Resorting to International Institutions to Resolve Trade Imbalances?

U.S. Protectionism via GATT/WTO Dispute Initiation

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Panel on WTO & Int’l Trade Disputes, 2012 MPSA Conference, Chicago, USA

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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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Resorting to Int’l Institutions to Resolve Trade Imbalances
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
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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](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](http://www.bea.gov/iTable/index_ita.cfm))
- U.S. Congressional Hearings and Legislative History Data: LexisNexis Congressional Universe ([http://web.lexis-nexis.com/congcomp](http://web.lexis-nexis.com/congcomp))
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The Negative Binomial Regression Model

\[
\text{USWTO complaint}_{it} = \beta_0 + \beta_1 \text{Trade Imbalances/GDP}_{it} + \beta_2 \text{ForeignExchangeReservesAccumulation}_{it} + \beta_3 \text{USUnemploymentRate}_t + \beta_4 \text{USCongressional Hearing for WTO Disputes Initiation}_t + \beta_5 \text{USProtectionistLegislation}_t + \text{Year effects}_t + \epsilon_{it}
\]
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
- $\beta_4$ USCongressionalHearing for WTO Disputes Initiation$_t =$ US Congressional Hearing regarding trade deficit (imbalances)
- $\beta_5$ USProtectionistLegislation$_t =$ US Protectionist Legislation
Results
<table>
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<th>Model 1</th>
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<th>Model 3</th>
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Three Qualitative Case Studies.

Example
U.S.-Japan Trade Imbalances

Example
U.S.-Korea Trade Imbalances

Example
U.S.-China Trade Imbalances
Three Qualitative Case Studies.

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U.S.-Japan Trade Imbalances

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U.S.-China Trade Imbalances
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)