dispute settlement panel proceedings where the United States is involved, and other matters which arise in the process of developing, implementing and administering trade policy (of the United States Trade Representative, 2022).

Drahos and Braithwaite (2002) describe US trade deficit with major developing nation trading partners as the driving force behind the birth of the 1974 Trade Act. The consequential massive unemployment was a good chance for firms to appeal for strong IPR protection especially in emerging economies, invoking as the rationale recuperation of trade losses through technology development and bringing more jobs to Americans. With the 1988 amendment to the Act of 1974, USTR was vested with authorities to identify countries that violate intellectual property rights (IPR) of US firms and retaliate against them with due sanctions through Special 301 process. Behind this effort were two major interest groups, International Intellectual Property Rights Alliance (IIPA) and Pharmaceutical Research and Manufacturers of America (PhRMA) Sell (2017). Special 301 process has become the direct channel for US firms to appeal their grievances to the government, as the investigation is initiated by accumulating complaints of IPR infringement and consequent loss from firms. The resulting paperwork by USTR that elaborates on harms US industries have experienced from various forms of trade barriers, such as IPR infringement, import tariffs, export subsidies, stringent government regulations and so forth, is the National Trade Estimate (NTE) report. The report is submitted to the president and various Congressional committees. Based on

the NTE report, USTR under Special 301 has 30 days to identify list of foreign countries considered to be seriously harming the business interests of US firms by misconduct of IPR protection, which are sorted into three categories: Watch List, Priority Watch List, and Priority Foreign Countries. Watch List countries should talk through set guidelines by USTR to rectify their misconduct in IPR protection of US nationals. If, to the eyes of USTR, a Watch List country does not make satisfactory progress to address concerns, it is escalated to the Priority Watch List. This is the last red alarm before the country gets listed as Priority Foreign Country and becomes subject to retaliatory sanctions, such as revocation of Generalized System of Preferences (GSP) benefits and imposition of Section 301 tariffs (Drahos & Braithwaite, 2002).

As Sell (2003, 2017) and Drahos and Braithwaite (2002) note, main targets of Section 301 actions were initially prominent emerging economies of 1970s and 80s, with which the United States consistently had run large trade deficits. Among the countries were Brazil, Argentina, China, India, Korea, Taiwan and Thailand. These countries had been persistently accused of rampant piracy in textbooks, motion pictures and other various sources of entertainment media, as well as lack of protection in pharmaceuticals against generic products. While the United States aimed to bring all countries, regardless of their economic/development status or political power, to converge to the US standards of IPR regulation through Special 301 process, the weight of the punishment felt very different to developing nations, compared to advanced economies. The countries listed above were dependent for their economy on the trade with the United States, and were hosts to offshore investments of US firms.

In the case of Brazil during the 1980s, the United States brought out Section 301 action as the weapon to have Brazil comply the US standards in protecting IPR of pharmaceuticals; while the country was accused of insufficient infrastructure to adequately protect IPR across numerous industries, the main reason of bringing up Section 301 was Brazil's resistance to the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). From the US perspective, crushing Brazil would serve as a bitter example to other states opposing the adoption of TRIPS. Brazil denied what seemed to be the US-centric order of IPR protection, from which their own perspective would undermine their ability to fight against widespread AIDS with cheap generic

drugs. However, the lurking threat of Section 301 tariffs was too great to overcome their resolve of refusing TRIPS, as the United States took up 25% of the Brazilian trade, and it was obvious that the immense tariffs would destroy the affected industries (Draho & Braithwaite, 2002).

Korea was another country in the 80s to be under the US radar of Special 301 process. While the country aspired to join OECD, it received a lot of complaints from the United States regarding insufficient IPR protection in numerous sectors, including motion picture, semiconductors, and pharmaceuticals industries. Back then, 35% of Korean trade was with the United States, making the United States the top trading partner of the country. It was certainly not a viable option for Korea to hurt the economic relationship with the United States by being sanctioned with high tariffs on important industries. Moreover, leaving a speck in the international reputation by being accused of piracy and adversary to IPR would not get Korea into OECD. The result of cost-benefit analysis on Korea's end was to abide by US demands on IPR regulation and drafting a new IPR law under US guidance (Draho & Braithwaite, 2002).

Today, US firms still actively seek protection of their IPR through USTR to fulfill their business interests in foreign markets. Roughly 30 countries are under Special 301 every year, including all three categories. Among them, around 8-10 countries are on the Priority Watch List. Since the late 2000s, no developed country has been escalated to the Priority Watch List, even though a few of them appear in the Watch List occasionally. Special 301 investigations with regard to suspension of GSP benefits are common, too. Investigations were conducted against Argentina in 2002, Honduras in 2003, Brazil from 2001 to 2006, and Ukraine and Indonesia in 2012 (Zhou, 2016).

Other than the 301 actions, firms can also have their home government bring the case to the WTO court. However, the Special 301 process and the subsequent Section 301 actions can be more attractive solutions to US firms. It is because the Special 301 process is much faster than the WTO dispute settlement procedure to reach conclusions. WTO dispute settlement consists of multiple stages and is complex, often resulting in delayed rulings. Respondent states need not address grievances for several years without any trade retaliations until the case receives a ruling (Brewster, 2011; Goldstein, 2017). In contrast, the Special 301 process has a hard bite on targeted

countries, especially emerging countries without treaties signed with the United States, or accession to WTO. Developed nations, such as the European Union (EU) and Canada, have not much to worry, as their interests in IPR protection parallel with those of the United States, which makes them less exposed to complaints from US firms in the first place. Even if they are exposed to the Special 301 process, they have their own resorts to retaliate against the United States through tariff actions on par, or WTO litigations, where they can receive more favorable rulings through leveraging multilateral characteristic of WTO with multiple countries sharing their interests. This is the understanding of Sattler and Bernauer (2007) on the relationship between economic power and WTO dispute initiations.

Davis and Bermeo (2009) as well as Guzman and Simmons (2005) find another barrier to utilizing the WTO adjudication system for less developed countries, which is high initiation cost of WTO litigations. Since deep trade dependence and relatively weaker economic power of emerging economies leave them with fewer options for reciprocal retaliations, such conditions make emerging economies easy targets for 301 predation. As were the aforementioned Section 301 cases in 80s, it is an effective threat that actually works with developing countries, which brings them closer to complying with US preferences.

In short, countries engaging in large volumes of trade with the United States are more prone to receiving grievances of US firms, and this is especially the case for the emerging economies with high trade dependence on the United States. The overall discussion leads to the following hypothesis:

Firm grievances result in negative evaluation of a country and consequent retaliatory measures by the US government, especially in the case of emerging economies.

2.2 Appealing Move towards the United States

The study of the literature demonstrates the effectiveness of the 301 actions as political punishments mainly targeting emerging economies, to induce desirable changes in their political actions. What makes them particularly vulnerable to such bilateral strategy, other than the lack of

resources to retaliate, is their necessity to gain access to international community. Membership in IGOs grants emerging economies club goods such as WTO accession, OECD membership, favorable IMF loan terms, and so forth, which are crucial to their development (Davis, 2023). It comes at a cost, however; as the access to IGOs requires synchronization of institutional standards, accession-seeking countries must undergo significant reforms to meet the criteria set by dominant member states (Davis, 2023).

Bermeo (2018) highlights that major powers often shape international institutions to direct benefits towards their preferred partners, effectively conditioning the nature of development assistance. This implies that emerging economies must adapt their domestic policies to be more congruent with the preferences of major powers, thereby undergoing the necessary reforms. Similarly, Stone (2002, 2008) underlines that the International Monetary Fund (IMF) lends not just based on economic need but also on political considerations. Emerging economies are often subject to stringent conditionality which necessitates deep-seated reforms, frequently tied to the preferences of major powers that dominate the IMF's decision-making structures.

Pelc (2011)'s study on WTO accession terms reveals a similar trend. Pelc indicates that not all accession terms are created equal. The variations often reflect the geopolitical and strategic interests of major WTO players, forcing emerging economies to make more concessions and reforms than they would have in a purely rule-based system. Adding to this, Davis (2023) posits that major powers wield disproportionate influence in international organizations, often bending membership rules in their favor. The case of Brazilian President Bolsonaro introduced in the book demonstrates the president's effort to join OECD. Bolsonaro aligned closely with Trump administration by praising Trump as "the savior of the West" and departing from the past emphasis on BRICS, while standing at the opposite extreme from China by making public remarks deprecating Chinese leaders. The result was quite fruitful, in that Brazil won Trump's support for initializing the accession procedure, and earned the non-NATO major ally status in 2019.

To gauge the assimilation effort of emerging economies, the literature has utilized United Nations General Assembly (UNGA) voting as a proxy. Voeten (2021) sees UNGA voting behavior as a revealed preference; shifts in political preferences and subsequent actions of states across

multiple areas are manifested in ideological placement of states, which matches their rank-ordered preferences over ideologies of multiple institutions. On the other hand, some studies point towards the evidence of strategic vote buying. The voting itself does not have a substantial meaning as it is non-binding (Carter & Stone, 2015), but it is related to important political consequences, such as IMF lending, World Bank loans, and US foreign aid disbursements (Carter & Stone, 2015; Dreher & Sturm, 2012). Carter and Stone (2015) explain UNGA voting as a means for the United States to evaluate a country's affinity to US resolutions; the US Agency for International Development is required by US State Department to consider the aid recipient country's voting records when making decisions on aid disbursements. By comparing democracies against autocracies, they find that UN voting is a more effective reward and punishment mechanism for democracies. This is because deviation from the US position regarding a favored measure, represented by the "Yes" vote, results in much more punishment than deviation in an unpopular measure for democratic aid recipients. Because aid flows of democracies are more contingent on their voting records, they vote strategically expecting US aid disbursement decisions.

Dreher and Sturm (2012) also point out to the use of UNGA voting by major powers as a means to reward or punish other countries through international lending. Borrowers of non-concessional loans from both IMF and World Bank cast coinciding votes more often with the average G7 country. Voting congruence with the United States is more conspicuous for World Bank loan recipients than IMF loan recipients. The finding reflects the fact that the United States has substantial influence on the Bank, as the operation of the Bank relies heavily on US capital, and every loan proposal goes through US scrutiny.

As the literature points out, it is evident that emerging economies are heavily disincentivized by deviating far from the expectations the United States has on the trade relations, as they lose access to the growth opportunities from various club goods especially when terms are largely determined by the United States. Being under the Special 301 process is the warning sign for the targeted deviators to conform to US demands. Targeted countries, in turn, will move their preferences closer to those of the United States as an appeasing gesture. This leads to the following hypothesis:

Negative reaction from the United States in terms of trade relations instigates targeted states to move closer to the US ideal point in UNGA voting space.

3 Empirical Evidence

3.1 Data

I collect the whole text of NTE reports from 2004 to 2022, harnessing the Optical Character Recognition (OCR) method for PDF files available in Python. While the reports date back to 1986, copies of the reports before 2004 have been poorly maintained in the form of scanned images, which significantly tarnishes the accuracy of the OCR task, e.g., indecipherable characters or chunks of words. Thus, I choose to leave out the reports before 2004 to ensure accuracy of the text. Although the amount of available data is cut down by half, I still have almost two decades of records in hand with four administrations of alternating parties, which gives enough leverage to explore variance.

The structure of NTE reports is quite resilient over time and across different administrations, with each chapter dedicated to a country of importance, and issue areas categorized into multiple sections for each country. There are some issue areas that appear consistently over time and across countries as well, such as “import barriers”, “export subsidies”, “IPR protection”, and “government procurement”. However, there are numerous sections particular to certain countries that do not appear in the chapters of other countries. For instance, the reports across the entire time span included in this research include a section titled “Government Subsidies to Airbus” in the chapters of EU. Persistent appearance of this particular section for roughly two decades reflects the dissatisfaction of the United States against EU for subsidies pertaining to civil aircraft produced by Airbus, and the consequent WTO dispute that has dragged for more than 15 years since the filing in 2005. Figures 1 and 2 give us a sense of rather fixed structure of the reports over time, while Figures 3 and 4 show a country-particular section of Airbus subsidies dedicated to EU.

There are roughly 60-80 countries listed every year in the report, each of which may appear



Figure 1: Chapter about Korea in 2004 NTE report



Figure 2: Chapter about Japan in 2020 NTE report



Figure 3: Chapter about EU in 2004 NTE report



Figure 4: Chapter about EU in 2020 NTE report

in a persistent manner or appear for a certain period time and subsequently not be included. I keep track of the appearance of a country in each year with “country” and “year” variables. The bodies of text are accumulated at country-year level, and then tokenized at word level to conduct text analysis following Slapin and Proksch (2008), which yields the US perspective in terms of trade barriers vis-a-vis each country appearing in the NTE. The estimated score above zero indicates more barriers present in a country and thus a more hostile environment to the US businesses, and below zero fewer barriers, meaning a more favorable environment. The basic idea of the method proposed by Slapin and Proksch is that the word frequencies across documents are generated by a Poisson process, which has an advantage of simplicity in estimation as the mean and the variance are equal, sharing the same parameter. In other words, the model relies on the assumption that the frequency of word j in country-specific chapter i at year t follows Poisson distribution. The estimates are scaled to have mean of 0 and standard deviation of 1. The functional representation is as below:

$$y_{ijt} \sim \text{Poisson}(\lambda_{ijt}) \quad (1)$$

$$\lambda_{ijt} = \exp(\alpha_{it} + \psi_j + \beta_j * \theta_{it}) \quad (2)$$

where y_{ijt} is the count of word j in country-specific chapter i at year t , α_{it} year fixed effects pertaining to each country chapter i , ψ_j word fixed effects, β_j an estimate of a word specific weight which captures discriminatory power of word j to distinguish positions, and θ_{it} the estimate of the US position in terms of trade vis-a-vis country i in year t , which is the major estimate of interest. I use the term NTE position estimate and θ interchangeably throughout this paper, as these two terms are equivalent to one another. Estimation of the parameters is done by an expectation maximization (EM) algorithm, an iterative procedure computing maximum likelihood estimates for latent variables. I rely on Wordfish package in R provided by Slapin and Proksch to obtain the estimates.

Brief overview of the trend of θ is provided in Figure 5. I select 10 countries that constantly appear throughout the period of 2004 - 2022, for the purpose of legibility. Despite subtle fluctuation of the θ over time, what is starkly evident is the stratification of countries in terms of

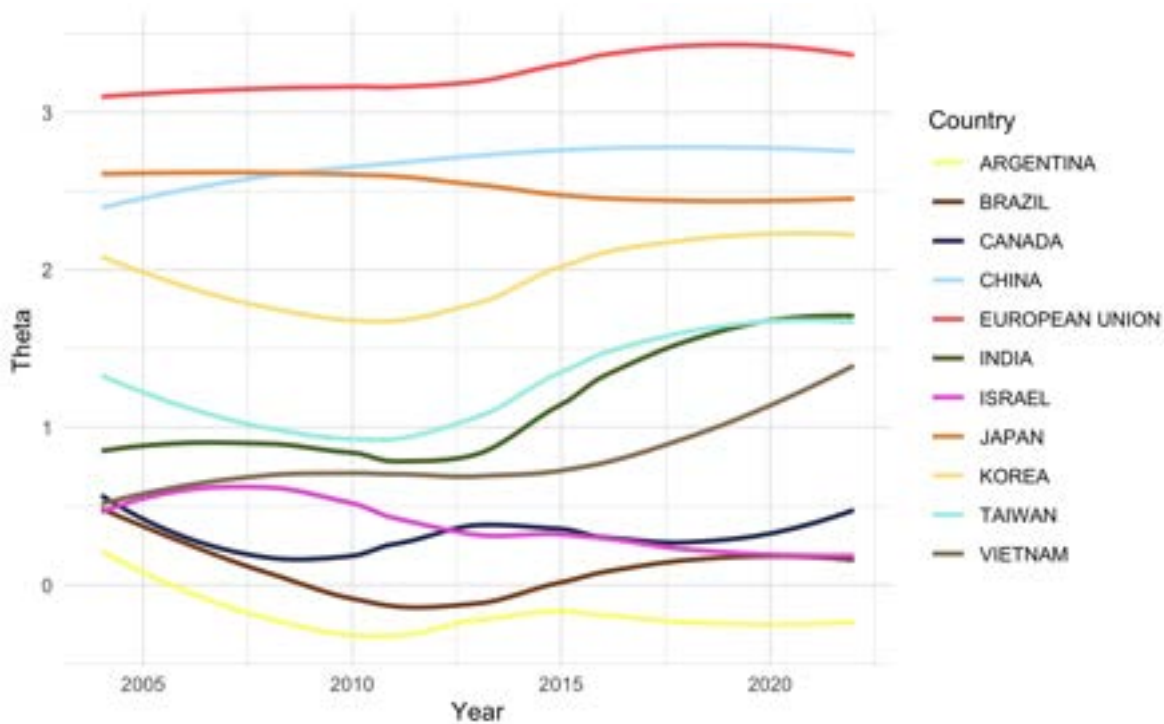


Figure 5: NTE position estimate trend for selected countries

θ ; the United States has rated EU as the jurisdiction raising the most trade concerns for US businesses compared to all other 9 countries, followed by China, Japan, Korea, Taiwan, and so forth. This suggests the high persistence of US trade policy agenda in general, despite some fluctuations observed over time. The following ANOVA analyses grouping the NTE position estimates by year and Congress, respectively, lend strong support to such tendency.

The ANOVA analysis with “year” group yields F-statistic of 0.961 with degrees of freedom at 18, which is equivalent to the p-value of 0.503. The analysis with “Congress” group yields the F-statistic of 1.883 with degrees of freedom at 8, resulting in the p-value of 0.059. The results altogether reject the alternative hypothesis of unequal means at the level of significance at 95%, which is in favor of the conjecture on the persistence. Levene Test results are insignificant for both analyses, F-statistic of 0.593 and 0.291 with degrees of freedom at 18 and 8 respectively, confirming the homogeneous variance across all groups. Moreover, I conduct Kruskal-Wallis rank sum test on θ across countries to test the cross-sectionality of the NTE position estimates, as the Levene Test indicates violation of the homogeneous variance assumption. The χ^2 statistic of the test is 1022.7 with degrees of freedom at 75, which is equal to the p-value of 0.000. The result again serves as a strong evidence to the highly persistent characteristic of the US trade policy, which is the reason why some of the subsequent analyses in the next section do not include country fixed

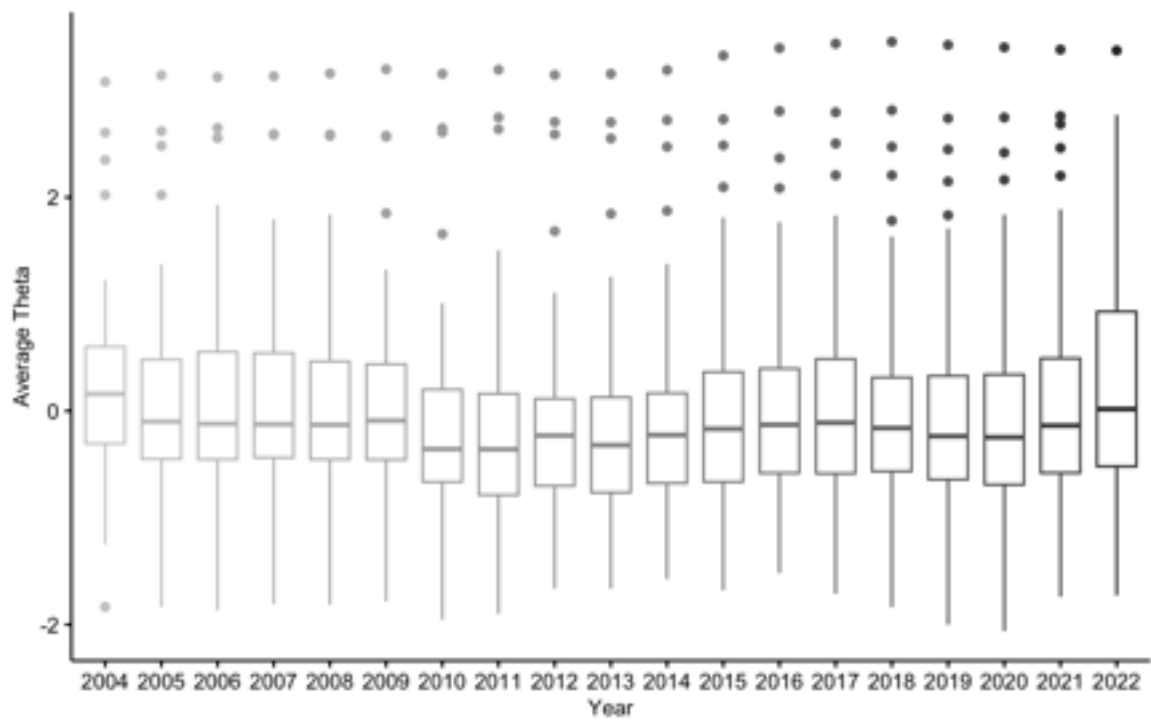


Figure 6: Comparing the distribution of NTE position estimates across all the years

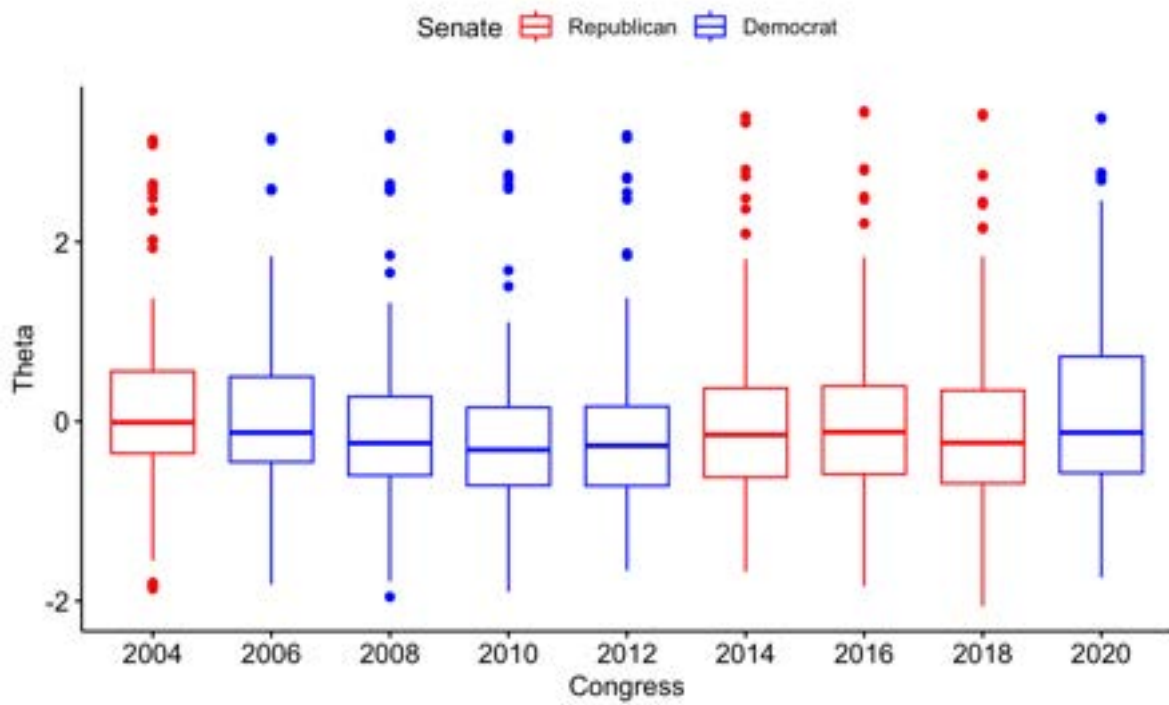


Figure 7: Comparing the distribution of NTE position estimates across Congresses

effects. Overall, there is little room for the US perspective on a trading partner to change; still, there are occasions where the United States sends out signal of intense dissatisfaction outside of the established range, and the modification of behaviors is observed in targeted countries. The series of analyses followed by this section builds up on one another to demonstrate such cases.

3.2 US Firm Grievances and Trade Consequences

The following analyses in this section focus on verifying the influence of US firms on shaping US trade policy reflected through USTR, which corresponds to the first half of the theory section. They also serve the purpose of providing deeper understanding of the underlying dimensions of the NTE position estimate.

I start with probing the correlation between trade balance and the US evaluation of its partner. As stated in the theory, what triggered the passage of 1974 Trade Act, which serves as a foundation to the current US trade policy, was the large deficit against emerging economies. The following plots, Figures 8 and 9 are the results of regressing the NTE position estimate, θ , on the dyadic trade volume between the United States and each partner country, and the trade balance, respectively. Both are simple OLS regressions without any fixed effects or covariates, offering rough picture on the relationship between θ and the trade variables.

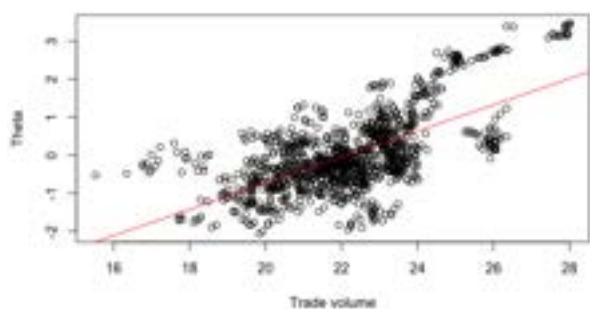


Figure 8: Theta regressed on logged trade volume

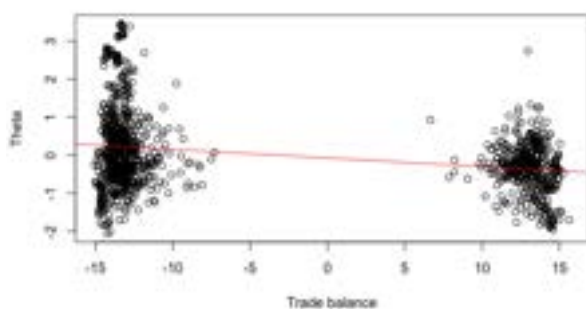


Figure 9: Theta regressed on logged trade balance

Figure 8 shows θ increases with the trade volume. It makes sense intuitively and theoretically that firms should have more complaints against countries where they invest and engage in trade a lot. In the same vein, θ decreases with trade balance, as seen in Figure 9. Us businesses complain a lot more in states where they are not profitable enough. Consequently, the US rating of

market hostility goes up with the trade deficit it runs against its trading partner, which confirms the literature that the current US trade policy has been structured to address trade deficits.

Next, I show the direct influence of firm grievances on the NTE position estimates and trade outcomes, manifested in lobbying activity and investment decisions of US firms. USTR lobbying is of particular interest, as the literature has revealed that USTR is the most direct channel for firms to express their trade concerns over any other access point available in the US government. For the measures of firm lobbying and mergers and acquisitions (M&As), I use the replication data from the work of Shim and Stone (2022). Their data feature observations on M&A behavior of firms during the period of 1992-2018 drawn from Fortune Global 500, the most profitable MNCs around the world. To begin with, I regress the NTE position (θ) on the average number of lobbying reports dedicated to USTR each year per country, filed by US firms that hold the record of acquiring assets in country i appearing in the NTE reports. I fit an OLS model with fixed effects as follows:

$$\theta_{it} = \lambda_t + \eta * \text{mean}(USTR)_{it} + \gamma X + \epsilon_{it}$$

where λ_t is year fixed effect, θ the dependent variable, which is the NTE position estimate for country i in year t , $\text{mean}(USTR)$ the explanatory variable of interest, and X , the set of control variables. I lag $\text{mean}(USTR)$ by a year, as the effect of lobbying is more likely to be captured at least a year after than immediately. Note that country fixed effects are not included as the NTE position estimates are characterized by cross-sectionality, which is to be absorbed by country fixed effects if included. I still cluster the errors at country level. The set of control variables includes US PTA, UN voting distance, GDP per capita, trade volume, total IIAs, Polity, and OECD. US PTA indicates whether country i has a PTA in force with the United States¹. If a country has a PTA in force with the United States, it can be considered as the sign of economic affinity to the United States. Thus, US PTA should have mitigating effect on the NTE position estimate. UN voting distance measures the distance of ideal preferences between country i and the United States in terms of the UN General Assembly voting, which I adopt from Bailey and Voeten (2018).

¹The list of US PTAs is obtained from <https://ustr.gov>.

The extant literature should predict that closer distance of preferences is expected to mitigate the US view on market hostility, as it also signals diplomatic affinity (Gartzke et al., 2001). On the other hand, more adversarial view of the United States on a country may be correlated with closer voting distance, as examining the accounts of emerging economies in an effort to appease the United States for better terms reveals. GDP per capita of country i , and the trade volume between country i and the United States are included as well, both of which are logged, to control for the economic power and the bilateral trade flow. GDP per capita originates from the World Bank data (World Bank, 2020), and the trade volume from the Direction of Trade Statistics published by IMF (Statistics Department, International Monetary Fund, 2021). Total IIAs stands for the number of total international investment treaties (IIAs) signed by country i , excluding the bilateral investment treaty (BIT) with the United States². IIAs signed by a country can be understood as a signal of credible commitment to the protection of foreign businesses. In effect, it may work as a good signal to the United States that the country is ready to thoroughly protect US businesses operating there. I also control for Polity, which is the Polity IV score of country i (Marshall & Gurr, 2018). The existing literature on democracy promoting trade (Mansfield et al., 2000; Milner & Kubota, 2005) argues a pair of democracies is more likely to embrace free trade than a heterogeneous pair, implying more harmonious trade relations. Finally, I also include OECD, which indicates OECD membership of country i ³, as it is expected in the theory that emerging economies are susceptible targets to the US trade complaints.

Table 1 presents the set of results pertaining to firm grievances captured in lobbying and the consequent US views on business environment of each trading partner. Column (1) is the baseline model without covariates, column (2) is saturated with all the control variables, and column (3) adopts the interaction term of US PTA and mean(USTR). mean(USTR) comes into effect once it is interacted with US PTA. Absent US PTA, more lobbying to the USTR on average by US firms investing in country i induces more dissatisfaction of the United States vis-a-vis country i 's accommodation of US businesses; one more lobbying report filed is equal to 0.02 increase of θ . Having a PTA in force with the United States, however, contributes to the decrease of θ by 0.304, holding mean(USTR) constant. This can be explained by Osgood (2018)'s argument about

²I consulted <https://icsid.worldbank.org> for the full list of IIAs signed by each country.

³The list of OECD members can be retrieved from <https://oecd.org>

Table 1: OLS with fixed effects, NTE position estimate (θ) as the dependent variable

	(1)	(2)	(3)
mean(USTR), lagged	0.019 (0.012)	-0.003 (0.007)	0.020* (0.009)
US PTA		-0.688* (0.323)	-0.265 (0.273)
UN voting distance		-0.406** (0.140)	-0.495** (0.163)
GDP per capita		-0.183 (0.139)	-0.167 (0.124)
Trade volume		0.445** (0.144)	0.416** (0.138)
Total IIAs		0.004 (0.006)	0.004 (0.006)
Polity		-0.013 (0.033)	-0.020 (0.031)
OECD		0.011 (0.314)	0.011 (0.288)
US PTA \times mean(USTR)			-0.039*** (0.010)
N	266	252	252
Year FE	✓	✓	✓

Standard errors clustered at country level in parentheses
+ $p < 0.1$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

US MNCs and their use of PTAs. In the absence of a PTA with the United States, US MNCs lobby USTR for market access, but in the presence of a PTA, they lobby USTR to lower US trade barriers. The difference comes from the fact that the United States signs PTAs with countries where US firms import large volume of intermediate goods.

Next, I look for investment pattern of US firms in conjunction with the NTE position estimates to see if USTR lobbying by firms does reflect their grievances against unaccommodating investment destinations. Even though it is hard to entirely withdraw established businesses, firms are likely to quit acquiring new assets in countries where they have expressed concerns of trade barriers hampering their operations. As a proxy to the acquisition of new assets by US firms in a country, I use total M&A amount of US firms in country i , in millions of US dollars. I employ OLS with fixed effects, unit of analysis being firm-year observations. Independent variable is the NTE position estimate, θ , lagged by a year. All the covariates from Table 1 are included. I include one more covariate, Priority Watch, which indicates whether country i is listed in Priority Watch List at year $t - 1$. It is expected in the theory that countries under Priority Watch List will suffer from investment losses, as escalation to Priority Watch List means great amount of dissatisfaction from

Table 2: OLS with fixed effects, US firm M&A as the dependent variable

	(1)	(2)	(3)	(4)	(5)
Theta (θ , lagged)	-0.116* (0.048)	-0.212** (0.070)	-0.106 (0.129)	-0.203* (0.079)	-0.144* (0.065)
Priority Watch (lagged)		0.126 (0.111)	0.063 (0.129)	0.120 (0.115)	0.139 (0.111)
UN voting distance		0.113 (0.126)	0.155 (0.117)	0.114 (0.126)	0.207+ (0.117)
GDP per capita		0.363*** (0.066)	0.388*** (0.068)	0.360*** (0.067)	0.404*** (0.069)
Trade volume		0.046 (0.050)	0.037 (0.051)	0.044 (0.050)	0.075 (0.054)
Total IIAs		0.004* (0.002)	0.004+ (0.002)	0.005+ (0.003)	0.003 (0.002)
Polity		0.023 (0.015)	0.033+ (0.017)	0.025 (0.017)	0.036* (0.015)
OECD		-0.048 (0.201)	0.016 (0.196)	-0.058 (0.214)	-0.226 (0.209)
US PTA		-0.261* (0.123)	-0.262* (0.122)	-0.235 (0.170)	
OECD \times Theta			-0.152 (0.135)		
US PTA \times Theta				-0.034 (0.139)	
US BIT					0.470* (0.204)
US BIT \times Theta					0.507 (0.330)
N	6,102	5,933	5,933	5,933	5,933
Firm FE	✓	✓	✓	✓	✓
Year FE	✓	✓	✓	✓	✓

Standard errors clustered at firm level in parentheses

+ $p < 0.1$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

the US firms. Table 2 present the results. Column (1) is the baseline model without covariates, and column (2) includes all the covariates listed. Columns (3) to (5) include interaction terms of θ and three variables, OECD, US PTA, and US BIT, respectively. As θ increases, which means the United States sees country i to be more hostile to US businesses, US firms reduce the acquisition of new assets in country i . In substantive terms, one standard deviation increase in θ results in roughly 19% decrease of the investment from US firms, using the coefficient from column (2). There is no interaction effect between θ and OECD affiliation, PTA status, and BIT status with the United States.

Escalation of the United States' dissatisfaction about unaddressed trade barriers of its trading partner eventually results in putting the country under surveillance of the US government. This means the country can be subject to 301 investigations; if the country is accused of serious IPR infringement, this will result in Special 301 process. If it is about unfair trade practices against US nationals, e.g., dumping, illegal subsidies, etc., the result is Section 301 action. The theoretical expectation is that emerging economies are more vulnerable to the 301 targeting, due to the lack of resources to retaliate and their economic dependence on the United States. I examine the joint effect of the NTE position estimate and OECD membership on the probability of escalation to Priority Watch List, using the interaction term. Recall that OECD membership is a proxy for the development status of a country, which distinguishes developed nations from emerging economies throughout this paper. I use the linear probability model with year fixed effects, and cluster the standard errors at country level. Country fixed effects are not included to ensure the persistence of θ being reflected. The same set of covariates are used as the analyses from the preceding section. Table 3 presents the results.

Column (1) is the baseline model without control variables, and column (2) includes all the covariates. It is evident in both columns that without OECD membership, one standard deviation increase of θ increases the probability of escalation to Priority Watch List by 0.144 and 0.118, respectively. On the other hand, if a country holds an OECD membership, one standard deviation increase of θ results in decrease of the probability of escalation to Priority Watch List by 0.101 in column (1), and 0.103 in column (2). Rise of trade tension leaves an emerging economy

Table 3: OLS with fixed effects, Priority Watch as the dependent variable

	(1)	(2)
Theta (θ , lagged)	0.144* (0.065)	0.118+ (0.069)
OECD	0.023 (0.126)	0.068 (0.136)
GDP per capita		-0.062+ (0.033)
Trade volume		0.033 (0.023)
Trade balance		0.001 (0.002)
Polity		0.001 (0.005)
US PTA		-0.133* (0.064)
Total IIAs		0.002 (0.002)
Theta \times OECD	-0.268* (0.102)	-0.289** (0.104)
N	1,092	1,006
Year FE	✓	✓

Standard errors clustered at country level in parentheses

+ $p < 0.1$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

outside OECD more vulnerable to Priority Watch List than developed nations in the OECD circle.

Table 4: Cox Proportional Hazards model, Priority Watch as the dependent variable

	(1)	(2)	(3)
Theta (θ , lagged)	-1.236* (0.491)	-1.592** (0.550)	-1.116* (0.494)
OECD	5.073** (1.655)	6.396*** (1.488)	4.408** (1.685)
GDP per capita	-1.438*** (0.416)	-1.529*** (0.439)	-1.502*** (0.414)
Trade balance	0.040 (0.034)	0.081* (0.041)	0.064+ (0.036)
Trade volume	0.391 (0.356)	0.394 (0.375)	0.440 (0.369)
US PTA	-0.774 (1.375)	-2.157 (1.322)	-0.245 (0.866)
Total IIAs	-0.022 (0.014)	-0.057* (0.024)	-0.025+ (0.014)
UN voting distance	-0.999* (0.423)	-0.833+ (0.314)	-0.501 (0.488)
Polity	-0.435*** (0.096)	-0.415*** (0.094)	-0.401*** (0.093)
US PTA \times Theta		2.623* (1.241)	
OECD \times Theta			4.209+ (2.276)
N	170	170	170

Standard errors in parentheses

+ $p < 0.1$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

It is reasonable to expect that the increase of trade tensions, manifested through the increase of θ , not only leads to Special 301 targeting but also prolonged Priority Watch List status for emerging economies compared to developed countries. I employ the Cox proportional hazards model to examine the effect of θ in conjunction with OECD membership on termination of Priority Watch List status. The event of this survival analysis is the termination of Priority Watch List status of country i . Years elapsed from the escalation to Priority Watch List until the termination of the status are computed as the duration until the event.

The results are presented in Table 4 above. Column (3) is of main interest, as it features the interaction term of OECD membership and θ . Absent OECD membership, one standard deviation increase in θ leads to approximately 67.3% decrease in the probability of elimination from Priority Watch List. With OECD membership, even with the one standard deviation increase

in θ , the odds of termination of the status increases by $\exp(-1.116 + 4.209) \approx 22.05$ times. In addition to OECD membership, I examine the effect of US PTA jointly with θ on the termination of Priority Watch List status in column (2). While the interaction term does have significant and positive effect, combined with the coefficient of US PTA, the overall effect size is not large enough to cancel out the effect of θ , given one standard deviation increase in the measure. The findings show that emerging economies stay on the Priority Watch List longer than OECD countries. While having a PTA with the United States mitigates the effect of trade tensions captured by θ , it is still not strong enough to cancel out exposure to Special 301 targeting. This suggests that Special 301 targeting is more than just a trade remedy, but a political signal to deviators that do not belong to the like-minded club.

The next analysis adds on to the evidence that Special 301 process is a preferred method by the United States to address trade grievances, particularly with emerging economies. This is because trade dependence of emerging economies on the United States, combined with lack of resources to retaliate, makes the bilateral strategy highly effective to induce compliance. I employ the bivariate probit model including the interaction term of the NTE position estimate and OECD membership to explore such claim. Bivariate probit model is particularly useful when two binary outcome variables are believed to be correlated with one another (Greene, 2018). The functional form is as follows:

$$Pr(WTO = 1) = \Phi(\tau OECD \times Theta + \gamma Z)$$

$$Pr(PWL = 1) = \Phi_2(\tau OECD \times Theta + \gamma Z, \rho)$$

where Φ denotes the standard normal distribution and Φ_2 the bivariate standard normal distribution. ρ is the correlation parameter of the error terms of the two equations. The binary outcome variable WTO , which indicates the onset of a new WTO litigation filed by the United States, is regressed on the interaction term of OECD and θ along with covariates Z . Covariates include GDP per capita, trade volume, trade balance, US PTA, and total IIAs, which are used in

the preceding analyses as well. *PWL*, the indicator of Priority Watch List status, is simultaneously regressed on the same set of variables. As I am interested in the use of the bilateral strategy over multilateralism when the United States has trade frictions with emerging economies, I look at the predicted probabilities of $Pr(WTO = 0 \& PWL = 1)$ given $OECD = 0$. The full set of results is available in Table 6 of the Appendix. Figure 10 illustrates the outcome.

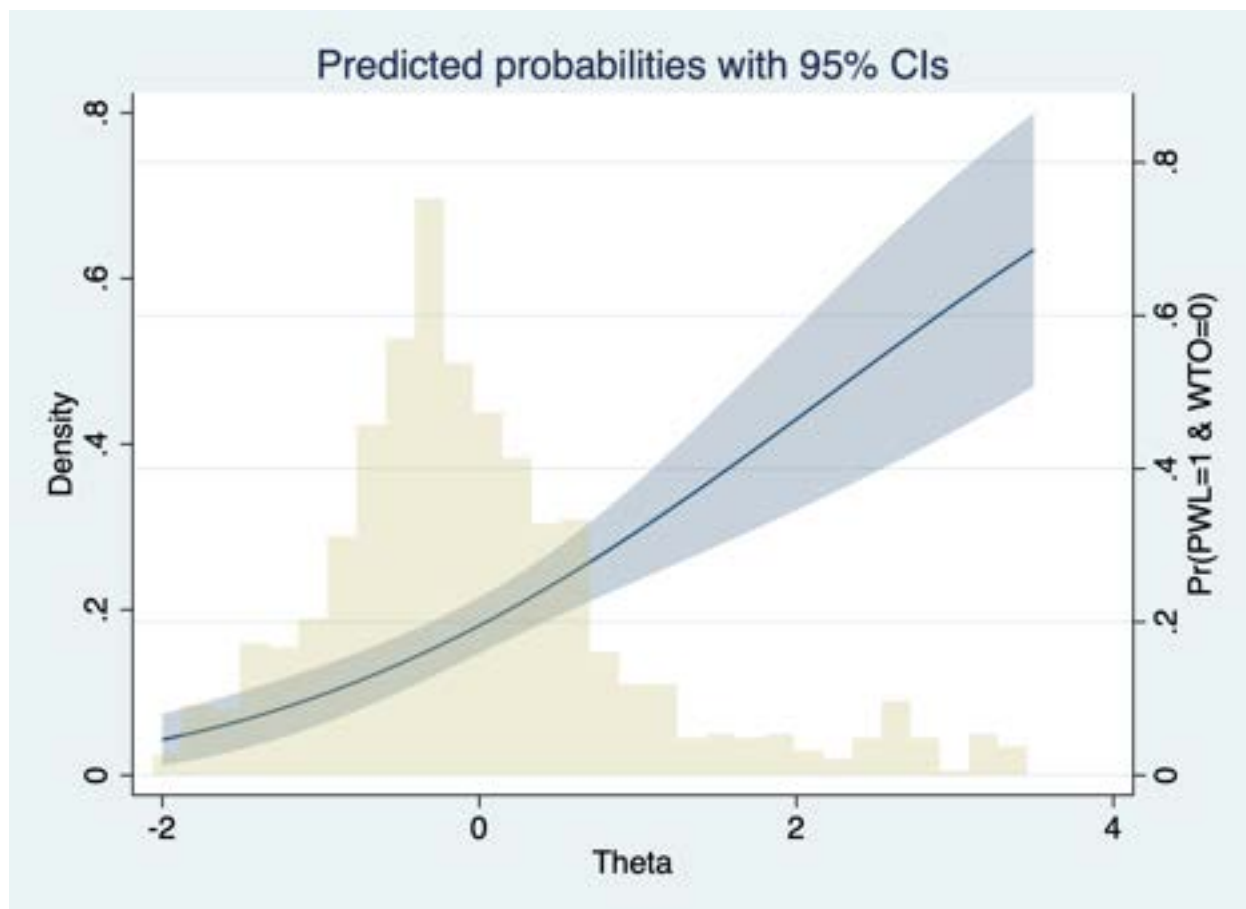


Figure 10: Bivariate probit model, non-OECD countries

I overlay the density plot of θ with the predicted probabilities in Figure 10. The probability of being subject to Priority Watch List over WTO litigation strictly increases with θ , given that a country is not an OECD member. This serves as a strong evidence in favor of the tendency of the United States deploying bilateral tactics more often against emerging economies to get desirable outcomes.

3.3 Trade Woes and Shifts in UNGA Voting

Last but not least, I provide the evidence to the core argument of this article throughout this section: the US bilateral strategy induced by private interests eliciting desired political response

of targeted countries. The extant literature demonstrates that the emerging economies are rewarded or punished according to their record of compliance with the expectations of the major powers. Because reward and punishment often take a form of international lending, which is one of the crucial development resources for emerging economies, they do not want to upset the United States to an irreversible point. I apply this argument to test the effect of θ and Priority Watch List on the UN General Assembly voting distance between the United States and trading partners, particularly emerging economies.

I start with the analysis examining the effect of θ on UN voting distance, using OLS with fixed effects. Dependent variable is the UN General Assembly voting distance computed by Bailey and Voeten (2018), using single-dimensional ideal point estimates of foreign policy preferences. The set of control variables remains the same as the previous analyses. Unlike the preceding OLS models, I include country fixed effects as well as year fixed effects. Even after ruling out the persistence, θ is strong enough to predict UN voting distance of the United States vis-a-vis other countries. The results can be found in Table 5.

Column (1) is the baseline model with the explanatory variable alone, and column (2) includes all the covariates. Columns (3) through (5) feature interaction terms of θ with three variables, OECD, US PTA, and Priority Watch, respectively. As expected, the increase of θ in the last year, which means the increased trade grievances of the United States with regards to partner countries, decreases the voting distance across all columns but column (5). Meanwhile, θ does have a decreasing effect jointly with Priority Watch List status in column (5), as the interaction term is significant and negative. It is interesting to see that being an OECD member state does not bring down the UN voting distance, as is the case in column (3). What can be extrapolated from this finding is that a country should converge in UN voting to join OECD (Davis, 2023), and nothing happens in the aftermath of accession. On the other hand, having a PTA in force with the United States adds on the effect of θ and closes the gap in the voting distance even further, as in column (4). One standard deviation increase in θ results in the decrease of voting distance by 0.242. Considering the standard deviation of UN voting distance being roughly 0.78, this is tantamount to the decrease by a third of the standard deviation, which is a notable effect size.

Table 5: OLS with fixed effects, UN voting distance as the dependent variable

	(1)	(2)	(3)	(4)	(5)
Theta (θ , lagged)	-0.095** (0.036)	-0.070* (0.035)	-0.072+ (0.038)	-0.105** (0.035)	-0.033 (0.033)
GDP per capita		0.065 (0.075)	0.065 (0.075)	0.056 (0.077)	0.096 (0.073)
Trade volume		-0.004 (0.049)	-0.005 (0.048)	0.001 (0.049)	-0.004 (0.049)
Trade balance		-0.000 (0.001)	-0.000 (0.001)	0.000 (0.001)	-0.000 (0.001)
US PTA		-0.114 (0.113)	-0.114 (0.113)	-0.263** (0.085)	-0.121 (0.110)
Total IIAs		-0.005 (0.003)	-0.005 (0.003)	-0.006 (0.004)	-0.005 (0.003)
Polity		-0.015* (0.007)	-0.015* (0.007)	-0.015* (0.007)	-0.014+ (0.007)
OECD		0.015 (0.063)	0.014 (0.066)	0.032 (0.067)	-0.021 (0.062)
Priority Watch		0.011 (0.050)	0.011 (0.050)	0.012 (0.048)	0.038 (0.045)
OECD \times Theta			0.008 (0.057)		
US PTA \times Theta				0.126** (0.043)	
Priority Watch \times Theta					-0.130*** (0.030)
N	1,033	969	969	969	969
Country FE	✓	✓	✓	✓	✓
Year FE	✓	✓	✓	✓	✓

Standard errors clustered at country level in parentheses

+ $p < 0.1$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

This can be interpreted as the economic affinity to the United States reflected in having a PTA affecting the foreign policy preference as well, which resonates with the accession literature. The results of column (5) can be connected to the following analysis with Priority Watch List as the treatment and the voting distance as dependent variable. While θ and Priority Watch alone are not significant, the interaction term is significant and negative, meaning one standard deviation increase of θ given that a country is under Priority Watch List decreases the voting distance by 0.125. This lends strong support to the conjecture that Priority Watch List is an effective tool for the United States to induce compliance from deviators.

The following analysis further investigates the findings from the analysis above. I employ a staggered diff-in-diff design, using escalation to Priority Watch List as the intervention and the UN General Assembly voting distance as the dependent variable. Since the treated units are subject to treatment at different times, treatment effect can be heterogeneous. I address this problem following the method proposed by Sun and Abraham (2021). The main idea is to group treated units into cohorts by their initial treatment timing, compute the average treatment effect on the treated for each cohort, and estimate the weighted average of these cohort-specific treatment effects on the treated (CATTs). A clear advantage of their method is that it allows conditioning the parallel trend assumption on a particular set of covariates theoretically believed to be relevant. Since escalation to Priority Watch List is only possible if a country has already been on the Watch List, I posit the parallel assumption to only hold given the set of lags indicating the lapse of years in Watch List status.

The first step of the estimation involves sorting units into cohorts by the initial treatment timing, which corresponds to the year of escalation to Priority Watch List in this analysis. CATTs are computed by each cohort using two-way fixed effects OLS regression as follows:

$$Y_{k,t} = \alpha_k + \lambda_t + \sum_{e \notin C} \sum_{l \neq 1} \delta_{e,l} (\mathbf{1}\{E_k = e\} \cdot D_{k,t}^l) + \epsilon_{k,t} \quad (3)$$

where $Y_{k,t}$ is the dependent variable, the total M&A amount of US firm k in country i . α_k is firm fixed effect, and λ_t year fixed effect. $\mathbf{1}\{E_k = e\}$ the cohort indicator of firm k ,

where $E_k = \{2004, 2005, \dots, 2018\}$. $D_{k,t}^l$ is the time indicator relative to treatment, where $l \in g$ and $g = \{-\bar{4}, -3, -2, 0, 1, 2, \dots, \bar{5}\}$. The cutoffs of the treatment timing window are binned at the ends, which is denoted with upper bars, e.g., $-\bar{4}$. I follow the literature and omit the year before intervention, $l = 1$, to preclude the correlation among relative time indicators. $\delta_{e,l}$ is the CATT of cohort e at the relative time period $l \in g$, which is the parameter to be estimated in equation (1).

Next, the weights of each cohort relative to the each time indicator are computed. The idea is to examine the probability of observing a treated unit belonging to cohort e in each relative time period l . The functional form is as follows:

$$Pr\{E_k = e | E_k \in g\}. \quad (4)$$

Finally, the weighted average of the CATTs is computed, using the estimates of CATTs from equation (1) and the weights of each cohort from equation (2). Below is the computation:

$$\hat{v}_g = \frac{1}{|g|} \sum_{l \in g} \sum_e \hat{\delta}_{e,l} \widehat{Pr}\{E_k = e | E_k \in g\} \quad (5)$$

where \hat{v}_g is the estimate of weighted average of CATTs across all the cohorts with regards to each relative time period $l \in g$. Sun and Abraham refer to the estimate as the "interaction-weighted (IW) estimate". $\hat{\delta}_{e,l}$ is the estimate of CATT obtained from equation (1) and $\widehat{Pr}\{E_k = e | E_k \in g\}$ is the estimated weight of each cohort e from equation (2). \hat{v}_g is normalized by the number of relative time indicators, $|g|$, which is 9 in this analysis. Figure 11 presents the estimates.

The initial purpose of this analysis was to pool countries by OECD membership status to show the asymmetric effect of Priority Watch List on emerging economies in terms of preference alignment. However, there have been too few OECD countries under Priority Watch List since 2009; only Chile has been on the list for a decade from 2010 until 2022, followed by Canada for 5 years, 2009 through 2012 and once more in 2018, and Turkey for 4 years from 2004 to 2007. Since it is impossible to obtain the estimates for the OECD pool, the figure above presents the estimates for the non-OECD pool only. As the theory predicts, getting on the Priority Watch List is estimated

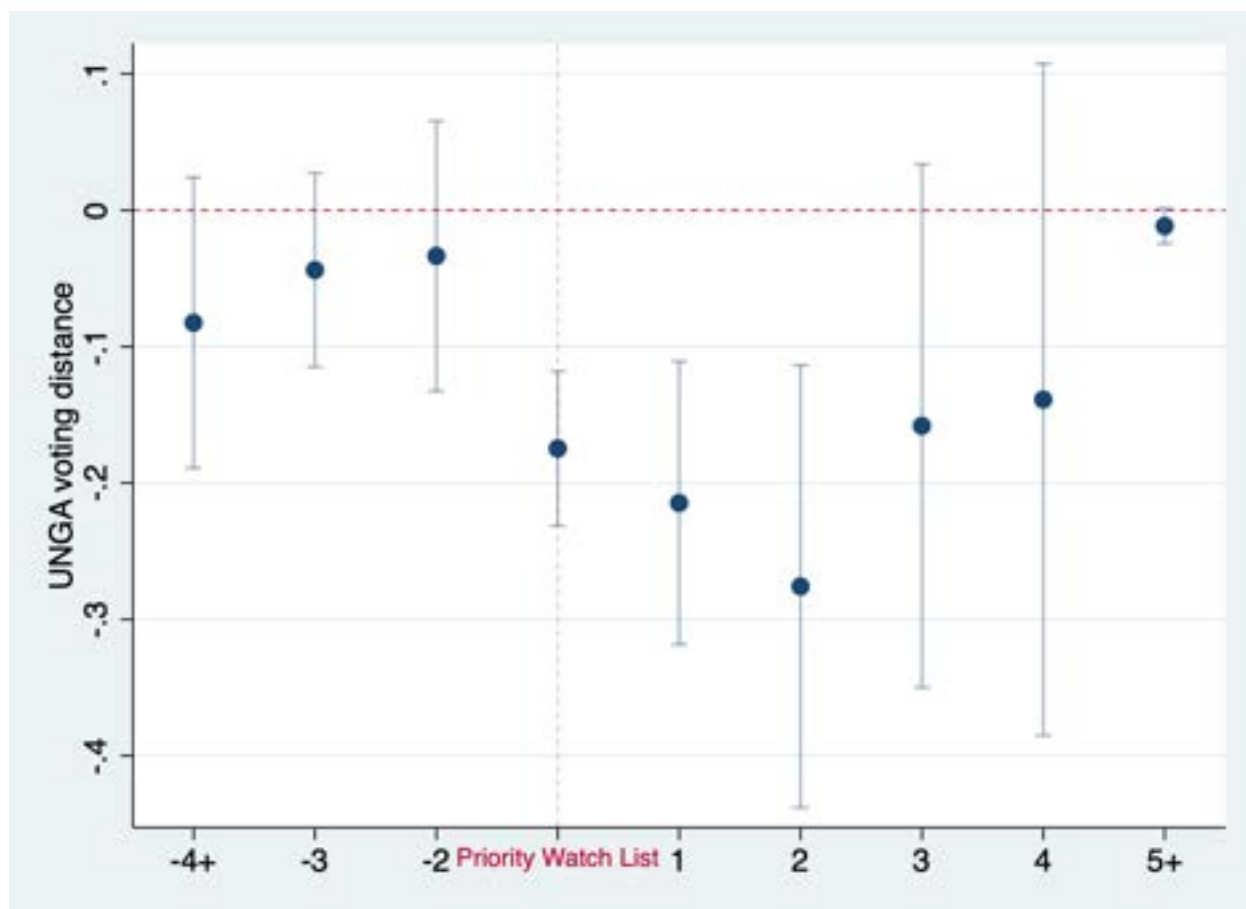


Figure 11: UN General Assembly voting distance, Priority Watch List as intervention, emerging countries only

to have an immediate effect of decreasing the UN voting distance of a target country vis-a-vis the United States. The effect lingers until two years elapse from the escalation to Priority Watch List. Together with the OLS estimates, the findings attest to the attempt of emerging economies targeted by Special 301 to appease the United States by assimilating their foreign policy preferences to those of the United States.

4 Conclusion

The firm-centered literature in IPE has highlighted the enduring influence of select US MNCs in shaping the nation's trade agenda. These corporations, due to their significant resources and capabilities, are uniquely positioned to engage in political lobbying and influence trade decisions. The evolution of USTR further underscores this point, revealing a trade policy that is increasingly tailored to the interests of these MNCs. This orientation suggests that US trade policy is intricately linked to the aspirations of its major corporations.

The National Trade Estimate (NTE) report, published annually by the USTR, serves as a focal point of this study. The NTE reports, which date far back to 1984, ever since the amendment in 1984 to the 1974 Trade Act, offer a comprehensive view of US trade perspectives concerning various trading partners. The resulting Special 301 process, while its primary purpose is to punish aggrieving countries, has had political implications to targeted countries.

The major findings of this study speak to the firm-driven model of US trade policy, which in turn creates effective security externality. The demands of firms for more accommodating business environment in foreign countries are evident in the tone and direction of trade policies, as shown in NTE position estimates. Emerging economies, due to their relative economic positions, are particularly susceptible to Special 301 process compared to developed countries, given the same level of trade grievances from the United States. Moreover, the UN voting analyses show that these nations often seek to mitigate trade tensions by aligning their political preferences more closely with US expectations.

Appendix

Table 6: Bivariate probit analysis, Priority Watch List VS WTO litigation

	(1)
<i>WTO</i>	
Theta (θ , lagged)	-0.246 ⁺ (0.149)
OECD	0.462 (0.471)
Theta \times OECD	-0.496 (0.412)
GDP per capita	-0.638*** (0.137)
Trade volume	0.588*** (0.129)
Trade balance	-0.018 (0.015)
US PTA	-1.159* (0.450)
Total IIAs	0.016*** (0.005)
Polity	0.060* (0.026)
Constant	-10.646*** (2.597)
<i>PWL</i>	
Theta (θ , lagged)	0.375*** (0.075)
OECD	0.521* (0.217)
Theta \times OECD	-2.739*** (0.421)
GDP per capita	-0.307*** (0.061)
Trade volume	0.141** (0.047)
Trade balance	-0.005 (0.005)
US PTA	-0.568*** (0.139)
Total IIAs	0.011*** (0.002)
Polity	0.009 (0.011)
Constant	-1.656 ⁺ (0.932)
ρ^{-1}	0.261 ⁺ (0.143)
<i>N</i>	1,006

Standard errors clustered at country level in parentheses

⁺ $p < 0.1$ * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

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