

Instruments of Coercion: Aid and Trade as Substitute Policy Levers

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 - Central claim in IR: Institutions increase cooperation between states by allowing credible commitment to specific policies
 - I identify overlooked, indirect effects of institutions in policy-areas outside of the institution's purview
 - Argue that by increasing cooperation in some policy areas, international institutions increase political maneuvering in other, less constrained policy domains

Focus on WTO and Human Rights

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 - 2001: House votes to pass BTA—last step to Vietnam's WTO entry—and votes to link aid for Vietnam to human rights on same day
 - Rep Henry Hyde (R-IL): “Freedom and democracy will continue to be a central theme of U.S. foreign policy toward Vietnam. [This bill] uses forms of leverage other than trade sanctions to promote this objective, such as conditions on non-humanitarian foreign assistance.”
- I argue that by increasing cooperation in trade, the WTO can politicize foreign aid allocations

Policy Conditionality

Conditionality is a commonly used tool

- Conditionality: non-compliance with demands results in aid or tariff penalties
- OECD focus on conditionality since 1990
- Why conditionality?
 - Induce policy reform through bribe or reputation impact
 - Appeasement of domestic constituents and lobbyists

WTO Constraints

WTO limits use of tariff conditionality

- WTO requires MFN tariff rates- no discrimination
- Some exceptions—still very costly to violate MFN
- Violating WTO rules is costly:
 - Reputation costs
 - Retaliation
 - Domestic costs
 - Systemic costs
- WTO tariff constraints lead states to use aid instead

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- Donor chooses optimal mix of tariffs cuts and aid grants to induce human rights reforms by recipient
- Once recipient joins WTO, tariff is constrained
- Donor gives more aid in response, as a bribe and a bigger punishment if recipient violates rights

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- OECD donor countries should commit more aid to WTO members than to non-WTO members

Main Empirical Analysis

- Unit of observation– dyad year, OLS with year and dyad fixed effects, 1991-2009 (hypotheses 2 and 3), 1991-2006 (hypothesis 1)
- Sample: OECD foreign aid donors and their recipients
- Robust standard errors, clustered by dyad

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- Dependent variables: Log Imports (H1), Log Aid Disbursements (H2), Log Aid Commitments (H3)
- Key independent var: Both in WTO X Rights (Tomz et. al. 2009; CIRI index)
- Rights scored on 14-point scale ranging from 0-1, from least to most respect for rights

Results

Dependent Variable	Log Imports	Log Aid Disbursed	Log Aid Committed
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)	
Both in WTO	0.501*** (0.110)	-0.262 (0.263)	0.226** (0.073)
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)
R-Squared	0.872	0.535	0.720
N	32187	42965	31808

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- For non-WTO members, the effect disappears
- Suggests donors decrease trade protection to reward respect for rights among non-WTO members, but substitute towards increased foreign aid to reward WTO members
- Aid commitments increase by about 25% when states join WTO
- Donors *promise* more aid to WTO members—incentive to improve rights

Robustness Checks

- No effect on emergency aid, strong effect on governance aid
- Different covariates profiles
- Alternative measures of human rights
- Different years
- Time trend

Conclusion

- Indirect effects of institutions critical for determining how institutions shape the behavior of political actors
- WTO prevents use of trade policy for political leverage—so states use other policies, like foreign aid
- By increasing cooperation in the area it governs, institutions can politicize other policy areas

WTO Prevents use of Tariffs for Concessions

- 1997 Burma human rights violations
- EU Commission: “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”

Disaggregated Aid

Dependent Var.	Log Governance Aid Committed	Log Emergency Aid Committed
Both in WTO	0.284 (0.255)	-0.450 (0.263)
Rights	1.268*** (0.375)	-0.518 (0.405)
Log GDPPC A	6.486* (2.920)	-27.905*** (3.594)
Log GDPPC 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)
Year and Dyad FE	Yes	Yes
R-Squared	0.502	0.384
N	31808	31808

Adding Covariates

Dependent Variable	Log Imports	Log Aid Disbursed	Log Aid Committed
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 GDPPC A	-1.226 (0.792)	-0.859 (1.558)	0.860 (1.737)
Log GDPPC B	0.831 (0.425)	-0.685 (0.931)	-0.389 (0.592)
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)
Year and Dyad Effects	Yes	Yes	Yes
R-Squared	0.881	0.547	0.715
N	22820	22820	15935

Controls: Ally, Interest Rate, Exchange Rate, FDI, Economic Growth, Inflation, Debt, Log Imports

Freedom House Scores

Dependent Variable	Log Imports	Log Aid Disbursed	Log Aid Committed
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 GDPPC A	-1.709** (0.603)	-0.203 (1.967)	-1.036 (1.079)
Log GDPPC 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)
Year and Dyad Effects	Yes	Yes	Yes
R-Squared	0.869	0.532	0.707
N	32122	39427	29037

End of Cold War 1989

Dependent Variable	Log Imports	Log Aid Disbursed	Log Aid Committed
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 GDPPC A	-1.720*** (0.493)	-1.811 (1.461)	-1.839* (0.935)
Log GDPPC 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)
Year and Dyad Effects	Yes	Yes	Yes
R-Squared	0.869	0.522	0.711
N	34959	46125	33472