

Instruments of Coercion: Aid and Trade as Substitute Policy Levers

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Abstract

The international institutions literature suggests that institutions help states cooperate by allowing states to credibly commit to specific policies. This paper argues that these commitments increase the costs associated with some foreign policy options, causing members to substitute towards less costly policies. The analysis is focused on a particular institution and issue area, examining how WTO membership affects states' abilities to use trade policies to coerce other states to implement political reforms. I describe the legal constraints imposed by WTO membership and then explain states' incentives to comply with WTO law. I argue that because WTO membership curtails states' use of trade policies for foreign policy leverage, donors' aid disbursements become more responsive to political reforms in partner countries. After formalizing the theory, I test the model's predictions systematically, demonstrating that states punish the illiberal policies of WTO members by decreasing aid allocations rather than by increasing trade protection. However, states punish the illiberal policies of non-WTO members by implementing trade protection rather than adjusting aid allocations. I provide further evidence of the causal mechanism by disaggregating aid commitments, and present additional case study and interview evidence to substantiate my claims.

Keywords: foreign aid, GATT, human rights, international institutions, foreign policy, trade, WTO

The idea that membership in an international institution can enhance cooperation between states in the domain governed by the institution is central to international relations. Yet while a large body of evidence demonstrates this claim, little is understood regarding the effects of membership on interstate relations in areas outside of the institution's purview. That is, while a great deal is known about the direct effects of institutional membership, scant attention has been paid to the indirect means through which institutions shape relations between states. By failing to consider these unintended consequences of institutional membership, scholars have been left with an incomplete picture of the impact of institutions on interstate dynamics. This paper argues that by decreasing states' flexibility over some types of policies, membership in international institutions increases political maneuvering in other, less constrained policy domains. International institutions therefore create ripple effects across policy arenas, bolstering cooperation in some areas, while politicizing others.

How can an international institution politicize policies outside of the area it governs? Institutions permit states to credibly commit to specific policies by imposing a variety of reputational, domestic and economic costs to deviation from agreements. Member states are thereby limited in their abilities to extend or revoke policy concessions in the policy domains regulated by these institutions. Since states often offer (or retract) foreign policy concessions to influence other states, such as lowering trade protection, increasing foreign aid, or granting security concessions, the policy rigidity induced by these institutions constitutes a loss of leverage over other members. However, it does not seem particularly plausible that members of institutions abandon their attempts to influence the policies of other states. Instead, states should substitute the policies made more costly by institutional membership for less costly policy options. Indeed, a key factor shown to influence foreign policy substitution is cost: leaders choose between economic, military and diplomatic levers of influence as a function of the costs of the policies available to them.¹ But while scholars have proposed a variety of

¹See Clark, Nordstrom and Reed 2008; and Most and Starr 1989.

domestic and economic factors which shape the costs imposed by certain policies, the role played by international institutions remains under-theorized. This paper demonstrates that by limiting states' options in specific policy domains, international institutions cause states to substitute their newly constrained policy instruments with more flexible ones.

To make the problem tractable, the analysis is focused on a particular institution and issue area, examining how membership in the World Trade Organization (WTO) and its predecessor, the General Agreement on Tariffs and Trade (GATT),² affect the means by which countries attempt to coerce their partners to respect human rights. I argue that the WTO constrains the ability of its members to condition their trade policies on respect for human rights in other member countries. In response, states instead manipulate their foreign aid allocations to pursue their objectives.

This source of heterogeneity in aid giving has been overlooked in previous scholarship, leading to disagreement about whether human rights policies influence aid allocations systematically and across donors. Some scholars argue that respect for human rights is an important factor driving aid provision,³ while others dispute this claim.⁴ Still other scholars assert that human rights only matter in some cases, or play a small role in allocations.⁵ Despite the large volume of work in this area, including interesting analyses of variation in aid institutions,⁶ the effects of international institutions on aid-giving are not well understood.⁷

²In 1995, the WTO replaced the GATT. Henceforth, I use the term WTO to refer to both the GATT and the WTO unless otherwise specified.

³See Berthélemy 2006; Cingranelli and Pasquarello 1985; Poe 1992; and Scott and Steele 2011.

⁴See Barratt 2007; Carleton and Stohl 1987; Dollar and Levin 2006; Easterly 2007; McCormick and Mitchell 1988; Neumayer 2003*a,b,c*; Schraeder, Hook and Taylor 1998; and Schoultz and Schoultz 1981.

⁵See Alesina and Dollar 2000; Apodaca and Stohl 1999; Carey 2007; Lai 2003; Nielsen 2012; Payaslian 1995; Poe and Sirirangsi 1994; Poe et al. 1994; Svensson 1999; and Tomasevski and Tomasevski 1997. Scholars have considered many potential donor motivations. See Bermeo 2010, 2007; Lumsdaine 1993; and Bueno De Mesquita and Smith 2009 for humanitarian and development concerns, Alesina and Dollar 2000 for security issues, Dollar and Levin 2006 for influence over policy-making in the recipient country, De Mesquita and Smith 2007 for coalition sizes, and Fleck and Kilby 2006; Lumsdaine 1993; Milner 2006; Noel and Thérien 1995; Therien and Noel 2000; Tingley 2010; and Tingley 2009 for domestic pressures.

⁶See Milner 2006; and Schneider and Tobin 2010.

⁷Though see Lebovic and Voeten 2009 for the argument that international organizations can shame recipients, providing justification for lenders to reduce spending, and Hafner-Burton and Montgomery 2008 for an

This is an important omission, as scholars are increasingly interested in understanding the role of specific policies in relation to the broad international context in which they are used.⁸ While states' motivations for choosing certain foreign policies over others has been explored in a variety of issue areas including enduring rivalries,⁹ alliances,¹⁰ interventions,¹¹ sanctions,¹² and repression,¹³ I offer a new theory to explain foreign policy substitution by considering the role played by international institutions.¹⁴

I next describe the international context of the theory, detailing donors' implementation of conditionality and explaining how the WTO constrains the use of conditionality in the trade domain. I then present a simple formal model along with case study evidence showing that because WTO membership curtails states' use of trade policies for foreign policy leverage, donors' aid disbursements become more responsive to respect for human rights in partner countries. I test these claims systematically, demonstrating that states punish the human rights violations of WTO members by decreasing aid allocations rather than by increasing trade protection, while they punish the human rights violations of non-WTO members by implementing trade protection rather than adjusting aid provisions. I offer further evidence of the causal mechanism by disaggregating aid commitments and provide a variety of robustness checks on the main results.

argument that FTAs can sometimes increase, but sometimes decrease sanctions by increasing competition but also increasing trade benefits.

⁸See McGinnis 2000; and Palmer, Wohlander and Morgan 2002.

⁹Bennett and Nordstrom 2000.

¹⁰See Diehl 1994; Milner and Tingley 2012; Morgan and Palmer 2000; and Palmer and Morgan 2010.

¹¹Regan 2000.

¹²See Clark and Reed 2005; and Lektzian and Sprecher 2007.

¹³Moore 1998.

¹⁴Foreign policy substitution should not be confused with the interesting line of work showing that institutional membership allows states receive bribes, for example, to vote for specific policies. See Dreher, Sturm and Vreeland 2009; and Kuziemko and Werker 2006.

The Institutional Foundations of Conditionality

Since the early 1990s, Organization for Economic Cooperation and Development (OECD) governments have conditioned foreign aid and trade concessions on their partner countries' political and economic policies.¹⁵ When partner countries comply with their demands, OECD countries often extend additional concessions, but when partner countries ignore their requests, OECD countries withhold foreign aid or trade benefits. Although the effectiveness of conditionality is debated, these donors frequently employ conditionality due to a variety of domestic and ideological factors.¹⁶

Perhaps the most straight-forward motivation for conditioning policy concessions on respect for human rights is that many governments hope that conditionality improves states' human rights records. States may be interested in promoting respect for human rights both because of genuine compassion for victims of human rights abuses and due to national security concerns. For instance, OECD countries espouse a moral commitment to human rights, stating that their mission is to "promote policies that will improve the economic and social well-being of people around the world."¹⁷ Additionally, many governments believe that respect for rights is tied to stability and good governance, which may further their political and economic interests by bolstering international trade and discouraging conflict.¹⁸

Countries typically expect that conditionality can promote respect for human rights through two main channels. First, offering policy concessions functions as a bribe to entice recipient leaders to implement reforms.¹⁹ Recipients may undertake these reforms as the price of keeping the aid flowing. For example, a former official of the U.S. State Depart-

¹⁵Dobbins 2008.

¹⁶Although conditionality has been criticized for donors' inconsistent applicability and conflicting demands, as in Crawford 2001, conditionality is still frequently practiced by OECD countries. See Dunning 2004; Bueno De Mesquita and Smith 2009; and Bearce 2010.

¹⁷OECD 2011.

¹⁸Crawford 2001.

¹⁹See Bueno De Mesquita and Smith 2009; and Bearce 2010.

ment recalled that in 2001, the U.S. conditioned its foreign aid to Uzbekistan on Uzbekistan's human rights record, leading Uzbekistan to release many political prisoners in response.²⁰

Second, government officials often hope that punishing recipients by cutting concessions will stimulate policy changes by negatively impacting recipients' reputations. For example, the recent political violence and human rights violations in Zimbabwe led many nations such as the United States and the European Union to cut trade and aid concessions to the Zimbabwean government. Part of the motivation for administering sanctions, according to an official of a Zimbabwean NGO, was the hope that Mugabe would lose pride, causing him to alter his behavior.²¹ Similarly, an official of the United States Agency for International Development (USAID) stated that reducing aid to Ukraine influences its human rights policies because the Ukrainian government wants to be seen as a "normal, Western, democratic, European country." Ukraine values a positive reputation because it is "beneficial for both foreign investment and international prestige" and because Ukraine wants "to be invited to the international fora and be seen as an international member."²² Another aid official expressed her belief that "cuts affect a country's reputation if the cuts are viewed as punishment."²³

Conversely, states may care little about promoting respect for human rights in other countries, but condition aid disbursements and trade concessions on recipients' human rights records to appease lobbyists and constituents. Businesses and investors adversely impacted by repressive policies, along with NGOs, human rights advocates and religious groups, often call for a governmental response to human rights violations. Additionally, human rights violations can increase immigration to nearby countries, sparking demand in the host country for revoking policy concessions to the offending regime. For instance, a senior advisor to a U.S. Senator on the Foreign Relations Committee recalls that aid and trade concessions to

²⁰Interview by author. February 23, 2012.

²¹Interview by author. February 18, 2012.

²²Interview by author. February 10, 2012.

²³Former official of the U.S. State Department. Interview by author. February 23, 2012.

Burma were cut partly in response to entreaties by U.S. citizens who resented the influx of Burmese immigrants.²⁴ However, while many countries exercise conditionality in response to domestic policy objectives and constituent pressures, the type of conditionality selected depends largely on international institutional constraints, to which I now turn.

WTO Restrictions on Conditionality

The WTO limits trade policy conditionality by restricting unilateral trade policy discrimination against specific trade partners. Outside of the WTO, states often use their trade policies to punish or reward trading partners. For example, countries may raise their tariffs to penalize partners who violate human rights, or lower their tariffs to reward respect for rights. WTO members, however, are limited in their abilities to do so, as they face strict legal limits to tariff manipulation and incur costs from violating these laws. I first describe the legal constraints imposed by WTO membership to conditioning trade policies on partners' respect for human rights, and then explain states' incentives to comply with WTO laws.²⁵

The WTO explicitly prohibits unilateral trade policy discrimination, as WTO members must agree to accord all members the same low tariff rates, known as Most Favored Nation (MFN) treatment. Several exceptions to MFN tariffs exist, however, which either allow countries to implement additional trade restrictions, or permit countries to offer concessions beyond those guaranteed by WTO membership. Consider the WTO exceptions which permit additional trade restrictions. Although Articles I and XI of the GATT prohibit discriminatory trade restrictions, exceptions to the rule are given by Article XXI, which states that GATT laws are subordinate to the United Nations (UN) Charter. If the UN votes to sanction

²⁴Interview by author. February 23, 2012.

²⁵Note that there is a large legal debate regarding WTO members' abilities to restrict trade due to human rights concerns. See Ala'i 2000; Appleton 2000; Bhagwati 1998; Cleveland 2001; Cohn 2000; Howse and Mutua 2000; Lim 2001; Marceau 2002; Petersmann 2000; Qureshi 1998; and Stirling 1996. However, I simply claim that the WTO makes restricting trade for these reasons more costly, as explained below.

a specific country, WTO members may abide by the decision. Importantly, *unilateral* action is not covered by this exception. UN decisions are multilateral in nature, and therefore do not permit individual countries to sanction partners without UN approval.²⁶ Securing UN approval can be difficult and time-consuming, resulting in many instances where a country would like to administer sanctions but is not able to obtain UN agreement.

Article XXI also contains a national security exception stating that “nothing in this Agreement shall be construed to...prevent any contracting party from taking any action which it considers necessary for the protection of its essential security interests.” At first glance, this seems like an extremely permissive exception. Yet countries have been very cautious about invoking the security exception due to fears of its potential to undermine the trading system. For example, in 2007, the U.S. sought to use Article XXI to clarify that the U.S. does not have WTO gambling commitments, for which the EU sought compensation. The U.S. and the EU reached an agreement, and in a declassified cable from then Secretary of State Condoleeza Rice, the U.S. stated that it “shared the systemic concerns expressed by the EU and a number of other claimants about setting any precedent that might encourage misuse of Article XXI by WTO Members. The United States therefore agreed that in order to address the overall systemic concerns, it would make an offer for compensatory adjustment.”²⁷ Countries have clearly exercised considerable restraint regarding the use of the security exception, as there have been very few cases where the exception has been invoked.²⁸ According to an official with extensive experience in U.S. trade policy, “The bar

²⁶Zagel 2004.

²⁷Rice Dec 10, 2007.

²⁸The United States used the exception to defend its import ban on Czechoslovakia in the second year of the GATT; Sweden tried to use it to justify a 1975 import quota on footwear but instead revoked the quota; the EEC, Australia and Canada used it to defend a 1982 two month ban on Argentinian goods after Argentina’s annexation of the Falkland Islands, although no dispute panel was convened; the U.S. used it to justify a 1985 trade and transactions ban on Nicaragua, although the panel refused to rule on the dispute; and the U.S. invoked it to justify the 1996 Helms-Burton Act embargo on Cuba, though the parties reached an agreement and the WTO proceedings were dropped. *Guide to GATT Law and Practice (Analytical Index)* 1995.

is high for the national security exemption. If the bar is too low, the [WTO] system falls apart. Countries must believe in a stable, predictable environment.”²⁹ Thus, although this tool is technically available to justify discriminatory policies, countries must carefully weigh the gains of invoking the exception against the risks posed to the WTO as a whole.

Other exceptions allowing trade restrictions are found in Article XX of the GATT, which condones deviation from GATT rules in cases involving “the protection of public morals, the protection of human, animal or plant life or health, measures relating to prison labor, and the conservation of exhaustible natural resources.” Again, however, these exceptions place strict limits on policy discrimination. For example, a country can invoke the public morals clause, which allows it to decline to import goods that conflict with the morals of its society, such as pornography or gambling. However, it must refuse to import the good from *all* WTO members, which can be very costly, due to both the costs borne by domestic consumers and the anger such a ban would elicit from trading partners. Similarly, a country could place restrictions on goods from a country using prison labor, but would have to first prove that prison labor was actually used and then place restrictions on all other countries using prison labor to produce the good as well. Otherwise, trade protection would constitute “arbitrary and unjustifiable discrimination between countries where the same conditions prevail” (Article XX).

Exceptions also exist which permit preferential trade schemes. Under the Enabling Clause, countries may grant each other extra trade concessions in a preferential trade agreement, and may provide programs such as Generalized System of Preference schemes and EU development agreements, which offer lower tariffs for developing countries. While these types of trade concessions may be conditioned on a partner’s policies, such as its human rights record, they provide limited leverage over partner countries since the maximum penalty a country can exact unilaterally is the repeal of the preference program. In other words, the

²⁹Interview by author. February 22, 2012.

WTO sets a lower bound for states' abilities to punish partners, as states can withhold preferential treatment, but must grant MFN status regardless. With tariffs already negotiated to very low levels, preference programs often do not offer meaningful concessions,³⁰ so their withdrawal typically represents a very minimal loss.³¹

Compliance with WTO Law

The above discussion makes clear that adherence to WTO laws constrains states' use of trade protection as foreign policy leverage. Whether WTO laws impose constraints in practice depends on the degree to which states comply with them. A large body of literature in political science demonstrates that states' have strong incentives to abide by WTO rules, which I now discuss.

The WTO features a very highly evolved process for dispute settlement. When a WTO member violates WTO law, the complainant can bring the issue before the dispute settlement body (DSB). The DSB provides members with "a guarantee for the right to negotiate, a common standard for evaluating outcomes, the option for several countries to join a dispute, and incentives for states to change a policy found to violate trade rules."³² By publicizing cases and producing independent, credible verdicts, the DSB allows partners to ascertain which states are non-compliant.³³ States thereby develop reputations for compliance, which

³⁰Jones 2008.

³¹Additionally, the criteria given for preference program eligibility can not discriminate between countries. For instance, the EU offered trade privileges to specific developing countries who showed progress in combating drug trafficking. This program was disputed by India, a developing country that was not eligible for the program, arguing that its exclusion represented unlawful discrimination. The EU lost the case and repealed the drug trafficking program. See WTO 2012. Similarly, the EU undertook a total reevaluation of its development aid under the Lomé agreements, preferential trade concessions offered to 53 EU trading partners which could be suspended for violations of human rights, because the program was challenged for discriminating between developing countries. See Holland 2002. However, this limitation is not very biting in practice, since often the criteria for program eligibility can be defined very narrowly such that it only applies to a specific country.

³²Davis 2006.

³³Abbott and Snidal 1998.

has been shown to be an effective deterrent in many settings,³⁴ and can encourage partners to cooperate in the future. Conversely, countries with reputations as frequent violators of agreements may face reduced cooperation in trade and other areas.³⁵ Empirically, the WTO seems to encourage compliance, as even powerful countries have high rates of adherence to WTO rulings.³⁶ Additionally, countries face domestic incentives to abide by international laws,³⁷ as WTO rulings can provide countries with domestic political cover for abiding by their agreements³⁸ and many industries that benefit from WTO membership lobby their governments to comply with WTO laws.

Anecdotally, WTO membership seems to deter countries from violating WTO laws, as well. For example, Zimbabwe, an original member of the WTO, was sanctioned in 2000 by many OECD countries for its flagrant human rights abuses. Sanctions differed across countries but included travel bans, targeted financial sanctions and cuts in foreign aid to the Zimbabwean government. However, donors did not administer sweeping trade sanctions, as their ability to punish Zimbabwe in this manner was limited by WTO laws. A large Zimbabwean newspaper reported that the WTO director for information and external relations, Keith Rockwell, said the West was limited in its ability to affect Zimbabwe's trading relationships because "as a member of the WTO, Zimbabwe is able to enjoy the rights of all members. What this means in practice is that WTO members cannot discriminate against Zimbabwe's trade in goods and services...Zimbabwe has access to the dispute settlement system which means it can defend its rights through our binding system of dispute resolution."³⁹ Therefore, to punish Zimbabwe for human rights violations, OECD countries had to

³⁴Simmons 2000; and Tomz 2007.

³⁵Maggi 1999.

³⁶See Busch and Reinhardt 2003, 2004; Davis 2006; and Wilson 2007. Further, Busch, Raciborski and Reinhardt 2009 show that market size does not strongly predict WTO rulings and that the U.S. is less likely to raise trade barriers against WTO members.

³⁷Voeten 2005.

³⁸Allee and Huth 2006.

³⁹Chimhangwa 2010.

rely more heavily on aid cuts, and less on trade protection, than they would have if Zimbabwe were not a WTO member.

Similarly, consider the OECD members' responses to the worsening human rights record in Burma, a WTO member. In 1997, the EU administered sanctions against Burma, including a refusal to allow Burma to accede to the ASEAN-EU Economic Cooperation Agreement, which provides EU development aid. EU President Jacques Poos stated that "the EU will agree to extend assistance to Burma under the ASEAN framework only if five conditions are met—release political prisoners, restore democratic dialog, stop arresting political dissidents, fix a date for democratic elections, and allow freedom of democracy and movement."⁴⁰ However, the EU Commission did not raise tariffs on Burmese goods, explaining that "since Burma is a member of the WTO, the possibility of imposing sanctions in the field of trade in goods and services is subject to the rules of those agreements falling under the WTO to which Burma is a party...future EU policy in the field of restrictive measures will have to take into account the international commitments of the EU, in particular WTO agreements."⁴¹

By contrast, the U.S. State of Massachusetts sanctioned Burma, passing a law in 1996 that restricted government procurement of Burmese goods. This measure violated the WTO Government Procurement Agreement, causing the EU and Japan to file a complaint against the U.S. The Massachusetts law was repealed before the case could be ruled on, as the U.S. Supreme Court struck the law down,⁴² but this illustrates the general principle that the WTO limits the abilities of its members to use trade policies to sanction states unilaterally.⁴³

⁴⁰Pedersen 2008, 36.

⁴¹Pedersen 2008, 39.

⁴²Barker 2000.

⁴³By contrast, countries frequently impose strong unilateral trade punishments against non-WTO members, as I detail in the case studies below.

Aid and Trade as Substitutes

To this point, I have considered OECD governments' incentives to condition concessions on human rights policies, as well as the constraints imposed by WTO membership. I now examine the policy substitution that occurs as a result of WTO membership, arguing that since WTO membership represents a credible commitment not to use trade for foreign policy leverage, countries attempt to extract concessions using less costly tools, such as foreign aid. Interviews with government and policy officials support the contention that violating WTO laws is often much more costly than altering foreign aid allocations. According to an official with extensive experience in U.S. trade policy, when a country joins the WTO, "companies believe that they have a legally secure agreement. Violating WTO principles hurts companies by disrupting the stability and security of their business environment." However, "the effects of disruptions to the financial sector tend to be more opaque and distant. Aid agreements are unilateral grants, so they can be taken away and given back much more easily... financial flows are an easy spigot to turn on and off." The official pointed out that international courts do not become involved when an aid agreement is violated, as there are no binding multilateral obligations created when one country agrees to provide foreign aid to another government. By contrast, countries can file a case with the DSB if WTO laws are broken.⁴⁴ As an official of USAID explained, "You look around at what tools you have...Once [a country] is in the WTO it's harder to use [trade] for influence."⁴⁵ I first illustrate this logic through a simple model and then examine several case studies of foreign policy substitution.

A Simple Model of Policy Substitution

I present a two period model illustrating the WTO's effect on a donor government's selection of foreign policies. The model consists of two players: a donor and a recipient. The donor

⁴⁴Interview by author. February 22, 2012.

⁴⁵Official of USAID. Interview by author. February 10, 2012.

receives utility from respect for human rights in the recipient country, which is a function of the donor's aid and trade policies. The donor's utility function is $U^D(\alpha, \tau) = \Omega(\alpha, \tau)$, where α is the aid that the donor provides, and τ is the tariff the donor chooses.⁴⁶ $\Omega(\alpha, \tau)$ implicitly includes utility over improvements in human rights, which is a deterministic function of α and τ . For simplicity, I leave this in the background, but assume that $\Omega(\cdot)$ is always increasing in respect for rights. The function also includes all of the other costs and benefits associated with using these policies. For example, foreign aid represents a monetary cost to the donor, and can benefit the donor by encouraging more developed trading partners, strengthening alliances etc. Similarly, a tariff impacts the donor in terms of a potential dead-weight loss to society, greater government revenue, terms-of-trade externalities, etc. Both instruments may also carry costs and benefits associated with their distributional impact on the donor's society. $\Omega(\cdot)$ is assumed to be concave in both arguments and have an interior maximum in α at α^N and an interior maximum in τ at τ^N .

The recipient's utility function is $U^R(\tau, \alpha, L) = \Theta(\tau) + \alpha - L$. The tariff provides the recipient with utility $\Theta(\tau)$, which is assumed to be decreasing in τ , as the recipient dislikes higher tariffs on its goods. Aid is modeled as a monetary transfer, which provides the recipient with utility α . Additionally, the recipient either respects the human rights of its citizens or it does not. Some recipients find respecting human rights more costly than others do, where the cost, $L \in [0, \bar{L}]$ is determined by nature. The cost is known by the recipient but is not observed by the donor and is distributed uniformly for simplicity. Donor uncertainty over the recipient's cost arises due to incomplete information about the domestic politics in the recipient country. For example, donors often lack a thorough understanding of the recipient's political implications of reform. Recipients may face strong domestic constraints to political liberalization that are not readily observable, as the level of respect for human

⁴⁶An export tax or subsidy could be modeled equivalently, but for simplicity I focus on a tariff. Additionally, for the purposes of this illustration, I focus on a single tariff, though this is easily expanded to many tariffs.

rights is determined by a variety of opaque factors.⁴⁷ Thus, recipients likely comprehend their own constraints to implementing human rights reforms better than donors understand them.

The timing of the game is as follows: in period 1, nature chooses the recipient's cost associated with respecting human rights. The donor chooses α and τ to offer to the recipient conditional on the recipient first demonstrating respect for human rights. In period 2, the recipient chooses whether to respect human rights. If it respects human rights, the donor gives the recipient the promised α and τ ; otherwise, the donor provides an α and τ of its choosing. In this simple model, I assume that the donor's promises can be perfectly enforced, though this assumption is easily relaxed.⁴⁸

Solving the Model

I first consider the case where the recipient is not a WTO member and proceed by backward induction. In the last period, if the recipient has respected the human rights of its citizens, the donor provides the promised α and τ . If the recipient has not respected human rights, the donor implements its preferred tariff, τ^N , and preferred transfer, α^N .⁴⁹ The recipient chooses to respect human rights if the benefits of respecting rights are greater than the costs, or

$$\Theta(\tau) + \alpha - L \geq \Theta(\tau^N) + \alpha^N. \quad (1)$$

In period one, the donor would like to select policies by maximizing its utility over α and τ subject to equation 1, which would ensure that the recipient will respect rights. However,

⁴⁷See Davenport 2000; Goodliffe and Hawkins 2006; Poe, Tate and Keith 1999; Rejali 2009 and Vreeland 2008.

⁴⁸For example, this game could be thought of as the stage game in an infinitely repeated game, where the donor's promises are enforced through repeated interaction. Conversely, the donor may simply have a strong domestic rule of law, allowing it to enforce agreements due to the domestic cost of violations.

⁴⁹If the donor's promises are enforced through repeated interaction, then this model would represent the stage game of one of the numerous repeated games where the punishment is the static Nash equilibrium, as in Fudenberg and Tirole 1991.

the donor is unsure of the value of L . Therefore, the donor selects a cut-off value, L^C , where any recipient facing a cost of respecting rights less than or equal to L^C will be enticed to respect rights by the donor's offer, while any recipient facing a cost of respecting rights greater than L^C will not. For ease of interpretation, I normalize the donor's utility from its outside option, τ^N and α^N , to zero. Thus, the donor selects its optimal policies, τ^* , α^* , and L^{C*} to maximize the net benefits associated with inducing the recipient to respect rights at a given cost, multiplied by the probability of the cost of respecting rights, or $E(\Omega) = \Omega(\tau, \alpha)Pr(L \leq L^C) = \Omega(\tau, \alpha)F(L^C) = \Omega(\alpha, \tau)\frac{L^C}{L}$ where $F(\cdot)$ is the CDF of L and L is uniformly distributed by assumption. Therefore, the donor solves $argmax \Omega(\alpha, \tau)\frac{L^C}{L}$ subject to $\Theta(\tau) + \alpha - L^C \geq \Theta(\tau^N) + \alpha^N$. The three first order conditions and the constraint give four equations and four unknowns, so the values of the policies can be solved for.⁵⁰ The constraint holds with equality; otherwise, the donor could provide less to the recipient and the recipient would still respect rights. Therefore, in equilibrium, $\Theta(\tau^*) + \alpha^* - L^{C*} = \Theta(\tau^N) + \alpha^N$.

When the recipient is a WTO member, however, the tariff must be set at the exogenously determined MFN level, τ^{MFN} , in accordance with WTO law.⁵¹ Now the donor chooses α^{**} and L^{C**} to maximize its utility subject to $\Theta(\tau^{MFN}) + \alpha - L^C = \Theta(\tau^{MFN}) + \alpha^N$, or $\alpha - L^C \geq \alpha^N$.⁵² In equilibrium, the constraint again holds with equality, such that $\alpha^{**} - L^{C**} = \alpha^N$.

When tariffs were available as an alternative to aid, the donor would have chosen a lower level of aid or a higher cutoff if that were optimal. Since the donor did not select less aid when tariffs were a viable substitute, it will not choose to provide less aid now that tariffs are constrained. Therefore, by revealed preference, $\alpha^{**} \geq \alpha^*$ and $L^{C**} \leq L^{C*}$. Combining these inequalities with the two constraints, it is apparent that $(\alpha^{**} - \alpha^N) \geq (\alpha^* - \alpha^N)$, indicating

⁵⁰The first order conditions are: $\Omega_\tau(\alpha, \tau)\frac{L^C}{L} - \lambda\Theta_\tau(\tau) = 0$, $\Omega_\alpha(\alpha, \tau)\frac{L^C}{L} - \lambda = 0$ and $\Omega(\alpha, \tau)\frac{1}{L} - \lambda = 0$.

⁵¹WTO laws are assumed to be perfectly enforceable, but this is easily relaxed by adding a cost to deviation. For simplicity, I do not consider exceptions to the law, such as FTAs, but this addition would simply change the bound.

⁵²The expressions for the first order conditions with respect to α and L^C are the same as above.

that the donor increases aid commitments once the recipient joins the WTO, and increases aid cuts in response to human rights violations.⁵³ Therefore, once tariffs become constrained due to the recipient's WTO membership, the donor depends on its foreign aid policies to improve human rights. The donor increases aid commitments, and then relies more heavily on reducing foreign aid to punish rights violations.

Deriving Testable Implications

The logic of institution-driven policy substitution yields several testable empirical hypotheses. As detailed above, respect for human rights is a primary and long-standing goal of OECD members, which they often promote by extending or revoking trade privileges. However, WTO membership curtails OECD countries' abilities to do so by increasing the cost of trade policy discrimination. OECD countries should therefore be more likely to condition trade concessions on political liberalization, defined here as respect for human rights and freedoms, when partner countries are not WTO members. I therefore anticipate the following:

Hypothesis 1 *OECD countries should trade more with liberal, non-WTO members than with illiberal, non-WTO members. When trading partners are WTO members, this effect should disappear.*

However, OECD countries are not expected to abandon their efforts to promote respect for human rights among WTO members. Instead, the model shows that they substitute towards foreign aid, rewarding respect for rights with increased assistance. Thus, OECD donor countries should be more likely to condition foreign aid disbursements on human rights practices when partner countries are WTO members.

⁵³Of course, if $\alpha^{**} = \alpha^*$, aid commitments do not change, but this is a very specific, unlikely case. α will increase until the marginal utility of another dollar of aid equals the marginal utility of decreasing L^C .

Hypothesis 2 *OECD countries should disburse more aid to liberal WTO members than to illiberal WTO members. When aid recipients are non-WTO members, this effect should disappear.*

While aid *disbursements* to WTO members should be conditioned on recipients' respect for human rights, the model implies that aid *commitments* should increase for all WTO members. Aid commitments serve as a bribe, as the promise of more aid can entice recipients to reform in order to obtain a bigger reward. Donors should therefore commit higher levels of aid to WTO members.

Hypothesis 3 *OECD donor countries should commit more aid to WTO members than to non-WTO members.*

Examples of Policy Substitution

I provide several cases in which OECD countries conditioned their trade protection on respect for human rights prior to their partner's entry into the WTO, but linked their foreign aid allocations to respect for rights once their partner joined the WTO. I focus my cases on the policies of the U.S., as the U.S. exercises considerable leadership in OECD foreign aid giving. According to Louise Kantrow, a UN official and former Executive Director of the International League for Human Rights, OECD donors often coordinate their aid goals to a high degree, with the U.S. typically taking the lead.⁵⁴ The examples below therefore illustrate instances in which the U.S. switched from trade policy conditionality to aid policy conditionality once its partners joined the WTO, and then encouraged other donors to do the same.

⁵⁴Interview by author, January 20, 2012. Additionally, scholars have shown that in almost every case where a recipient is punished through cuts in aid, trade, or other measures, a large state typically takes the lead in pressuring other states to cooperate in administering sanctions. See, for example, Martin 1993.

Vietnam

During the period between the mid-1990s normalization of U.S.-Vietnam relations and Vietnam's 2006 WTO accession, the United States relied on both aid and trade policy manipulation to pressure Vietnam to improve its human rights record. In 1998, President Clinton signed the "Jackson-Vanik" waiver, which granted Vietnam trade concessions, but was subject to a yearly renewal which depended on Vietnam's human rights practices.⁵⁵ Congress consistently threatened to revoke trade concessions due to human rights concerns, and in response, Vietnam made many human rights reforms such as signing an agreement on religious freedom in which it pledged to improve conditions for religious citizens.⁵⁶

In 2001, the United States signed a bilateral trade agreement (BTA) with Vietnam which was the last major hurdle to Vietnam's WTO accession.⁵⁷ The U.S. Congress intensely debated the passage of the BTA, as it recognized that Vietnam's near-certain WTO accession would eliminate the U.S.'s ability to credibly threaten to terminate Vietnam's MFN status if Vietnam violated human rights. For instance, Rep. Loretta Sanchez argued for continuing to tie human rights to MFN renewal, rather than pass the BTA, because, "if we insist that Vietnam improve its human rights record as a condition to trading with America, we would gain human rights advances in Vietnam, so I think it is a tragic mistake for the United States to decline to use this tool."⁵⁸

To compensate for losing leverage over Vietnam in the realm of trade, the U.S. Congress sought to tie Vietnam's aid allocation to its human rights practices. On the same day that Congress passed the BTA, the House approved a companion bill, H.R. 1587, by a vote of 410-1, which linked aid for Vietnam to human rights. Specifically, the bill sought to prohibit

⁵⁵See the discussion in the Congressional Record each year the waiver is granted. For example, in the 1998 act entitled "Disapproving Extension of Waiver Authority with Respect to Vietnam," there are many arguments that the waiver should not be granted due to human rights violations.

⁵⁶Manyin 2006. The agreement has not been released publicly.

⁵⁷Manyin 2001.

⁵⁸*The Congressional Record* 2001.

non-humanitarian increases in aid for Vietnam unless the Vietnamese government “made substantial progress toward releasing all political and religious prisoners from imprisonment, house arrest, and other forms of detention...respecting the right to freedom of religion.... respecting the human rights of members of ethnic minority groups.....[and was not] complicit in a severe form of trafficking in persons.” Not only did the bill attach foreign aid allocations to human rights practices, but it also called for an increase in aid commitments specifically for improvements in human rights. The bill authorized the president to “provide assistance, through appropriate nongovernmental organizations, for the support of individuals and organizations to promote human rights and nonviolent democratic change in Viet Nam” and authorized \$2,000,000 each year for 2002 and 2003 to carry out its human rights goals. Congressional debate emphasized that the bill’s purpose was to connect aid to respect for human rights because of the probable decoupling of trade and rights due to the BTA. Representative Henry Hyde (R-IL) stated, “This bill makes clear that progress towards freedom and democracy will continue to be a central theme of U.S. foreign policy toward Vietnam. It uses forms of leverage other than trade sanctions to promote this objective, such as conditions on non-humanitarian foreign assistance.”⁵⁹ Thus, when leverage through trade decreased, Congress moved to increase its leverage through foreign aid, seeking to increase aid commitments to Vietnam with the caveat that aid disbursements would be contingent on Vietnam’s human rights record.⁶⁰

Cambodia

Prior to Cambodia’s 2004 WTO accession, the U.S. frequently conditioned both its aid and trade policies on Cambodia’s human rights performance. Since 1975, the U.S. had maintained a trade embargo against Cambodia as punishment for its frequent civil and political rights

⁵⁹Hyde 2001.

⁶⁰Perhaps under pressure from the U.S., other countries moved to tie their aid allocations to Vietnam’s human rights record around this time, such as Japan in 2004, as reported by AFP 2004.

violations. The U.S. lifted the embargo and increased foreign aid in 1992 after Cambodia held elections and improved its human rights record.⁶¹ Cambodia's reforms led the United States to accord Cambodia permanent MFN status, which the U.S. refers to as "permanent normal trade relations" (PNTR). PNTR was the last major step needed before Cambodia could enter the WTO.⁶² However, the U.S. remained concerned about human rights in Cambodia, such that the U.S. House of Representatives unanimously passed the 1996 House Resolution 345, which linked aid to Cambodia's human rights record. Congressman Roth explained that, "recently, Congress sent to the President H.R. 1642, a bill to extend permanent most-favored-nation tariff treatment to Cambodia...The resolution we have passed today is meant to send a parallel message- that the United States Senate remains deeply concerned about problems in Cambodia."⁶³ The Congressman went on to detail the "problems" he was referring to, listing a variety of human rights issues in Cambodia including corruption, politically motivated deaths, and lack of political freedom. The resolution urged the U.S. and other donors to condition foreign aid on human rights, stating that "the Secretary of State should encourage Cambodia's other donors and trading partners to raise concerns with the RGC over Cambodia's record on human rights."⁶⁴ Indeed, since the granting of PNTR, international donors have met yearly to set political conditions for the receipt of more foreign aid.⁶⁵

Additionally, since Cambodia was granted PNTR in 1996, the U.S. has relied almost solely on aid to exert leverage over Cambodia's human rights policies. In 1997, Hun Sen staged an armed take-over of the Cambodian government, which involved considerable political violence. In response, the United States banned direct bilateral aid to Cambodia, but did not alter its trade policies. When Cambodia released political prisoners and restored political

⁶¹Lum 2009.

⁶²Lum 2009.

⁶³Roth 1996.

⁶⁴*Relative to Cambodia Human Rights Record* 1996.

⁶⁵Lum 2009.

liberties, the U.S. rewarded it by lifting its foreign aid ban, again leaving its trade policies unaltered.⁶⁶ Thus, once Cambodia made significant strides toward joining the WTO, the U.S. Congress voted to link aid disbursements to rights and urged other donors to do the same, while ceasing to condition trade policies on human rights.

Quantitative Analysis

The preceding section provides evidence that WTO membership can cause foreign policy substitution, but it could be argued that these represent isolated cases. I now provide empirical evidence that the theory holds systematically across OECD donors. Since I am interested in OECD substitution between foreign aid and trade policies, the unit of analysis is the country-pair, composed of OECD aid donors and their foreign aid recipients. The analysis covers the post-Cold War period (post-1990), as many scholars have shown that geopolitical objectives outweighed human rights concerns during the Cold War.⁶⁷ With the end of the Cold War, OECD states began to condition their policies on respect for human rights; thus, the post-Cold War era constitutes an ideal period to evaluate the theory. Hypotheses 2 and 3 are therefore tested from 1991-2009, and hypothesis 1 is estimated over 1991-2006 due to import data availability. Additionally, all specifications use OLS with dyad and year fixed effects, as fixed effects are robust to many types of misspecification and endogeneity.⁶⁸ Standard errors are robust and clustered at the dyad level.

⁶⁶Lum 2009.

⁶⁷See Bearce 2010; Dunning 2004; and Meernik, Krueger and Poe 1998.

⁶⁸Note that directed dyad fixed effects are not necessary, as no country-pair in the sample contains a country that both gives foreign aid to its partner and receives aid from the same partner. Thus, no country-pair appears twice in the sample.

Testing Hypothesis 1

I first examine whether OECD countries condition their import levels on human rights when their partners are non-WTO members. I employ a gravity model which regresses the log of imports for each dyad on an indicator of joint WTO membership, interacted with a measure of respect for human rights, along with covariates:⁶⁹

$$\begin{aligned} \text{Log Imports}_{it} = & \beta_0 + \beta_1 \text{Both in WTO}_{it} + \beta_2 \text{Rights}_{it} + \beta_3 \text{Both in WTO}_{it} * \text{Rights}_{it} \\ & + \sum_{x \in X} \beta_x \text{Controls}_{xit} + \sum_{k \in K} \beta_k I(i = k) + \sum_{j \in J} \beta_j I(t = j) + u_{it}, \quad (2) \end{aligned}$$

where $I(\cdot)$ is the indicator function (so that the last two summations represent fixed effects for dyad and year, respectively), and u_{it} is an unobserved error term.

The dependent variable, *Log Imports*, is the log of bilateral imports, measured in constant U.S. dollars.⁷⁰ I focus on OECD imports rather than exports because when an OECD member increases trade protection to punish a trading partner for human rights violations, it typically raises its tariffs on goods from the partner. Higher tariffs result in lower imports from the offending country.

The key independent variable is an interaction between respect for human rights, *Rights*, and joint WTO membership, *Both in WTO*. *Rights* is measured by the Cingranelli-Richards (CIRI) Human Rights Project and is scored on a 14-point scale, ranging from least to most respect for human rights. For ease of interpretation and comparability, I rescale *Rights* such that it ranges from 0-1. *Both in WTO* is an indicator of whether both countries in a pair are members of the WTO,⁷¹ either formally or informally.⁷² Note that OECD importers are

⁶⁹The gravity model has been a staple of empirical research in international trade for decades. See Anderson 2011 for an overview.

⁷⁰All trade data are from Gleditsch 2002 and are updated using Barbieri, Keshk and Pollins 2009. Note that one dollar is added before taking the log of any variables.

⁷¹Tomz, Goldstein and Rivers 2007.

⁷²Informal members as well as formal members are subject to the rights and responsibilities conferred by membership in the WTO. See Tomz, Goldstein and Rivers 2007 for more details.

WTO members for the entire sample period, so this variable captures the WTO membership status of partner countries. As is standard in gravity models, I control for *Log GDP* and *Log GDP Per Capita* for each country in a pair.⁷³

TABLE 1 ABOUT HERE

Column 1 of Table 1 presents results which comport with the hypothesis. The coefficient on *Rights* is positive and statistically significant ($p < .001$) and indicates that among non-WTO trading partners, OECD countries trade 81.5% more with regimes that fully respect rights relative to those that do not respect rights. This effect disappears among WTO members, as the coefficient on respect for human rights among members, $\beta_2 + \beta_3$, is $-.091$ with a standard error of $.09$. The results suggest that OECD countries trade more with liberal, non-member partners than with illiberal, non-member partners. However, once partners join the WTO, the effect washes out.

Testing Hypothesis 2

Having demonstrated that WTO membership limits the use of trade policy conditionality, I now investigate whether OECD countries substitute towards foreign aid conditionality. To test whether OECD donors condition foreign aid disbursements on the human rights policies of WTO recipients, I employ an interaction model in which I regress logged foreign aid on *Both in WTO* interacted with *Rights*, along with covariates:

$$\begin{aligned} \text{Log Aid Disbursements}_{it} = & \beta_0 + \beta_1 \text{Both in WTO}_{it} + \beta_2 \text{Rights}_{it} + \beta_3 \text{Both in WTO}_{it} * \\ & \text{Rights}_{it} + \sum_{x \in X} \beta_x \text{Controls}_{xit} + \sum_{k \in K} \beta_k I(i = k) + \sum_{j \in J} \beta_j I(t = j) + u_{it}, \quad (3) \end{aligned}$$

where the last two summations represent fixed effects for dyad and year, respectively.

⁷³GDP and GDP Per Capita are from Gleditsch 2002 and are updated using data from Heston and Aten 2006.

The dependent variable, *Log Aid Disbursements*, is the logged net official development assistance (ODA) disbursements from OECD donor countries, measured in constant U.S. dollars.⁷⁴ A broad measure of foreign aid is used because aid is conceptualized as a tool to coerce recipient governments to enact better policies. Donors may manipulate their aid policies in many different sectors depending on what type of manipulation is least costly for the donor and most effective for influencing policy. The key independent variable is again *Rights* interacted with *Both in WTO*. Since wealthier countries might be expected to provide more aid, and receive less aid, I again include *Log GDP* and *Log GDP Per Capita* for both donor and recipient countries.

Column 2 shows strong support for the hypothesis. The coefficient on respect for rights among WTO member recipients, $\beta_2 + \beta_3$, is .58 with a standard error of .21, which is statistically significant ($p < .01$). This effect constitutes a 79% increase in aid disbursements for WTO member states that fully respect rights compared to WTO member states that show no respect for rights. For non-WTO member recipients, the effect disappears, as the coefficient on *Rights* is statistically insignificant. Combined with the results from the test of hypothesis 1, these findings suggest that donors decrease trade protection to reward respect for human rights among non-WTO members, but substitute towards increased foreign aid to reward WTO members.

⁷⁴The OECD defines ODA as non-military grants and net disbursements of loans which contain at least 25% in the form of a grant. The data come from OECD 2011.

Testing Hypothesis 3

I examine whether OECD donors systematically commit more foreign aid to WTO members using the following model:

$$\begin{aligned} \text{Log Aid Commitments}_{it} = \beta_0 + \beta_1 \text{Both in WTO}_{it} + \sum_{x \in X} \beta_x \text{Controls}_{xit} + \\ \sum_{k \in K} \beta_k I(i = k) + \sum_{j \in J} \beta_j I(t = j) + u_{it}, \end{aligned} \quad (4)$$

where the last two summations represent fixed effects for dyad and year, respectively. The dependent variable, *Log Aid Commitments*, is the logged aid committed from OECD donor countries in constant U.S. dollars.⁷⁵ I am interested in the overall effect of joint WTO membership; therefore, the key independent variable is *Both in WTO*. As above, I control for *Log GDP* and *Log GDP Per Capita*.

Column 3 displays a positive and statistically significant effect of WTO membership, indicating that overall aid commitments increase by about 25% when recipients join the WTO. While the test of hypothesis 2 demonstrates that donors condition the disbursement of aid on the human rights policies of WTO members, the results presented here suggest that donors *promise* additional aid to all WTO members in order to provide recipients with a larger incentive to improve their human rights records. Donors therefore raise the total amount of aid available to WTO members, but condition the receipt of this aid on the recipients' respect for human rights.

I now further examine hypothesis 3 by disaggregating overall aid commitments. If OECD donor countries increase aid commitments to WTO members in order to gain leverage over members' human rights policies, the effect should differ depending on the type of aid committed. In particular, WTO membership should increase aid intended to promote good

⁷⁵Aid commitment data is from Nielson et al. 2009.

governance, but should not affect aid intended to provide emergency relief. Emergency aid is not typically apportioned based on respect for human rights; rather, it is allocated to alleviate suffering due to disasters.⁷⁶

The results, presented in table 2, verify that WTO members receive larger aid commitments for human rights and good governance but not for emergencies. The dependent variable in column 1, *Log Governance Aid Commitments*, measures foreign aid directed towards programs to promote rights and governance.⁷⁷ Activities for which this type of aid commitment is intended are: institutional capacity building, measures against waste and corruption, legal and judicial development, constitutional development, law enforcement, strong civil society, government infrastructure, elections, human rights, free flow of information, and women’s equality.⁷⁸ The positive and significant coefficient on *Both in WTO* indicates that WTO membership increases aid for rights and governance by around 33%. By contrast, column 2 shows no significant relationship between WTO membership and *Log Emergency Aid Commitments*. The null result for the placebo test represents strong reassurance for the validity of the results supporting hypothesis 3.

Robustness Checks

To ensure that the empirical results are not driven by particular specification or modeling decisions, I conduct a variety of robustness checks, presented in the appendix to save space. Table A1 demonstrates the robustness of the results to a variety of additional covariates commonly found in the aid literature, including an indicator of whether a recipient is an *Ally* of the donor country, and a variety of recipient characteristics: the *Exchange Rate*, total foreign direct investment flows (*FDI*), *Economic Growth*, *Inflation*, total *Debt* and

⁷⁶According to Andrew Natsios, the former Administrator of USAID, in an interview by the author on February 23, 2012, emergency aid can be politicized, but this is the exception rather than the rule. See, for example, the case of North Korea in Natsios 2009.

⁷⁷Nielson et al. 2009.

⁷⁸This variable combines aid from the categories of governance, women’s rights, and institutions.

the *Interest Rate*. Table A2 shows that the results are not sensitive to a particular measure of human rights by repeating the analysis using Freedom House scores. These scores range from 0 to 10, from least to most respect for human rights. As above, I rescale the scores from 0-1 for ease of interpretation.⁷⁹ Finally, Table A3 shows that similar effects obtain when 1989, rather than 1991, marks the start of the post-Cold War period. The results of each robustness check are statistically significant and consistent with the findings presented above.

Conclusion

This paper claims that a deeper understanding of the indirect effects of institutions is critical for determining how institutions shape the behavior of political actors. The argument advanced here suggests a reexamination of a central tenet in international relations: that international institutions benefit all members by enhancing cooperation. While members may gain in the policy area governed by the institution, ascertaining whether membership in an institution is advantageous *overall* requires thorough understanding of the institution's effects in policy domains outside of the institution's purview. This paper demonstrates one such effect, showing that because institutional membership constrains some policies, states substitute towards the use of more flexible policies for foreign policy leverage. Current explanations of the impact of international institutions do not acknowledge that while institutions can improve cooperation in some areas, they may politicize relations in others. These accounts might therefore provide an overly optimistic view of the role of institutions in interstate relations.

Analysis of the unintended consequences of institutions is not only important for a more complete understanding of their general benefits, but also for discerning the distribution of

⁷⁹Freedom House 2009. This measure averages Freedom House's political liberties score, Freedom House's civil liberties score, and the Polity score.

benefits. For example, this paper focuses on the effect of WTO membership on foreign aid allocation, finding that WTO membership politicizes foreign aid flows. An implication of this result is that the indirect effects of the WTO differ for foreign aid donors versus aid recipients. For donors, the WTO restricts a lever of influence, causing substitution toward less desirable tools. For recipients, the WTO increases the political requirements of receiving foreign aid. These two types of states therefore face distinct trade-offs from WTO membership.

Additionally, shedding light on the indirect effects of institutions is of particular importance when assessing the optimal structure and design of institutions. Such effects may be especially salient for determining the domains that should be regulated by a particular institution. For example, if politicizing aid allocations is an inadvisable by-product of WTO membership, then perhaps the WTO should also govern bilateral foreign aid flows. Aid recipients could potentially gain from an awareness of the effects of WTO membership on their aid allocations when choosing whether to participate in the WTO, and donors may profit from formally linking aid and trade policies. The WTO's effect on aid allocations could be a topic for WTO accession negotiations.

Finally, recognition of the substitutability of foreign aid and trade as levers of influence provides a revision to the large literatures examining the motivations underlying foreign aid allocations and foreign policy selection. This paper suggests that foreign aid provision depends on the entire bundle of policies available to donors, which is shaped by membership in institutions. Incorporation of this important source of heterogeneity provides a more complete picture of the calculus by which states select policies from an array of policy options. This paper therefore demonstrates that cognizance of the larger institutional environment within which states operate is essential for understanding interstate behavior.

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Tables

Dependent Variable	Log Imports	Log Aid Disbursements	Log Aid Commitments
Both in WTO	0.501*** (0.110)	-0.262 (0.263)	0.226** (0.073)
Rights	0.596*** (0.171)	-0.214 (0.347)	0.726*** (0.124)
Rights*Both in WTO	-0.687*** (0.163)	0.794* (0.353)	
Log GDP Per Capita A	-1.998** (0.620)	-1.812 (1.692)	-2.004* (0.978)
Log GDP Per Capita B	1.633*** (0.320)	-1.010* (0.496)	-1.141*** (0.309)
Log GDP A	1.805*** (0.541)	6.053*** (1.492)	2.469** (0.797)
Log GDP B	-0.626* (0.317)	1.161* (0.476)	1.144*** (0.311)
Constant	-15.928* (6.703)	-102.450*** (15.404)	-25.332** (8.744)
Year and Dyad Effects	Yes	Yes	Yes
R-Squared	0.872	0.535	0.720
N	32187	42965	31808

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

Table 1: Effect of WTO membership and respect for human rights. Estimates from OLS regression. The unit of observation is the dyad, with robust standard errors clustered by dyad. Columns 2-3 cover 1991-2009 and column 1 covers 1991-2006 due to import data availability. The sample includes OECD foreign aid donors and their recipients. *Rights* is scored on a 14-point scale ranging from 0-1, from least to most respect for rights, and *Both in WTO* is an indicator variable for joint WTO membership.

Dependent Variable	Log Governance Aid Commitments	Log Emergency Aid Commitments
Both in WTO	0.284 (0.255)	-0.450 (0.263)
Rights	1.268*** (0.375)	-0.518 (0.405)
Log GDP Per Capita A	6.486* (2.920)	-27.905*** (3.594)
Log GDP Per Capita B	0.827 (0.911)	-5.608*** (0.998)
Log GDP A	-7.604** (2.476)	23.297*** (3.063)
Log GDP B	-0.303 (0.931)	2.558* (1.069)
Constant	89.130** (28.343)	-182.324*** (31.989)
Year and Dyad Effects	Yes	Yes
R-Squared	0.502	0.384
N	31808	31808

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

Table 2: Effect of WTO membership. Estimates from OLS regression. The unit of observation is the dyad, with robust standard errors clustered by dyad. The analysis covers the years 1991-2009. The sample includes OECD foreign aid donors and their recipients. *Rights* is scored on a 14-point scale ranging from 0-1, from least to most respect for rights, and *Both in WTO* is an indicator variable for joint WTO membership.

Appendix A

Variable	Mean	Std. Dev.	N
Log Aid Disbursements	13.444	3.770	49373
Log Aid Commitments	14.950	2.763	39566
Log Governance Aid Commitments	8.195	6.773	35167
Log Emergency Aid Commitments	4.264	6.335	35167
Log Imports	2.492	2.965	36560
Both in WTO	0.734	0.442	52113
Rights (CIRI)	0.543	0.28	47282
Rights (Freedom House)	0.524	0.289	43113
Ally	0.117	0.322	52113
Exchange Rate	9.408	106.143	44349
FDI	3.853	8.225	44425
Economic Growth	2.651	6.446	46003
Inflation	.558	6.499	45941
Debt	5.161	6.413	40042
Interest Rate	9.488	25.902	38767
Log GDP Per Capita A	10.273	0.331	52113
Log GDP Per Capita B	7.916	1.091	49621
Log GDP A	20.165	1.343	52113
Log GDP B	16.964	1.986	49621

Table A1: Summary statistics

Dependent Variable	Log Imports	Log Aid Disbursements	Log Aid Commitments
Both in WTO	0.491*** (0.123)	-0.261 (0.346)	0.290** (0.091)
Rights	0.347 (0.185)	-0.567 (0.479)	0.668*** (0.174)
Rights*Both in WTO	-0.626*** (0.177)	1.262** (0.468)	
Log GDP Per Capita A	-1.226 (0.792)	-0.859 (1.558)	0.860 (1.737)
Log GDP Per Capita B	0.831 (0.425)	-0.685 (0.931)	-0.389 (0.592)
Ally	0.181 (0.254)	-4.232* (2.086)	-0.117 (0.430)
Exchange Rate	0.004 (0.002)	0.022*** (0.006)	0.006 (0.003)
FDI	-0.002 (0.003)	0.006 (0.004)	0.006* (0.003)
Economic Growth	0.001 (0.003)	0.003 (0.004)	0.005 (0.003)
Inflation	-0.007 (0.006)	-0.004 (0.005)	0.003 (0.005)
Debt	0.006 (0.003)	-0.013* (0.006)	-0.005 (0.004)
Interest Rate	-0.003*** (0.001)	0.000 (0.001)	-0.003* (0.001)
Log GDP A	1.114 (0.698)	5.962*** (1.421)	0.980 (1.414)
Log GDP B	-0.176 (0.442)	0.709 (0.902)	0.288 (0.610)
Log Imports		-0.024 (0.018)	-0.015 (0.017)
Constant	-11.225 (8.745)	-102.340*** (18.096)	-15.928 (14.622)
Year and Dyad Effects	Yes	Yes	Yes
R-Squared	0.881	0.547	0.715
N	22820	22820	15935

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

Table A2: Effect of WTO membership and respect for human rights. Estimates from OLS regression. The unit of observation is the dyad, with robust standard errors clustered by dyad. Columns 2-3 cover 1991-2009 and column 1 covers 1991-2006 due to import data availability. The sample includes OECD foreign aid donors and their recipients. *Rights* is scored on a 14-point scale ranging from 0-1, from least to most respect for rights, and *Both in WTO* is an indicator variable for joint WTO membership.

Dependent Variable	Log Imports	Log Aid Disbursements	Log Aid Commitments
Both in WTO	0.453*** (0.107)	0.033 (0.280)	0.271*** (0.071)
Rights (Freedom House)	0.333 (0.198)	0.272 (0.467)	0.688*** (0.142)
Rights*Both in WTO	-0.680*** (0.187)	0.363 (0.440)	
Log GDP Per Capita A	-1.709** (0.603)	-0.203 (1.967)	-1.036 (1.079)
Log GDP Per Capita B	1.902*** (0.305)	-0.692 (0.518)	-0.976** (0.329)
Log GDP A	1.601** (0.526)	4.900** (1.725)	2.029* (0.885)
Log GDP B	-0.773* (0.310)	0.667 (0.506)	0.816* (0.330)
Constant	-13.994* (6.630)	-90.166*** (17.209)	-22.092* (9.467)
Year and Dyad Effects	Yes	Yes	Yes
R-Squared	0.869	0.532	0.707
N	32122	39427	29037

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

Table A3: Effect of WTO membership and respect for human rights measured using Freedom House scores. Estimates from OLS regression. The unit of observation is the dyad, with robust standard errors clustered by dyad. Columns 2-3 cover 1991-2009 and column 1 covers 1991-2006 due to import data availability. The sample includes OECD foreign aid donors and their recipients. *Rights* is scored on a 10-point scale ranging from 0-1, from least to most respect for rights, and *Both in WTO* is an indicator variable for joint WTO membership.

Dependent Variable	Log Imports	Log Aid Disbursements	Log Aid Commitments
Both in WTO	0.475*** (0.110)	-0.093 (0.257)	0.238*** (0.072)
Rights	0.487** (0.158)	0.161 (0.322)	0.713*** (0.118)
Rights*Both in WTO	-0.566*** (0.154)	0.560 (0.340)	
Log GDP Per Capita A	-1.720*** (0.493)	-1.811 (1.461)	-1.839* (0.935)
Log GDP Per Capita B	1.490*** (0.290)	-1.404** (0.483)	-1.178*** (0.296)
Log GDP A	1.734*** (0.436)	6.301*** (1.269)	2.428** (0.776)
Log GDP B	-0.279 (0.294)	1.316** (0.472)	1.165*** (0.303)
Constant	-21.938*** (5.841)	-107.292*** (13.450)	-25.920** (8.609)
Year and Dyad Effects	Yes	Yes	Yes
R-Squared	0.869	0.522	0.711
N	34959	46125	33472

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

Table A4: Effect of WTO membership and respect for human rights. Estimates from OLS regression. The unit of observation is the dyad, with robust standard errors clustered by dyad. Columns 2-3 cover 1989-2009 and column 1 covers 1989-2006 due to import data availability. The sample includes OECD foreign aid donors and their recipients. *Rights* is scored on a 14-point scale ranging from 0-1, from least to most respect for rights, and *Both in WTO* is an indicator variable for joint WTO membership.