

Resorting to International Institutions to Resolve Trade Imbalances?

U.S. Protectionism via GATT/WTO Dispute Initiation

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Overview

- 1 The Puzzle
 - Variance
 - System
 - Responses
- 2 Previous Studies in IPE and Related Fields
 - Macroeconomics
 - Econometrics
 - IPE
- 3 Significance of Trade Imbalances
 - Private Interests
 - Domestic Level
 - International Level
- 4 Quantitative Analysis

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The Puzzle

Variance, System, and Responses

- Variance: To what extent do U.S. trade deficits with its trading partners affect its decisions to launch a protectionist trade policy in international institutional settings?
- System: Most importantly, in the U.S., what are the root mechanisms and roles of government related actors and interest groups, which culminate in filing a case for dispute in the WTO?
- Responses: Furthermore, what are the responses from mainly targeted states (for instance, Northeast Asian nations) in the array of continued policy attacks in the WTO by the U.S. – are they acquiescing, reciprocal, or even retaliatory?

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Literature Review on Trade Imbalances

Macroeconomics, Econometrics, and IPE

- Macroeconomic Literature: 'Trade imbalances do not necessarily impact the dynamics of domestic politics. U.S. deficits are complemented by trade surplus generated with other trading partners.' (Cooper, 2008)
- Econometric Literature: 'The U.S. has spearheaded free trade and liberalization but also in tandem with the push for protectionism against Northeast Asian states.' (Chiu et al, 2010)
- IPE Literature: 'Countries that have appreciated their exchange rates are more likely to pursue a WTO dispute settlement case.' (Pevehouse, 2010)

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Trade Imbalances Influence WTO Dispute Initiation

U.S. Trade Deficits, Mobilization of Interests, and Decision-Making Process

Measuring Trade Imbalances

- U.S. Trade Deficits = ($X - M$)

- Private Interests: Domestic Industrial Losses → Firms' Lobbies to Local Congressional Representatives and Congressional Committees
- Domestic Level: Political Decision-Making → Congress Reports to the USTR and Presidential Executive Orders on Bilateral Economic Relations
- International Level: Foreign Economic Policy → Consultations in the WTO and Dispute Initiation

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The Hypothesis and the Dependent Variable

H_1 : The United States is more likely to initiate a WTO dispute case against countries that it runs trade deficits with.

Dependent Variable: The Numbers of a U.S. WTO Dispute Initiation

Alternative Hypotheses

'If not for trade imbalances, why would the United States pursue protectionist policies?'

- Unfair and incompatible trade practices by trading partners
- Pursuit of control in bilateral relations
- Specific U.S. domestic agenda

Explanations to Alternative Hypotheses

Had the U.S. been running a huge trade surplus with a certain trading partner:

- 1 Domestic industrial concerns would not lead to considerable burdens on economic policy.
- 2 The U.S. is highly unlikely to be confrontational towards a country of strategic importance (in the absence of trade deficits), unless there is a credible military threat involved.

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The Structure of the Dataset

Pooled Cross-Sectional Panel Data

- Multiple countries, comprising of events occurring in a span of time (1995-2010)
- Unit of Analysis: Country-Year
- Dependent Variable: Number of disputes initiated by the U.S. against a country in a given year

U.S. Disputes with 29 States for Data Analysis

- Argentina, Australia, Belgium, Brazil, Canada, Chile, China, Germany, Denmark, Egypt, Spain, France, United Kingdom, Greece, Hungary, Indonesia, India, Ireland, Japan, Republic of Korea, Mexico, Netherlands, Pakistan, Philippines, Portugal, Romania, Sweden, Turkey, Venezuela

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Data Sources

- Dispute Settlement Cases: The World Trade Organization Dispute Settlement Database (http://www.wto.org/english/tratop_e/dispu_e/dispu_e.htm)
- U.S. Trade Deficits Figures: Bureau of Economic Analysis(BEA) Data, U.S. Department of Commerce Bureau of Economic Analysis International Transactions Database (http://www.bea.gov/iTable/index_ita.cfm)
- U.S.Congressional Hearings and Legislative History Data: Lexis Nexis Congressional Universe (<http://web.lexis-nexis.com/congcomp>)

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The Negative Binomial Regression Model

$$\begin{aligned} \text{USWTO complaint}_{it} = & \beta_0 \\ & + \beta_1 \text{ Trade Imbalances/GDP}_{it} \\ & + \beta_2 \text{ ForeignExchangeReservesAccumulation}_{it} \\ & + \beta_3 \text{ USUnemploymentRate}_t \\ & + \beta_4 \text{ USCongressional Hearing for WTO Disputes Initiation}_t \\ & + \beta_5 \text{ USProtectionistLegislation}_t \\ & + \text{Year effects}_t \\ & + \varepsilon_{it} \end{aligned}$$

Variables

where

- $USWTO\ complaint_{it}$ = the number of cases that the US filed a complaint to the WTO (dispute initiation)
- $\beta_1 Trade\ Imbalances/GDP_{it}$ = Trade Imbalances (Exports-Imports) of each US trading partner who is a party to the WTO divided by its GDP (Current US Dollars)
- $\beta_2 ForeignExchangeReservesAccumulation_{it}$ = Foreign Exchange Reserves Accumulation of each US trading partner who is a party to the WTO
- $\beta_3 USUnemploymentRate_t$ = Unemployment Rate of the United States for each respective year
- $\beta_4 USCongressional\ Hearing\ for\ WTO\ Disputes\ Initiation_t$ = US Congressional Hearing regarding trade deficit (imbalances)
- $\beta_5 USProtectionistLegislation_t$ = US Protectionist Legislation

Results

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
	b/se	b/se	b/se	b/se	b/se	b/se	b/se
USWTOrespondent							
TradeImbala	-0.014***		-0.017***	-0.014***	-0.014***	-0.014***	-0.014***
	0		0	0	0	0	0
LogForeignR	0.079	0.391***		0.079	0.079	0.079	0.079
	-0.11	-0.11		-0.11	-0.11	-0.11	-0.11
USCongressH	0.08	0.076	0.746		0.196	-0.17	0.328
	-0.37	-0.52	-0.6		-0.5	-0.55	-0.4
USLegislative	0.378	0.35	-1.778	0.636		1.187	-0.425
	-0.47	-0.64	-0.99	-1.62		-0.83	-0.53
USHouseSen	0.161	0.146	0.610*	0.109	0.236		0.32
	-0.18	-0.2	-0.27	-0.35	-0.16		-0.2
USUnemploy	-0.414*	-0.463*	0.716	-0.546	-0.219	-0.83	
	-0.17	-0.21	-0.49	-0.66	-0.27	-0.52	
Constant	-2.93	-9.850**	-9.054*	-2.001	-4.292	-0.016	-5.826
	-2.96	-3.2	-4.4	-4.01	-3.94	-4.53	-3.08
Inalpha							
_cons	-44.951	-27.575	-16.675***	-39.002	-72.471	-231.298	-50.895
	(.)	(.)	-0.21	(.)	(.)	(.)	(.)
Pseudo R-Sq	0.1751866	0.1516329	0.1872759	0.1751866	0.1751866	0.1751866	0.1751866

Three Qualitative Case Studies.

Example

U.S.-Japan Trade Imbalances

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U.S.-Korea Trade Imbalances

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U.S.-China Trade Imbalances

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Summary

- The accumulation of U.S. trade deficits influence the initiation of WTO dispute settlement cases.
- The NBRM model shows the significance of the trade deficits variable, but falls short in proving the relevance of variables in U.S. political decision making processes.
- Future Research and Revisions
 - Regressions on Anti-Dumping Cases and Countervailing Duties (Ch.2)
 - Respective Qualitative Case Studies on U.S.-Japan, U.S.-Korea, and U.S.-China Disputes (Ch.3)