

Strategic Effects of Democracy

Justin Nicholson

University of Rochester

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Background

- The budget for the World Trade Organization totaled roughly \$217,504,702.00 in 2013, the most recent year on record.
- There are currently 149 cases in consultations, including 4 in limbo since 1995. a further 43 cases are awaiting the composition or decision of a panel.
- This includes one case filed by the US against Argentina in 1999 over footwear and a Canadian case against the EEC over duties on imports of cereals.

The Puzzle

- The WTO adjudication mechanism is widely used, but is costly
- Democracies tend to use the WTO dispute resolution system most frequently
- Why do big, institutionally strong states use the WTO DSM more than their weaker counterparts?
- Explanations include wealth and power (Busch and Reinhardt, 2003)(Shaffer, 2003), experience with legal norms (Davis and Bermeo, 2009) and domestic political institutions (Davis, 2012)

Possible Explanations

- Davis (2012) suggests that democracy is important in understanding why states might choose to use the adjudication process for two complimentary reasons:
 - ① Democratic legislatures favor tough enforcement of trade agreements because of their responsiveness to industry and separation from foreign policy
 - ② Executives are generally more cautious - must weigh tradeoff between enforcement and diplomatic relations, opportunity costs etc.
 - ③ Adjudication offers “middle road” between trade wars and negotiations - attractive to democratic executives
- Takeaway: We should expect a positive monotonic relationship between level of democracy and adjudication initiation, ceterus paribus.

Alternatives

- What is the alternative to adjudication?
- Many democratic states delegate trade enforcement to executive branch
- U.S. can act under Tariff Act of 1930 or sec.301 of Trade Act of 1974
- U.K. operates Department for Int'l Trade formerly FCO

Thinking in Terms of Outcomes

- Do these options lead to substantially different outcomes?
- Executives can use legislatures as credible veto threats (Mansfield et al., 2000)
- Democratic leaders have greater incentive to pursue international economic cooperation (Mansfield et al., 2002)
- Democratic institutions impart a monadic advantage (Dai, 2006)
- If democracies have better outcomes in private bargaining, why use the WTO DSM?

Preferences and Democracy

- WTO adjudication provides convenient solution when private bargaining is unhelpful
- Adjudication starts to tie hands and signals resolve to interest groups and target states
- However, ultimately, interest groups and lobbies prefer executives who bring better outcomes
- Target states prefer panel rulings conditional on DSU initiation if it provides them a better outcome than backing down
- Democratic also prefer not to back down because it signals weakness (imposes audience costs)
- Challengers take these preferences as well as their own into account when deciding how to resolve dispute

Recap

- I aim to address two issues in the literature on WTO adjudication :
 - ① Strategic interaction. We should explicitly take actors preferences and actions into account
 - ② The data is usually a variation on the number of adjudication initiations per annum. This count data leaves a zero ill-defined. Does a zero in the data mean a state decided not to adjudicate, or that there were no possible case to adjudicate?

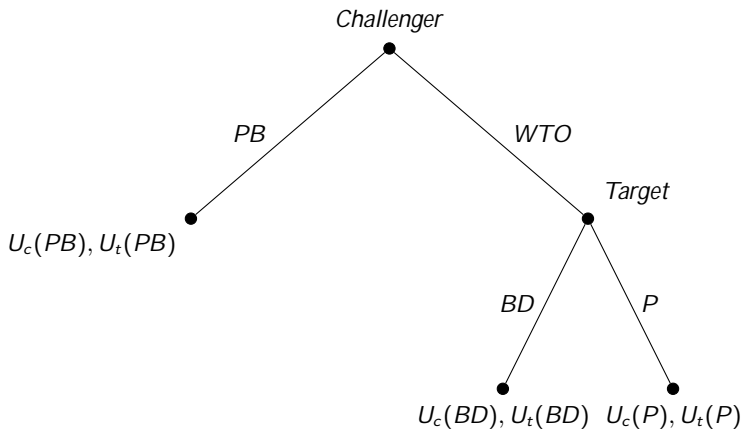
New Dataset

- 1 New data collected treating anti-dumping investigations as *potential* WTO disputes
- 2 Data consists of all investigations into market dumping actions for 20 WTO member states
- 3 I have identified which investigations become WTO complaints, and which complaints then go to a panel
- 4 Broad sample but not entire population

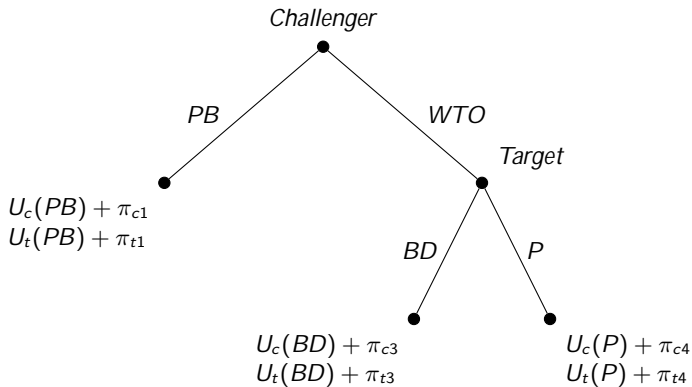
Model Overview

- Use new data to implement a strategic probit model (Signorino, 2002); (Signorino and Yilmaz, 2003); (Signorino and Tarar, 2006)
- Accounts for defendant's decision to settle after being challenged, or proceed to a panel ruling
- Recursively solves simple game using MLE with private information
- Unifies the theoretical and empirical models

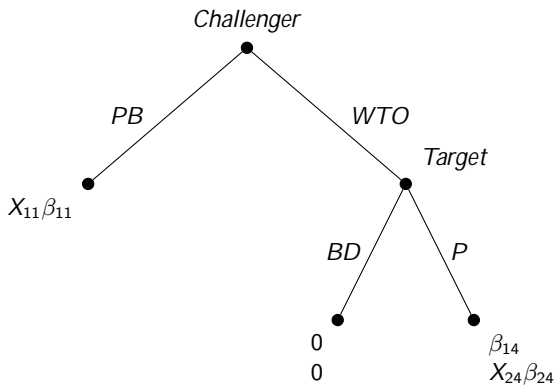
Unified Model



Unified Model

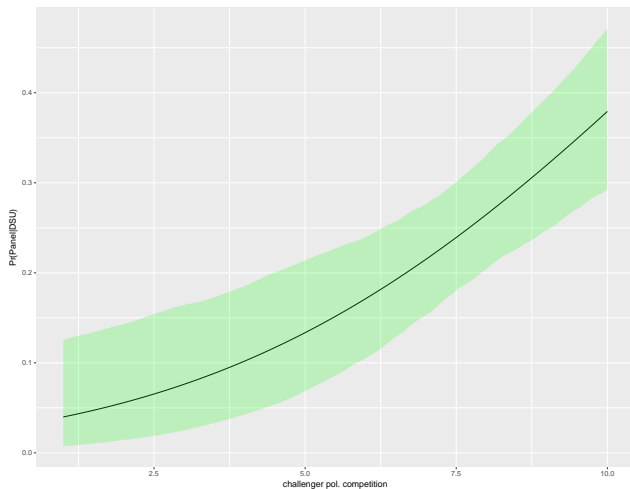


Unified Model

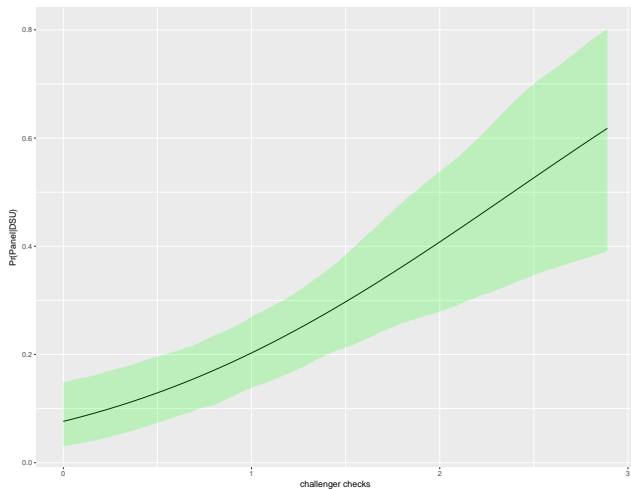


| | u1(PB) | u1(DSU,Panel) | u2(DSU,Panel) |
|-----------------------------|-------------------------|------------------------|-------------------------|
| (Intercept) | 73.8499*** (18.7592) | -17.0150** (6.2634) | -18.9374*** (2.9573) |
| gdp per cap challenger | -2.1582** (0.7867) | - | 0.5141 (0.1530) |
| gdp per cap target | -1.1116 (1.5767) | - | 0.2711 (0.3090) |
| pol. competition challenger | -0.6969* | - | |

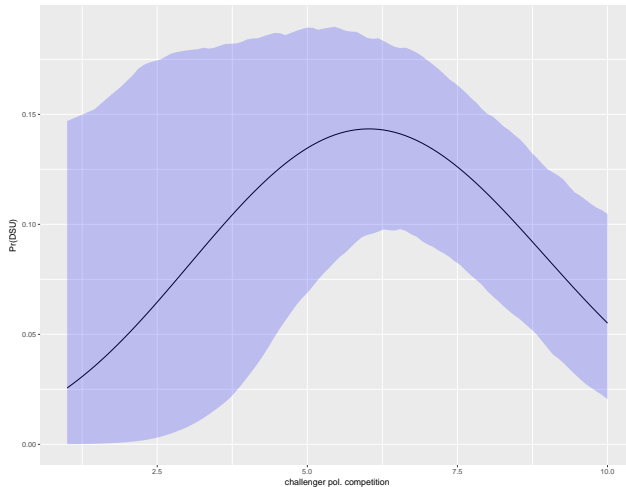
Panels: Challenger Pol. Comp.



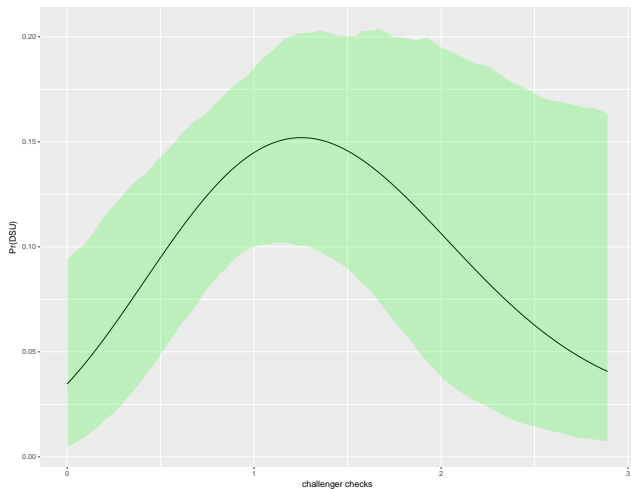
Panels: Challenger Checks



DSU: Challenger Pol. Comp.



DSU: Challenger Checks



Takeaways

- As challenger democratic institutions increase the probability of a panel ruling conditional on WTO increases
- Challenger democratic institutions have a positive direct effect on WTO usage
- However, the most democratic challenger states are *less* likely to use the WTO DSU
- This implies that, ultimately, panel rulings are less attractive than resolving issues privately
- Results conditional on values of other variables

Conclusion

- Extended data to examine panel and DSU with potential cases
- Allows exploration of DSU usage in shadow of strategic interaction
- Deterrent effect of panels on highly democratic challengers
- Targets would probably do better if they could commit to *not* go to panel rulings as often
- Evidence that democratic states prefer private resolution of trade disputes

Future Research

- Examine how WTO adjudication affects growth
- Model presented posits political rather than purely economic rationale
- Predicted probabilities from the model can be used to create a strategic version of Heckman selection model (Bas and Stone, 2014)
- If this argument is correct then this model should decrease magnitude of correlation between WTO membership and growth

Thank You IPES

- Questions?
- Comments?

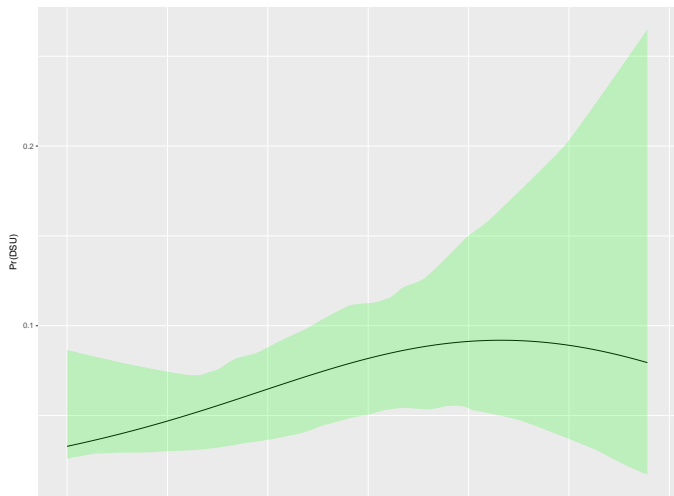
Validating the Model

- 2 pronged approach
- Adaptive LASSO to explore whether the model unfairly constrains the data
- Non-nested model testing to see how well the model fits the data compared to non-strategic models (planned)

Adaptive LASSO

- Machine learning technique that performs both variable selection and regularization
- I apply this technique to dataset using WTO dispute initiation as DV
- Picks out Challenger Polity and squared term in reduced model
- Picks out Challenger Pol. Comp., Challenger Checks and the squared term of Challenger Checks in full model

DSU: Challenger Checks



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