Democratic Disadvantage?: Evidence from Korean Commercial Diplomacy

Haillie Na-Kyung Lee
Seoul National University
Democratic Dyads Do Not Fight Each other??
Two Institutional Mechanisms

● Electoral accountability
  ○ Audience cost (Fearon 1994; Choi 2010)

● Horizontal accountability
  ○ Strong executive constraints & more veto players
    (Ember, Ember, and Russett 1992; Maoz and Russett 1993)
Peacemaking is not just about Conflict Onset

Executive constraints in democracies may prevent conflict

IRONICALLY, Executive constraints in democracies may complicate conflict resolution
High number of veto players as a hurdle

- **Literature:** Having more veto players limits the government’s ability to facilitate negotiation and reach international agreements (Baccini and Urpelainen 2014; Chyzh 2014; Mansfield, Milner and Pevehouse 2007; Howell 2015; Milner and Tingley 2011)

- **Expectation:** Divergence of interest and preferences make negotiations/settlement difficult in **conflict setting!!**

![Diagram](authority_vs_autocracy.png)

Authority vs Autocracy vs Democracy
Context: Investment-driven conflict

- Autocracies are more likely to engage in property rights violations (Li, Resnick et al 2003, Li 2009, Jensen 2008, Henisz 2000)
- Potential escalation of conflict

- My expectation: Separation of power and multiple veto players in democracies should complicate amicable informal settlement of investment disputes through diplomacy.
Observable Implications

H1: When the host country has multiple veto players, commercial diplomacy is less likely to be successful since divergences in preferences and conflicting interests will make agreements difficult.

H2: When the host country has multiple veto players, successful negotiations are likely to take longer.

H3: When the host country has multiple veto players, the number of host government officials required for successful negotiation will be greater.
Two Empirical Strategies

1. Quantitative analysis using original data set (Coded using Annual reports from the Korean Ministry of Foreign Affairs (MOFA) for 2014-2019)

2. Semi-structured interviews with 14 international investment lawyers and 12 government officials.
Annual Reports from MOFA

- Reported investment dispute between Korean investors and host governments that received diplomatic assistance
- Often resulted in financial compensation or changes in host government policies
Coding using MOFA Reports

- **Coders**: Four undergraduate RAs, 1 master student, and myself (triple-check)

- **Variables coded**
  - 1. Start and end dates of conflict
  - 2. Industry (SIC codes)
  - 3. Type of expropriation (direct/indirect)
  - 4. Form of diplomatic contact (written correspondence/in-person contact)
Data Overview

Sample:
388 (total cases) - 25 (private disputes) = 363 cases of Investor-Host Dispute from 86 countries

Most cases:
China and Vietnam
Data Overview 2

Type of Expropriation:
Direct/Indirect

Commercial Diplomacy:
Meeting/Letter

<table>
<thead>
<tr>
<th>Type of Expropriation</th>
<th>Type of Commercial Diplomacy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct (94 Cases)</td>
<td>Letter (33 Cases)</td>
</tr>
<tr>
<td>Indirect (211 Cases)</td>
<td>Meeting (272 Cases)</td>
</tr>
</tbody>
</table>
DV for H1

Resolution Status

1. Full resolution
2. Partial resolution
3. No real resolution (mostly empty words)
DV for H2 & H3

1. **Number of Contact:**  
   Median: 2 Contacts

2. **Settlement Duration:**  
   Median: 3 months
Explanatory variables

Main IV: XCONST from PolityIV, which measures “the extent of institutionalized constraints on the decision-making powers of chief executives, whether individuals or collectivities.” XCONST is in a seven-point scale, ranging from unlimited authority (1) to Executive Parity or Subordination (7)

Control variables:
Type of expropriation, Type of support, Conflict Subject, Ideal Point Distance, ICRG regulation, GDP growth (host), logged cumulative ISDS case (host), BIT status,
Quantitative Results: H1

Findings:

More veto players

Lower likelihood of successful resolution
Quantitative Results: H2 & H3

Findings:

More veto players

1) Longer time taken
2) Higher number of contacts required for successful resolution

<table>
<thead>
<tr>
<th></th>
<th>Duration (logged)</th>
<th>Number of Total Contacts (logged)</th>
<th>Contact Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Constraint</td>
<td>0.141***</td>
<td>0.073**</td>
<td>0.008</td>
</tr>
<tr>
<td>Expropriation (Indirect)</td>
<td>0.027</td>
<td>0.057</td>
<td>-0.165</td>
</tr>
<tr>
<td>Mission Support (Meeting)</td>
<td>0.671***</td>
<td>0.463***</td>
<td>0.650***</td>
</tr>
<tr>
<td>Conflict Subject(Government)</td>
<td>-0.064</td>
<td>-0.197**</td>
<td>-0.217*</td>
</tr>
<tr>
<td>Investment Sector(Insurance and Services)</td>
<td>0.209</td>
<td>0.002</td>
<td>0.019</td>
</tr>
<tr>
<td>Ideal Point Distance</td>
<td>-0.072</td>
<td>0.084</td>
<td>0.054</td>
</tr>
<tr>
<td>ICRG Regulation</td>
<td>-0.651</td>
<td>-0.551*</td>
<td>0.040</td>
</tr>
<tr>
<td>Gdp Growth</td>
<td>-0.035</td>
<td>0.012</td>
<td>-0.030</td>
</tr>
<tr>
<td>Logged Cumulative ISDS Cases</td>
<td>-0.212***</td>
<td>0.040</td>
<td>0.102</td>
</tr>
<tr>
<td>Logged Bilateral FDI Outflow(Korea - Host)</td>
<td>0.048</td>
<td>0.012</td>
<td>-0.052</td>
</tr>
<tr>
<td>BIT Status</td>
<td>0.239</td>
<td>0.191*</td>
<td>0.188</td>
</tr>
<tr>
<td>Constant</td>
<td>0.422</td>
<td>-0.042</td>
<td>1.673***</td>
</tr>
</tbody>
</table>

Observations: 196
R²: 0.095
Adjusted R²: 0.041
Residual Std. Error: 1.080 (df = 184) 0.635 (df = 215) 0.942 (df = 174)

Note:

p<0.1: p<0.05: p<0.01

All covariates are lagged by 1 year
Qualitative Evidence

- Semi-structured 30-50 minute interviews with 14 lawyers and 12 government officials in Seoul, South Korea (March-June 2020)

- Recruited via email using Seoul National University alumni network

<table>
<thead>
<tr>
<th>Lawyer Sample (14/30)</th>
<th>Government Official Sample (12/30)</th>
</tr>
</thead>
<tbody>
<tr>
<td>● Average 8 years of experience</td>
<td>● Current and retired employee of the Ministry of Foreign Affairs (MOFA)</td>
</tr>
<tr>
<td>● More than 3 investment dispute cases</td>
<td>● Minimum 10 years of experience</td>
</tr>
</tbody>
</table>
Interviews

Central Question: All else equal, did you find it more difficult or easier to negotiate in autocracies/democracies? Any regime-type based differences?

Response breakdown:

<table>
<thead>
<tr>
<th>Easier in Autocracies</th>
<th>Easier in Democracies</th>
<th>I don’t know</th>
</tr>
</thead>
<tbody>
<tr>
<td>20 Respondents</td>
<td>4 Respondents</td>
<td>2 Respondents</td>
</tr>
</tbody>
</table>

Overall, 77 percent of respondents:

- Negotiations easier in autocracies
  - 80 percent (15/20) cited concentration of authorities as a primary reason
Direct Quotes from Interviews

“Settlement for compensation or cancellation of disputed policies becomes much easier when decision-making authority is concentrated” - MOFA official with 30 years of experience

“When there are multiple authorities, it takes longer to derive an agreeable solution since differing interests of these entities need to be reconciled first” - MOFA director

“In democracies, you have to make sure that every bureaucrat involved is on the same page before you can move up to the executive level for more serious conversation” - Ex-diplomat (MOFA)
Conclusion
Democratic advantage in investment conflict?

- Executive constraints in democracies double-edged sword for peace

- Onset of conflict less common but once escalated, conflict resolution may be difficult.
Contribution

- Rethinking democratic peace

- Novel data: contributes to understanding of commercial diplomacy
  - No fewer than 20000 diplomats providing business assistance
  - When it is likely to be successful
Additional Slides
Appendix I.
Type of Contacted Officials

- VIP Contact (Presidents & Vice Presidents) rarely used to resolve investor-state conflicts
### Variable Summary

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean</th>
<th>Median</th>
<th>Max</th>
<th>Min</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dependent Variables</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Settlement Duration (month)</td>
<td>5.69</td>
<td>3.00</td>
<td>78.00</td>
<td>1.00</td>
</tr>
<tr>
<td>Number of Total Contact</td>
<td>2.60</td>
<td>2.00</td>
<td>17.00</td>
<td>1.00</td>
</tr>
<tr>
<td>Contact Level</td>
<td>2.16</td>
<td>2.00</td>
<td>4.00</td>
<td>1.00</td>
</tr>
<tr>
<td>Resolution Status</td>
<td>1.72</td>
<td>2.00</td>
<td>2.00</td>
<td>0.00</td>
</tr>
<tr>
<td><strong>Main Independent Variable</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Executive Constraint (PolityV)</td>
<td>4.80</td>
<td>5.00</td>
<td>7.00</td>
<td>1.00</td>
</tr>
<tr>
<td><strong>Controls (numeric variables)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ideal Point Distance</td>
<td>1.34</td>
<td>1.40</td>
<td>2.81</td>
<td>0.01</td>
</tr>
<tr>
<td>Regulation (ICRG)</td>
<td>0.54</td>
<td>0.50</td>
<td>1.00</td>
<td>0.00</td>
</tr>
<tr>
<td>GDP Growth</td>
<td>2.99</td>
<td>3.05</td>
<td>53.85</td>
<td>-19.29</td>
</tr>
<tr>
<td>ISDS Filed Cases (cumulative)</td>
<td>6.77</td>
<td>3.50</td>
<td>60.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Dyad FDI Flows (million US$)</td>
<td>838.22</td>
<td>76.52</td>
<td>15318.11</td>
<td>0.00</td>
</tr>
<tr>
<td><strong>Controls (dummy variables)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Conflict Subject (central gov.)</td>
<td>0.68</td>
<td>1.00</td>
<td>1.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Expropriation (indirect)</td>
<td>0.69</td>
<td>1.00</td>
<td>1.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Type of Diplomatic Support (meeting)</td>
<td>0.89</td>
<td>1.00</td>
<td>1.00</td>
<td>0.00</td>
</tr>
<tr>
<td>BIT Status</td>
<td>0.80</td>
<td>1.00</td>
<td>1.00</td>
<td>0.00</td>
</tr>
</tbody>
</table>