

# **Who Benefits? International Institutions and Interstate Political Relations**

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October 24, 2013





## Chapter 5

# Friends, Enemies and WTO Membership

“IF YOU WANT TO MAKE PEACE WITH YOUR ENEMY, YOU HAVE TO WORK WITH YOUR ENEMY. THEN HE BECOMES YOUR PARTNER.”

*Nelson Mandela*

“POLITICS MAKES STRANGE BEDFELLOWS.”

*Charles Dudley Warner*

Reflecting the hopes of many policymakers, former WTO Director General Pascal Lamy stated his belief that the WTO would “foster peace and stability.” In articulating the view that the WTO dampens hostility by increasing trade, he echoed the dominant paradigm about the effect of the WTO on political relations between states. According to this logic, increased economic integration can lead to peaceful, cooperative interactions because interdependence can create incentives to avoid conflict. Economic integration generates domestic groups whose business interests are hurt by war, causing them to pressure their governments to avoid such disruptions. By damaging these groups’ economic assets, along with the

government's economic interests, economic ties can increase the cost of conflict. Economic integration can also stimulate interaction between governments, as well as between economic actors, promoting dialog and trust. This logic implies that because international institutions can stimulate economic integration, they also promote peace and friendship.

However, as I have shown, while international institutions can help states to cooperate, these institutions do not benefit all states equally. The extent to which a pair of states will increase cooperation as the result of membership in an institution depends on whether those states find cooperation difficult outside of the institution. I have demonstrated that the pairs of states that have the most difficulty working together in the absence of an institution are those that do not trust each other, and therefore hesitate to invest in mutually beneficial endeavors for fear that their partner may behave opportunistically—the political hold-up problem. Political hold-up problems are caused by two factors: the ability to renege on an agreement, which is large when states have dissimilar capabilities, and the incentive to renege on an agreement, which is high when states have dissimilar interests.

Luckily, I've also provided evidence that international institutions can solve these otherwise intractable issues by helping to enforce dynamic agreements. Using the example of the WTO, I established that the institution boosts trade and investment for states with political asymmetries by enforcing agreements, thus preventing these states from reneging on trade commitments to obtain political concessions. The main benefit of WTO membership, increased trade, therefore accrues most heavily to these dissimilar country-pairs.

I now build on the above logic to demonstrate that WTO-induced economic integration between dissimilar states in turn reorients the security landscape as states align themselves more closely with their new trading partners. Since greater economic ties can foster political cooperation, WTO memberships leads to stronger political relations between the dissimilar states whose trade flows most increase as a result of membership. However, by increasing trade and improving political relations between some pairs of states in particular, the WTO

can actually reduce political cooperation between states that do not experience a commensurate increase in trade. Why might this be the case? Many issues in the international area require states to choose between competing perspectives, such that supporting one state automatically results in not supporting another. For instance, suppose a resolution is introduced in the United Nations on which a state must vote. If a state decides to vote with one side, it is then not voting with the other side by definition. Or, suppose a donor has a fixed budget to allocate in the form of foreign aid. By providing more aid to one state, it must disburse less aid to another. Similarly, in a conflict between two states, a third party must often choose to support one side or the other, but not both. Thus, by definition, increasing cooperation between some states often implies reducing cooperation with others.

I argue that when a disagreement arises, WTO members will be more likely to cooperate with their new trading partners than with other states, for several reasons: First, states have more in common with their trading partners, as they both have incentives to support conditions which will enhance their mutual economic interests. Both governments and domestic actors are more inclined to back policies that protect the source of their prosperity. Trading partners have greater incentives to move past political irritants as they work together to achieve mutual gains. Indeed, states want their trading partners' economies to grow, and are more apt to embrace policies which stimulate such growth, so that they may reap the resulting economic benefits.

Consider several examples of issue areas in which increased trade resulting from WTO membership has provided states with greater incentives to cooperate politically, which will be discussed further below: Once Japan joined the WTO, it sided with the West in the Cold War due to its economic interests with these states; when Saudi Arabia joined the WTO, it reduced its funding of terrorist groups because those activities disrupted trade with India; upon China and Taiwan's WTO accession, Taiwan reduced demands for full independence from China since that would anger China and hinder trade. I now provide a variety of

case studies, analyzing the political and economic relations of a particular state with a traditionally politically friendly partner and a traditionally hostile partner, both before and after WTO entry. I present cases from a variety of regions and time periods to demonstrate the wide applicability of the theory. I then test the theory empirically, showing that WTO membership leads asymmetric states to vote together more frequently in the United Nations.

## **Example: Taiwan's WTO Entry**

Consider the impact of Taiwan's WTO membership on its relations with two large states, the U.S. and China. Prior to its accession, Taiwan and the U.S. had experienced strong ties, both economically and politically. By contrast, relations between China and Taiwan were deeply troubled by the question of whether Taiwan is an independent state or a part of China. China consistently used trade as a weapon in this battle, leading Taiwan to underinvest in economic activity with China. Once Taiwan joined the WTO in 2002, trade and investment surged between China and Taiwan, leading to improved political relations. However, since the U.S. support of Taiwan vis-a-vis China had been a major contributing factor to the closeness of their relationship, Taiwan's more accommodating stance toward China weakened Taiwan's relationship with the U.S.

Prior to Taiwan's WTO accession, the United States treated Taiwan "as though it were designated a major non-NATO ally" (Kan 2013, 25). Throughout the 1990s, the U.S. demonstrated increasingly strong support for Taiwan: it violated an agreement with China to reduce arms sales to Taiwan by providing Taiwan with 150 F-16 planes in 1992; it improved its protocol for the treatment of Taiwan diplomats in 1994; it provided a visa for Taiwan's president to visit the U.S. and give a speech at Cornell in 1995; and it demonstrated its resolve over its defense of Taiwan after China sent missiles into the Taiwan strait in 1996 (Ross 2000). Since signing the 1979 Taiwan Relations Act, the U.S. had remained committed

to “maintain the capacity of the United States to resist any resort to force or other forms of coercion that would jeopardize the security, or the social or economic system, of the people on Taiwan,” and to provide Taiwan with arms for defense (Morrison 2003). U.S. President Bush made the especially strong statement in 2001 that the U.S. would “do whatever it took to help Taiwan defend itself” (Kan 2013).

The friendly relationship between the two states was evident in U.S. Congressional activity around Taiwan’s WTO entry. Rep. Jon Kyle believed that the U.S. should support Taiwan’s WTO entry “to honor our commitments to a close, long-standing ally, and to demonstrate our intention to support democracies that respect the rule of law.” Further, he wanted to signal “America’s determination to meet our commitments and our resolve to support Taiwan” (Congressional Record 2000). Congressman Doug Bereuter advocated Taiwan’s WTO accession due to the U.S.’s “unshakable, long-term commitment to America’s critically important relations with Taiwan” (Bereuter 2000).

The political similarity between the U.S. and Taiwan was also reflected in the U.S. Congressional tribute to Taiwan President Chen Shui-Bian, who held the presidency at the time of Taiwan’s WTO entry. Congressman Tom Lantos stated: “President Chen has been an instrumental component as Taiwan moves along the path of democratization and wide economic reform. Moreover, President Chen deserves recognition for repeatedly demonstrating his commitment to human rights and rule of law.....President Chen has shown a continued commitment to the long-standing economic and cultural relationship that exists between the United States and Taiwan” (Lantos 2003). Congressman McInnis echoed the sentiment, stating, “The relationship between our countries stands as a great example of the cooperation and understanding that can be reached between two nations that share the goals of fostering democracy and human rights, protecting the world against terrorism and expanding the global economy through trade....Under this President’s guidance, Taiwan’s vibrant democracy has continued to thrive, human rights have been safe-guarded, and freedom of

the press has never been stronger” (McInnis 2003).

Further, due to these political similarities and strong relations, few barriers stood in the way of investment and trade between the U.S. and Taiwan. At the time of Taiwan’s WTO accession, Taiwan was the 8th largest trade partner of the U.S., and the U.S. was Taiwan’s largest trade partner. Further, the U.S. had been Taiwan’s main investment destination (Kan and Morrison 2013).

By contrast, prior to Taiwan’s WTO membership, relations between China and Taiwan had been very tense due to political difficulties, particularly regarding the issue of Taiwan’s sovereignty. These tensions were also exaggerated by China and Taiwan’s differences in regime type and cultural disparities; in a 1999 white paper regarding its policy toward China, Taiwan stated, “the current totalitarianism of the Beijing government causes the cultural differences of both sides to be greater” (DPP 1999). Due to China and Taiwan’s difficult history, they had little interaction after the cross strait wars of the 1950s, remaining in a state of war until 1979. After a brief thawing of relations, Taiwan’s democratic reforms in the 1980s and early 1990s led Taiwan to rethink its support for eventual reunification with China and instead adopt a stance emphasizing its sovereignty, with which China vehemently disagreed. This dispute led Taiwan and China to engage in competition for international recognition, offering states bribes such as increased foreign aid in return for acknowledgment as the legitimate government of China (Bozzato 2011). China became so agitated by Taiwan’s pro-independence stance that top Chinese officials warned in 1992 and 1993 that China might take “drastic” and “resolute” measures to prevent its independence (Kan 2013).

Relations deteriorated into an escalating crisis after Taiwan President Lee’s 1995 speech at Cornell University, which was Lee’s first official visit to the United States. In response, China cut off all ongoing negotiations with Taiwan. President Lee continued to push for independence, claiming that Taiwan and China should negotiate as equal states. In the run up to Taiwan’s elections, China conducted six large military exercises and then fired

missiles into the Taiwan Strait in July of 1995 and again in 1996, which was interpreted as a tactic to scare Taiwanese voters into selecting a more pro-China government. The U.S. responded by threatening China with a large demonstration of military power, the largest military maneuver in Asia since the Korean War, highlighting its support for Taiwan (Ross 2000). Taiwan, however, reelected Lee, and continued to favor pro-independence candidates, electing Chen Shui-bian in the 2000 election. Chen continued the pro-independence rhetoric, referring to China and Taiwan as “one country on each side” of the strait, pushing for a new constitution that would establish Taiwan’s sovereignty, and favoring a referendum on the threats made by China during Taiwan’s election (Kan 2013).

These political concerns resulted in low trade and investment; Chinese investment in Taiwan was illegal in the 1980s and cross-strait trade was negligible due to worries that increased trade would provide China with political leverage (Lin 1999). The U.S. recognized this possibility as well, stating that it would “consider any effort to determine the future of Taiwan by other than peaceful means, including by boycotts or embargoes, a threat to the peace and security of the Western Pacific area” (Godwin, Wilhelm and Sutter 1996). China, too, emphasized its intention to “use business to pressure the politicians” and to “use the people to pressure the officials” (Tong 2007). Indeed, China issued warnings to investors in Taiwan that they could be prohibited from doing business with China if they supported Taiwan’s sovereignty (Kynge 2000), and reportedly conducted an investigation into investor support for independence (Taipei Times 2000).

In response, Taiwan maintained a variety of restrictions on investment throughout the 1990s, such as prohibitions on investment in Chinese infrastructure, high-technology industries, the energy sector, the service sector, mandates on licensing for investments greater than \$5 million, and bans on investment projects greater \$50 million. Taiwan further emphasized the development of the capacity to closely monitor investment and trade with the mainland, and regulated the types of goods that could be traded to try to minimize its

vulnerability to coercion. In particular, early investments tended not to exceed \$1 million and were mainly in sectors that were not relationship-specific, such as footwear, foodstuffs, textiles, and toys (Tanner 2007). Taiwan also regulated whether China's companies could list shares on Taiwan's stock market, and tried to depress the listing of Taiwan's companies on China's stock market. It restricted financing for Taiwan companies from sources in China (Tanner 2007).

Restrictions on investment were explicitly due to political hold-up problems. For instance, in 1991, the Cheng Shin Rubber International Company sought to invest \$20 million in a tire factory, but Taiwan did not allow the investment at the time because of fears that China would use it to "blackmail" Taiwan (Tanner 2007). A white paper from Taiwan stated that the prohibitions reflected fears of antagonistic Chinese behavior due to "cultural conflicts, which will certainly be carried from this century into the next" (DPP 1999). However, the paper expressed the hope that both nations would join the WTO, so that investment restrictions could be relaxed, presumably because agreements would be easier to enforce. Indeed, many scholars pointed out that WTO membership prevent China from using economic pressure to try to extract political concessions from Taiwan, as "such attempts could land Beijing in a WTO mediation hearing" (Gilley and Pao 2001).

The theory indicates that after Taiwan joined the WTO in 2002, trade should have increased in particular with politically hostile partners like China, at the expense of politically friendly states like the U.S., and indeed, that is what occurred. Trade and investment between the U.S. and Taiwan remained relatively steady after Taiwan joined the WTO. U.S. exports to Taiwan increased by 1.5%, and U.S. imports from Taiwan grew by 3.5% during 2002. By contrast, Taiwan lifted its ban on direct trade and investment with China, and trade and investment sky-rocketed (Hsieh 2008). Exports from Taiwan to China grew by 35.4% and imports from China grew by 30.7% from 2002 to 2003. Taiwan altered its relations with China from "no haste, be patient," to "active opening, effective management," which,

in practice, meant fewer restrictions on economic interaction with China. Trade continued to rise dramatically overtime, from \$27.8 billion in 2001 to \$76.4 billion in 2005. During this period, Taiwan's exports to China rose from \$21.9 billion to \$56.3 billion and its imports from China increased from \$5.9 billion to \$20.1 billion. By 2011, trade reached \$134.7 billion, an increase of 327.6% from 2001, and was accompanied by daily direct flights, and the potential for opening representative offices (Kazianis 2013). China became Taiwan's biggest trading partner, while the U.S. sunk to Taiwan's 11th largest partner (Kan and Morrison 2012). According to one study, Taiwan received an extra \$3 billion due to the WTO-induced elimination of trade restrictions with China (Ianchovichina and Martin 2004). And while China's importance as a trade partner had remained relatively constant prior to its WTO accession, it doubled by 2005 to 20% of Taiwan's total trade (Tanner 2007). In addition, Taiwan's investments in trade with China have not only risen, but have also changed in composition from those requiring little fixed capital investment such as toys and clothes, to industries requiring relationship-specific investment, such as high-tech industries (Tanner 2007). In other words, Taiwan has invested in industries vulnerable to political hold-up problems, likely because it trusts China more now that it is a WTO member.

Because of Taiwan's increased trade with China relative to trade with the U.S., the theory predicts that WTO membership should have reoriented Taiwan towards China politically. This was China's strategy, as China believed that "interest groups involved closely with the mainland will emerge in Taiwan's politics in the future" (Kao 1994). The U.S. Congress, too, recognized this possibility once Taiwan and China joined the WTO. Rather than focusing on the implications of joint WTO membership on relations with the U.S., Congress emphasized the improved prospects for peace between Taiwan and China: Senator Baucus anticipated that WTO membership would "ensure peace and stability across the Taiwan Strait" (Baucus 2000), Senator Feinstein concurred that the WTO would "greatly influence the future of peace and prosperity" between China and Taiwan (Feinstein 2000), and Senator Rockefeller

thought it would promote “peace in that region” (Rockefeller 2000). Senator Thurmond believed it would allow China and Taiwan to cooperate because “the more China trades [with Taiwan], the more it has to lose from war.” Quoting Nixon, Senator Thrumond explained his hope that the WTO would promote peace between them despite their differences, stating “It is not our common beliefs that have brought here, it is our common interests.. and the hope that..different peoples with different systems and different values can live together in peace” (Thurmond 2000).

As predicted, as trade between the two nations grew, Taiwan significantly reoriented itself toward China. For instance, after WTO entry, Taiwan President Chen gradually toned down his hostile rhetoric. For instance, in his 2004 inaugural address, Chen no longer sought to address sovereignty issues or a referendum in a new constitution (Kan 2013). Taiwan’s public opinion was also changing; in the 2004 election, Chen won by only 30,000 votes amid questions over the legitimacy of his victory, and his success was partly due to the fact that he was shot prior to the election, earning him sympathy. In the subsequent local elections, pro-independence parties did poorly, with many citing the increasing trade and business interests of Taiwan’s domestic population as a likely cause (Manthorpe 2008). In particular, a large group of businessmen in Taiwan, the “Taishang,” had strong incentives to encourage cross-strait relations, and gained influence as economic ties grew (Tanner 2007).

China, too, adopted more cooperative rhetoric and reached out to friendly groups in Taiwan: In 2004, Hu urged the resumption of negotiations, emphasizing increased dialogue and reduced misunderstandings with Taiwan, and in 2005, China met with the former Chairman of Taiwan’s KMT party, the more pro-China party, in the first meeting since 1945. They jointly announced that “For the past 56 years, both parties were on different paths and displayed different social systems and life styles” but that relations should “march into the benign circle of cooperation, which together seeks peace, stable development and opportunity” (Wang 2006). In 2008 and again in 2012, Taiwan elected President Ma Ying-jeou,

whose campaign focused in part on his ability to strengthen relations between Taiwan and China (Lynch 2012). Ma emphasized the need to maintain peaceful relations with China due to the recent growth in bilateral trade and investment. Ma attributed the outcome of the election to a desire for cooperation with China, stating, “The people gave their approval of our efforts to put aside disagreements and focus on peace on both sides of the straits” (Jacobs 2012).

Further, Taiwan’s closer relations with China seem to be weakening U.S. ties to Taiwan. The U.S. Congressional Research Service stated that there “has been a question of whether Taiwan’s pursuit of closer integration with the PRC beyond detente has an implication of Taiwan’s strategic reorientation closer toward the PRC and away from the United States” (Khan 2009; Kan 2008). Taiwan has exhibited many indications of a reorientation towards China and away from the U.S. For instance, Ma cut Taiwan’s defense budget dramatically, raising U.S. concerns, and stopped attending the annual defense talks with the U.S. in 2009. Taiwan also curbed its “live-fire” field exercises, and ruled out the possibility of U.S. military deployments in Taiwan (Khan 2009). Further, there is evidence that Taiwan started sharing U.S. intelligence with China and that China may now guarantee Taiwan’s defense. In addition, Taiwan “lost” a man who sold military parts to China from the U.S., rather than taking legal action against him as the U.S. expected (Khan 2009). The shifting political dynamics have been noted by many in the U.S., sparking headlines such as “Has the U.S. lost Taiwan?” (Kazianis 2013) which reflect Taiwan’s WTO-induced reorientation toward China.

## **Example: Saudi Arabia’s WTO Entry**

Saudi Arabia has historically maintained close political and economic relations with Pakistan, often at the expense of its relationship with India, Pakistan’s historical adversary.

Because Saudi Arabia and India have experienced political tensions, trade and investment were low, while Saudi Arabia's economic ties to Pakistan remained strong. After Saudi Arabia's 2005 WTO entry, however, these trends reversed, with Saudi Arabia and India swiftly becoming more economically and politically connected. Further, because of Pakistan and India's rivalry, third parties must often choose whether to support one or the other in a variety of areas. Friendlier ties with India can thus lead to weaker ties with Pakistan. Consider the various issues which have required states to favor one side or the other: the Kashmir dispute, recognition of Bangladesh, votes in the United Nations, terrorism, nuclear proliferation, maritime trespassing, border incidents, etc. Since WTO membership boosted India-Saudi Arabia ties, it thus led to weakened relations between Saudi Arabia and Pakistan.

Saudi Arabia and Pakistan have a history of exceptionally close relations. During the 1970s, Pakistan actively encouraged political Islam, which linked Pakistan with Saudi Arabia as both nations are predominantly Sunni Muslim states. Saudi Arabia supported political Islam in Pakistan by contributing extensive funds for the construction of Islamic schools (Noman 1990). Pakistani Muslims also migrated in large numbers to Saudi Arabia, viewing Saudi Arabia favorably as the birthplace of Islam (Ahmad 1982). During this time, "the holy alliance with the Gulf states especially Saudi Arabia....[was] fully consummated" (Pasha 1992, 116).

Saudi Arabia and Pakistan's religious and cultural links have led to defense and foreign policy cooperation, as well, often at the expense of India's relations with Saudi Arabia. For instance, official visits between Saudi Arabia and India were virtually nonexistent historically, while Pakistan and Saudi Arabia have a long history of visits since 1966, during which a variety of defense agreements were signed (Ahmad 1982). Saudi Arabia importantly took Pakistan's side when India and Pakistan went to war over Kashmir in 1971 (Heptulla 1991), and continued to do so in many subsequent conflicts (Ward 1992). Saudi Arabia also declined to recognize Bangladesh until Pakistan permitted it, and aside from the UAE, Saudi

Arabia was the sole state to congratulate Pakistan on testing its first nuclear weapon in 1998 (Ahmad 1982). Saudi Arabia's friendship with Pakistan has often been used to threaten India. For instance, in 1980 the Saudi crown prince made an especially strong statement of its close ties to Pakistan when he stated, "Any interference in the internal affairs of Pakistan would be considered interference in or injury to the kingdom of Saudi Arabia" (Ahmad 1982). Pakistan also declared that its relationship with Saudi Arabia "serves notice to India and the Soviet Union that although Pakistan may not be a match for either one militarily, it has a powerfully ally with economic and political clout. The cost of an attack thus becomes higher" (Ahmad 1982).

Saudi Arabia and Pakistan's cooperative relationship is also evidenced by their many common stances on issues in the United Nations. For instance, Saudi Arabia insisted on a U.N. statement that condemned India for its aggressive stance toward Pakistan in the 1971 war and fully supported Pakistan's positions in the U.N. regarding post-war issues (Ahmad 1982). In 1982, Saudi Arabia and Pakistan worked together in the U.N. to call for Soviet withdrawal from Afghanistan and in 1999, the two states confirmed that they would vote together in resolutions over policies regarding Iraq (Ahmad 1982).

Consequently, trade and investment between Saudi Arabia and Pakistan remained high throughout this period, and Saudi Arabia assisted Pakistan economically even when other states refused to trade with Pakistan due to political tensions. Through the 1980s, Pakistan's main export partner was Saudi Arabia, and in turn, Pakistan bought most of its oil from Saudi Arabia. The two states participated in a wide variety of joint investment ventures, and Saudi Arabia allocated 60% of its FDI to Pakistan (Ahmad 1982). Further, when Pakistan was under international sanctions from 1988-2002 due to its nuclear program, Saudi Arabia provided \$3.5 billion of oil and deferred payment to assist Pakistan (Pant 2006). It also financially sponsored many Pakistan-based terrorism groups, supplied oil to Pakistan at discounted rates, assisted Pakistani refugees, and may have helped finance Pakistan's nuclear

program (Pant 2006).

By contrast, relations between India and Saudi Arabia have been poor historically, particularly due to Saudi Arabia's close relations with Pakistan. While Saudi Arabia took the U.S.'s side during the Cold War, India forged close relations with the Soviet Union and remained non-aligned. Unlike Saudi Arabia, India recognized Israel in 1950, and provided considerable support for the secular regimes of Egypt, Syria and Iraq. Saudi Arabia also remained concerned regarding India's behavior toward Muslims. Indeed, the two states remained divided in their responses to a variety of issues such as the dispute over Kashmir, Bangladesh's independence, the Soviet Union's invasion of Afghanistan and the Iraq invasion of Kuwait (Pradhan 2013).

In connection with their divergent views, trade between Saudi Arabia and India was very low prior to Saudi Arabia's WTO entry. As highlighted by the Saudi Arabian Ambassador to India (Daijiworld 2011), this was due to a variety of persistent tensions, leading to export bans and price regulations (Ramkumar 2004). Saudi Arabia's WTO entry was expected to help to resolve such issues, as a major impetus for Saudi Arabia to join the WTO was to boost its credibility and accountability (Hertog 2010). The Confederation of Indian Industry's senior advisor highlighted the problem in 2003, stating that it "[could] not do anything multilaterally to stop Saudi Arabia [from renegeing on an agreement]....as it [was] not a member of World Trade Organization" (The Financial Express 2003), adding that these disputes likely had a large impact on investment (The Financial Express 2003). Of particular concern were oil exports from Saudi Arabia to India, which were particularly expected to benefit from WTO regulations. Prior to Saudi Arabia's WTO accession, it had used oil exports as a political weapon against other states, such as the OPEC oil embargo of 1973. Indeed, Saudi Arabia continues to use oil as a weapon against non-WTO members with whom it is not bound by WTO rules. For example, it recently contemplated oversupplying oil markets and reducing its price unless Iran stopped its nuclear program (Janardhan N.d.).

Indeed, when the Saudi Arabian king visited India after joining the WTO, he emphasized that WTO membership would guarantee “uninterrupted” oil supplies for India, (Pant 2009) and India similarly stressed that the WTO would “impart greater predictability in terms of oil and gas” (Klapper 2005).

The theory therefore predicts that Saudi Arabia’s 2005 WTO entry should have resulted in much greater trade increases with India than with Pakistan. Indeed, trade between Saudi Arabia and India soared during this period. While total bilateral trade with India remained fairly constant between 1998 and 2005, after WTO membership total trade increased from \$3.442 billion in 2005 to \$15.946 billion in 2006. The Saudi Arabian ambassador to India stated that trade irritants would no longer hinder cooperation between the two states because, “Now all kinds of disputes are discussed within the framework of the WTO rules and regulations” (Daijiworld 2011). By contrast, trade between Saudi Arabia and Pakistan remained comparatively steady after WTO accession, only increasing from \$3.324 billion U.S. in 2004-5 to \$3.781 billion U.S. in 2005-6 (Pakistan Consulate Jeddah 2006). Indeed, exports from Pakistan actually fell during this period, from \$353 to \$330 million (Pakistan Consulate Jeddah 2006). By 2011, trade between India and Saudi Arabia reached \$25 billion while trade between Pakistan and Saudi Arabia didn’t even hit \$5 billion (Ottens 2013).

The accelerated pace of trade with India rapidly led to warming political relations, at the expense of Pakistan, as hypothesized. For instance, in 2005, Saudi Arabia held an international conference on counterterrorism and agreed to create a counterterrorism center, addressing a long-standing Indian concern. In 2006, King Abdullah visited India, the first time a Saudi Arabian head of state had done so in 51 years. During the visit, the states signed long-term energy contracts, agreed to explore joint investment opportunities, committed to collaborate to combat terrorism and fight crime, created a Saudi-India Joint Business Council, and held a “Saudi Arabia in India” business exhibition (BBC News 2006*c*). A joint declaration depicted the visit as “heralding a new era in India-Saudi Arabia relations

[that] constitutes a landmark in the development of increased understanding and cooperation between the two countries” (BBC News 2006*a*). Saudi Arabia also agreed to support both India’s request for observer status within the Organization of Islamic Conference and India’s attempts to reduce tension in Kashmir (Pant 2006). In addition, Saudi Arabia has cooperated with India in the 2012 extradition of Indian militants who were wanted in connection with several attacks, and signed an extradition treaty with India in 2010 (Wright 2012). The two states have even participated in joint military exercises and are discussing a potential defense cooperation agreement (Pradhan 2013).

Conversely, Saudi Arabia has been moving further from Pakistan politically, particularly as it draws closer to India. Indeed, reports show that Saudi Arabia has been cooperating with India to crack down on terrorism, which often stems from within Pakistan’s borders (Wall Street Journal 2012). Further, Pakistan has grown increasingly anxious about Saudi Arabia’s political normalization with India (Rafiq 2012), particularly after Saudi Arabia’s 2006 visit to Pakistan (BBC News 2006*b*). Leaked cables reveal underlying tensions between the two states and a recent cooling-off of political relations, as Saudi Arabia refused to work with the Pakistan People’s Party, which held power from 2008 until the 2013 elections (Bokhari 2010). A retired Pakistan army general stated that Saudi Arabia is strengthening its relationship to India instead of Pakistan, stating, “The Saudi relationship is no longer a monopoly of Pakistan” (Wright 2012).

## **Example: Nepal’s WTO Entry**

Sandwiched between China and India, Nepal’s foreign policy is dominated by its relations with these two partners. But while India and Nepal experienced considerable economic and political friction prior to Nepal’s 2004 WTO entry, leading to underinvestment and reduced trade, Nepal and China enjoyed consistently friendly relations. Nepal sought WTO

membership in part to improve its trade relations with India, as India would then be bound by WTO laws and could no longer renege on agreements to extract concessions from Nepal. Since Nepal entered the WTO it has increased exports to India, while its exports to China have remained low. Though trade growth has been hampered by domestic unrest, the current trade levels and prospect of continued trade growth with India has led to a warming of relations. Further, since trade relations with China have not increased as expected, public opinion in Nepal has become more negative toward China. On many issues, Nepal finds it must choose between India's position versus China's, including: policies on Tibetan refugees, domestic political affairs, defense cooperation, and UN voting. WTO membership has tipped the scales in favor of India.

Prior to Nepal's WTO entry, its relationship with India had been "marred by trade disputes and strained by mutual anxiety" (Weinraub 1973). India's significant involvement in Nepal's affairs led to a great deal of political tension, causing Nepal to constantly try to overcome India's influence by expanding relations with China. India consistently sought to shape the direction of Nepal's politics, often using trade relations for political leverage, which infuriated Nepal. For example, after Nepal's 1951 political uprising, India brokered a power-sharing deal which resulted in rapidly elevated levels of engagement in Nepal's domestic politics. When Nepal's government then collapsed, the king of Nepal appointed India's preferred candidate as prime minister, creating a backlash in Nepal (Upadhyia 2012).

For many years, Nepal believed that India represented a large threat to governmental stability due to India's negative view of its authoritarian regime. Government officials often stated their desire to dampen Indian influence over politics in Nepal, with many worried that India was trying to turn Nepal into a "satellite colony." India led an effort to overthrow Nepal's oligarchy, which resulted in India "micro-managing" Nepal's domestic and foreign affairs and even stationing Indian troops on Nepal's border with China (Upadhyia 2012). Other tensions emerged as well, such as a territory dispute over the Kalapani region (Upadhyia

2012), and Nepal's belief that India encouraged dissent in Nepal and instigated border raids (Weinraub 1973). Nepal tried to distance itself from India in a variety of arenas, such as voting with West in the U.N. against the Soviet Union and India (Upadhyaya 2012). Opposition parties in Nepal frequently campaigned on an anti-India platform (H. 1995).

These political spats frequently interrupted trade between the two states. Trade and transit between Nepal and India had been regulated through a series of treaties signed in 1950, 1960, 1971, and 1978, but India frequently violated, or threatened to violate, these commitments when it was dissatisfied with Nepal. Nepal charged that India had violated the terms of the 1950 Peace and Friendship Treaty, which also governed economics and commerce, in order to take advantage of Nepal, while forcing Nepal to abide by the treaty (Subedi 2011). Further, India imposed an informal blockade in 1962 due to a disagreement over whether India was permitted to send troops into Nepal as a response to disruptions by Tibetan rebels (Upadhyaya 2012). In 1970, India imposed another blockade due to political disputes such as smuggling and Nepal's efforts to expand ties with China (New York Times 1971). Then in 1973, India became unhappy over Nepal's proposal to become a "zone of peace," and stated that Nepal's economic benefits from India depended on "reciprocity," a thinly veiled threat to withhold benefits unless Nepal abandoned its political proposal (Subedi 2011).

The largest disruption occurred in 1989, when India refused to renew its trade treaty with Nepal unless Nepal agreed to India's conditions for a special security relationship between the two states (Upadhyaya 2012). The dispute began in 1988, when India alleged that Nepal had not followed the political conditions set out in the 1950 peace treaty, as Nepal had purchased Chinese weapons consisting of light arms, ammunition, boots, uniforms, and 16 anti-aircraft guns and had signed a secret intelligence sharing agreement with China (Garver 1991). A former prime minister of India charged that if Nepal did not acquiesce to India's demands it would have "very adverse immediate and long-term effects, e.g. the advantages of economic,

trade and transit and financial aid would evaporate” (Subedi 2011). India then declined to renew the trade treaty, along with several other treaties, essentially blockading Nepal for over a year. In 1990, Nepal signed a joint communique which provided concessions in the areas of sovereignty, independence, and military cooperation in return for a resumption of trade (Subedi 2011).

India continued its use of trade as a weapon, as well; for example, during negotiations over the renewal of a 1996 trade treaty, India imposed a large array of new protectionist measures on Nepalese exports to India, which many observers believed were the result of political frictions (Adhikary 2002). Political relations deteriorated further as India canceled all flights to Nepal, and accused Nepal of allowing Pakistani-supported activities directed against India (The Economist 2000*b*).

The tense political relations resulted in lower trade and investment levels between the two states than they would have enjoyed absent these irritants. Nepal’s negative view toward India led to a decline in investment and exports overtime (Jha 2011), and many studies cite India’s inconsistent and discriminatory treatment of trade with Nepal as a key factor limiting Nepal’s economic growth (Khanal and Shrestha 2008). For instance, an area identified as particularly opportune for joint investment with Nepal was that of fisheries, yet investment did not occur due to political disagreements (Upreti 2003). Similar underinvestment occurred in the area of hydroelectric power (Subedi 2011). Negative views about India’s propensity to use treaties to extract concessions from Nepal were so entrenched that when India and Nepal desired a mutually beneficial treaty governing investment in hydro-power, the two states labeled it an “agreement” rather than a “treaty” to avoid scrutiny by Nepal’s parliament. After Nepal’s supreme court overruled this maneuver, the bargain fell apart due to Parliament’s suspicion of treaties with India (Subedi 2011). It was estimated that 83,000 MW of hydroelectric power could have been generated if the two states had been able to cooperate (Subedi 2011). More generally, many trade and investment treaties between the

two states were signed but not implemented due to fears that India would take advantage of Nepal, and due to domestic fears surrounding India's use of economic treaties. Nepal often opted to simply let treaty provisions fall into disuse rather than to sign new treaties (Subedi 2011).

The repeated conflicts over trade with India provided Nepal with a large incentive to join the WTO, giving Nepal the ability to enforce treaties with India. During India's 1989 economic blockade against Nepal, many observers pointed out that India was able to cut off trade because Nepal was not a member of the GATT, and therefore could not enforce its MFN tariff treatment (Garver 1991). This dispute thus instigated Nepal's application to join the GATT, as it hoped to force India to abide by its agreements (Bank 2002). It was also recognized that WTO membership could prevent India from continuing to use transit facilities as a "political lever" against Nepal (Subedi 2011). During the 1989 economic blockade, India charged that if Nepal didn't agree to "special relations," India would limit its access to transit facilities. WTO membership, however, would guarantee Nepal special transit rights due to its landlocked status, and the ability to enforce them (Economic et al. 2003).

By contrast, relations between China and Nepal were friendly for most of Nepal's history, and Nepal actively sought to cultivate ties with China in order to diversify away from India (Weinraub 1973). Nepal believed the two states shared a common view of non-involvement in other countries' affairs, and similar perspectives on global issues (Hong-Wei 1985). The Chinese government frequently made statements in support of Nepal: in 1962 a Chinese foreign minister told Nepal, "In case any foreign army makes a foolhardy attempt to attack Nepal....China will side with the Nepalese people" (Upadhyaya 2012); in 1964 Chairman Mao told the Nepalese government that if Nepal were closer to China, "India might be more respectful to [Nepal]" (Garver 1991); and in 1973 Vice Chairman Zhou promised to back Nepal in its struggle against foreign interference (Upadhyaya 2012). Further, when India

rejected Nepal's proposal to serve as a "zone of peace," China stated that it "firmly supports zone of peace. We are ready to assume appropriate commitments arising therein" (Upadhyaya 2012). In addition, Nepal often sided with China on political issues such as cracking down on Tibetan insurgents, refusing to meet with the Dalai Lama, voting with China in the UN, and supporting China's "one-China policy" (Upadhyaya 2012).

Economic relations between China and Nepal were also strong. China had provided Nepal with extensive aid and investment since the 1955 agreement establishing relations, which led to an influx of aid from China, a 10-day tour of China, the set up of embassies, and Chinese emphasis on "blood ties" with Nepal due to the significant number of Nepalese of Mongoloid origin (Garver 1991). Further, when India cut off trade with Nepal in 1989, China provided assistance, including 300 tons of gasoline and kerosene, free salt, and \$13.6 million in new economic projects (Upadhyaya 2012). Investment also grew, as China and Nepal completed 20 joint ventures that year (Upadhyaya 2012).

When Nepal joined the WTO in 2004, the theory suggests that trade and political ties should have increased between Nepal and India, at the expense of China. Immediately following Nepal's accession, representatives of both Nepal and India stressed their desire to increase trade and investment as a result of Nepal's entry, and though suspicion of India certainly remains, it has been reduced by Nepal's WTO membership. Nepal's foreign secretary said Nepal was finally prepared to accept investment from India (BBC 2004), and the Nepal has even moved to promote investment through the signing of a Bilateral Investment Promotion and Protection Agreement (Subedi 2013). Interviews with experts on Nepal's trade policy have suggested that this is due to Nepal's newfound confidence that India will respect its rights under international law following its WTO entry. Consequently, each year following Nepal's WTO entry both imports and exports increased between the two states, albeit gradually due to persistent domestic instability in Nepal. In 2003, Nepal exported 31.2 billion Rs, while by 2006 Nepal exported 41.7 billion Rs. In 2010, exports reached 42.9

billion Rs. Further, the proportion of total trade that Nepal conducted with India rose, as well, as Nepal had less to fear from India (Oh and Prasai 2012). In 2000, total trade with India was 41% of Nepal's total trade (Government of Nepal 2013*a*), while by 2005 it was 65.8% (Kathmandu Post 2005).

But while Nepal imported more from both countries, its exports only increased to India. Nepal's exports to China remained negligible and actually decreased after its WTO entry, from 2.35 billion Rs in 2003 to .38 billion Rs in 2006. By 2010, imports had only risen back up to .75 billion Rs, not even approaching pre-WTO levels (Government of Nepal 2013*b*). Indeed, Nepal's traders have expressed disappointment that trade fairs with China result in talk about business that will occur in the future, but have not led to "actual business" (Harris 2013).

Interviews with experts on Nepal's trade relations indicate that Nepal's WTO entry increased Nepal's confidence in India, as India would be less likely to violate its agreements. The resulting increased trade and potential future trade led to improved political ties, though these have been tempered by Nepal's domestic instability. Immediately following its entry into the WTO, Nepal experienced extreme unrest due to increasing violence by the Maoist insurgency. Nepal democratized in 2006, and the Maoists insurgents were pulled into the political process, winning the 2008 election. Under Maoist leadership, Nepal's relations with both China and India initially became strained, as the Chinese shunned the Maoists due to their belief that the Maoists denigrated Chairman Mao, and because the Maoists were distrustful of India (Upadhyaya 2012). However, Nepal quickly reversed its stance toward India as a result of increasing trade ties. Nepal's former ambassador to the UN stated in 2005 that "Indian Foreign Minister Salman Khurshid has made it clear that their relations with the Maoists were evolving and moving towards the right direction" (Koirala 2013). The Maoists took care to emphasize the "deep civilizational and cultural ties" with India, and even met with the Dalai Lama, inviting him to Nepal in 2009 (Upadhyaya 2012).

Relations between Nepal and India moved further forward when Nepal's government was replaced by a more pro-India government in 2009, (PTI 2009) which reports called "one of the most pro-India governments in recent past" (Kshetry 2012). For instance, during a 2011 visit to India, the Nepal's Prime Minister wrote that his visit "assume[d] special significance," as the two states signed a bilateral investment promotion and protection agreement, along with an agreement extending a \$250 million credit to Nepal from India's EXIM bank on very concessional terms to assist in Nepal's building of infrastructure. They also reached agreements on border crime and the development of border areas (Hariharan 2011). Nepal's Maoist leader stated that he was "committed towards strengthening democracy in Nepal" and said that the party had "parted ways with those harboring extremist and anti-Indian ideology....We want good relations with India." He further stated that Nepal has "a firm policy of not allowing any activity against its friendly neighbor from its soil," adding that "Without good relations with India, we cannot prosper" (Koirala 2013). Many observers conclude that because India has stopped using trade as a weapon against Nepal, the two states are able cooperate in instances where it would have been impossible previously (Shakya 2012).

By contrast, low levels of exports to China have negatively impacted Nepal's relationship with China. Influence in Nepal is important to China particularly because, particularly as the Dalai Lama grows older, China worries about the potential for India and the U.S. to again support Tibetan fighters based in Nepal, which occurred in the 1960s (Upadhyaya 2013). China has recognized that in order to boost political influence in Nepal, it will need to increase imports from Nepal (Kaye 2013). Since it has been unable to do so, China has had to rely on providing aid, sending military delegations, and issuing threats to try to influence Nepal, which has been less effective. For instance, China has become more heavy-handed in its dealings with Nepal over Tibetan refugees, linking aid and tourism to Nepal's cooperation (Reeves 2012). China also proceeded with plans to go against Nepal's wishes by building a

Buddhist “Mecca” in southern Nepal, and a leaked cable revealed that China tried to bribe Nepal with aid to install China’s preferred political candidate (Reeves 2012). These tactics have fueled an anti-China backlash in Nepal, which increasingly views China as interfering in its internal affairs and contributing to domestic unrest, and has caused anti-China protests (Upadhyaya 2008). Further, Nepal’s negative impressions of China are on the rise (Reeves 2012). A recent analysis of the issue states that a growing belief in Nepal is that “while India interferes with Nepal’s domestic affairs, it does so with Nepal’s best interests in mind. When China interferes, it does so while thinking only of its own interests” (Reeves 2012). Indeed, despite China’s intensive efforts to woo Nepal through increased foreign aid, Nepal’s foreign minister said that Nepal feels “closer” to India and wants “to further strengthen [its] relationship with India” (Kaye 2013).

## **Example: Japan’s GATT Entry**

Japan entered the GATT at the beginning of the Cold War in 1955; thus it is useful to compare the effects of the GATT on relations with GATT members who adopted divergent stances during the Cold War: the U.S. and India. The analysis reveals that in contrast to its largely irritant-free trade and political relations with India just prior to its GATT entry, Japan’s relations with the U.S. were poor and littered with trade tensions. The U.S. used trade as a political tool, incentivizing Japan to colonize other states to try to avoid trade with the U.S. After WWII, the U.S. pulled Japan into the GATT, increasing bilateral trade and cementing Japan’s allegiance during the Cold War. In part due to Japan’s gravitation toward the U.S., its relations with non-aligned India became dormant during this period, as it was compelled to choose the U.S.’s point of view on a variety of Cold War issues.

Prior to Japan’s entry in the GATT, political relations with the United States had worsened steadily, culminating in Japan’s invasion of Pearl Harbor during World War II. Since

the U.S. forcibly opened Japan's economy to trade in 1854, the two countries had clashed over several repeating issues: their disparate economic and social systems, competition over trade with China, and racism (LaFeber 1997). By 1912, the U.S. was already developing War Plan ORANGE to prepare for a potential war with Japan over Japan's newly acquired colonies in Korea and South Manchuria (LaFeber 1997). While the two states then fought on the same side in WWI, they fought a diplomatic war against each other over China in the meantime. Further, rather than fighting to defend its allies, Japan's primary goal during the war was to obtain German strategic possessions such as valuable islands (LaFeber 1997). Tension between the two states was clearly exhibited in U.S. strategic calculations, as President Wilson's decision about whether to go to war "rested in part on his determination of how best to protect the interest of white races against Japanese power, and as the Senate declared that Japan was "the coming danger of the world." Indeed, a primary factor uniting senators against the League of Nations was their dislike of Japan. Part of the U.S.'s antagonism toward Japan was due to racism, as evidenced by the 1924 Exclusion Act that disallowed Japanese citizens from emigrating to the U.S., and by the internment of U.S. citizens of Japanese decent during WWII (LaFeber 1997).

After WWI, relations continued to decline, as the U.S. was the primary opponent of Japan's 1931 invasion of China and its violent attempts to colonize other states, particularly after the Nanking Massacre, in which Japan killed at least 150,000 people after seizing the city of Nanking (Maechling 2000). In 1940, Japan joined the Axis powers, signing the Tripartite Pact with Germany and Italy, and then in 1941 Japan attacked Pearl Harbor, killing 2,500 U.S. citizens and destroying 152/230 planes, 5/6 of the best battleships, and a variety of other equipment. The ensuing four-year war between the two states ended when the U.S. dropped two atomic bombs on Hiroshima and Nagasaki in 1945, which killed 120,000 civilians. In total, 485,000 americans and 1,140,429 Japanese, including 953,000 Japanese civilians, were killed between 1937-45, with 250,000 missing in action (LaFeber 1997).

At the end of the war, the allies occupied Japan until the signing of the San Francisco peace treaty in 1951. Though Japan and the U.S. became allied, wartime hostility lingered. Many Japanese resented the U.S.-Japan Security Treaty in which the U.S. maintained the ability to station military troops in Japan, and wanted to strengthen relations with the Communist countries or to orient themselves toward Southeast Asia instead (Forsberg 1998). After the war, the U.S. tried to improve relations with Japan to keep Japan from becoming a Communist country, but by 1994, “the best U.S. efforts had too little dulled the historic clash between the two countries” (LaFeber 1997, 311). The U.S. Ambassador to Japan concluded that “Japan does not consider itself an ally or partner with the U.S.” (LaFeber 1997, 311).

During this period, political disagreements between the two states led to constant trade friction, resulting in lower trade and investment than would have otherwise occurred. The U.S. frequently threatened to disrupt its trade relations with Japan unless Japan complied with the U.S.’s political demands. For example, in 1932 the U.S. threatened to boycott Japanese goods (New York Times 1932) and in 1935 Congress passed the Neutrality Acts that limited or often prohibited trade with belligerents, with Japan in mind. When Japan invaded Manchuria, Roosevelt failed to implement the acts, even though Congress urged him to, such that the acts continued to represent a threat to Japan (LaFeber 1997). In 1939, the U.S. abrogated its trade treaty with Japan to try to influence Japan’s policies in East Asia (Byas 1939) and in 1940, the U.S. State Department told the Japanese Ambassador that “future trade relations between the two countries would depend on the Japanese attitude to American rights in China” (Glasgow Herald 1940). That same year, the U.S. implemented the Export Control Act, which sought to halt U.S. exports of oil, iron and steel to Japan. In the lead up to WWII, the U.S. gradually cut exports of necessary goods to Japan, first halting exports of aircraft and several other goods, then of 40 more assorted items, next of scrap iron and steel, and finally of oil. In 1941, the United States imposed a full trade embargo on Japan and froze Japanese assets (Maechling 2000).

Japan reacted by striving throughout this period to become less dependent on the West for trade and capital, particularly by taking territory to provide itself with the resources it needed. In order to break its dependence on the West, Japan annexed the Kurile islands from Russia in 1875, attacked Korea in 1894, and took Taiwan in 1895. By 1912 Japan had closed Korea and South Manchuria off to trade with others, so that it could monopolize their resources (LaFeber 1997). Before Japan's GATT entry, it had cut its imports below its actual needs, according to a New York Times article (Jones 1954). The U.S. was thus intent on Japan's GATT membership to give Japan the confidence to raise imports and thereby keep it "on the side of the free world" (Jones 1954).

In contrast, prior to Japan's GATT entry, Japan and India enjoyed cordial relations. After WWII, the two nations actively sought to expand commercial ties (New York Times 1953), opened up new flight routes between the two nations (New York Times 1955), and began joint investment projects (New York Times 1952). India emphasized increased trade with Japan, signing a trade treaty in 1952 that extended MFN status to Japan (New York Times 1956). Japan's Premier stated in 1950, "Our best hope for trade is India" (Parrot 1950).

Further, political relations between the two states were strong. After WWII, Indian Justice Radhabinod Pal issued a dissenting judgement at the International Military Tribunal for the Far East, in support of Japan (Rajamohan et al. 2008), and the two nations exchanged ambassadors. Indian Prime Minister Nehru even sent two elephants to Japan to boost Japan's morale after the Japanese defeat in the war, which made a very positive impression on Japan (Rajamohan et al. 2008). In 1951, India did not participate in the San Francisco Peace Conference because it believed the treaty was not fair to Japan since it impinged on Japan's sovereignty. India stated that it could not participate because "the terms of the treaty should concede to Japan a position of honor, equality, and contentment among the community of free nations" (Times 1951). Instead, India concluded a bilateral peace treaty

with Japan, which was one of the first bilateral treaties signed after the war (Rajamohan et al. 2008). India then suggested halting reparations, and did not push Japan for its share. In 1952, India was also greatly angered by Russia's veto of Japan's United Nations membership and pushed for Japan's inclusion (Times 1952). In turn, Japan supported India with technical expertise and diplomatic exchanges (Rajamohan et al. 2008).

Meanwhile, the growing tensions between Japan and the U.S. led Eisenhower and Dulles to work to secure Japan's GATT entry (LaFeber 1997) in order to boost commerce between Japan and the U.S., which would ensure that Japan would remain firmly on the U.S.'s side during the Cold War. Indeed it was the "growing strain" between Japan and the U.S., rather than a close allegiance, that led the U.S. to urgently support Japan's membership (LaFeber 1997). For instance, news articles reported that "the feeling is growing among world trade leaders that if [Japan] is not permitted to break out toward the non-Communist world it will break into or be swept into the Communist world system" (Hoffman 1955). GATT entry would "strengthen [Japan's] economic ties with the free world and [would] also reduce the danger that Japan [would] become dependent on Communist China" (Times 1955). In Japan, too, debate over whether to join the GATT involved differences in opinion over whether to join the U.S. in the Cold War or to remain nonaligned. Socialists in Japan, for instance, advocated abandoning efforts to join the GATT, and instead to trade with and align themselves with the Communist states (Forsberg 1998).

After Japan's 1955 GATT accession, Japan moved economically and politically closer to the U.S., as predicted by the theory. Trade grew rapidly between the two states, reorienting Japan's economy toward the West. Total trade between the two nations increased from \$972 million in 1954 to \$1656 million in 1956, and then rose to \$2596 million in 1960 (Forsberg 2000). Japan's imports from the U.S. doubled in the first five years of its accession, and exports to the U.S. increased by around 50% in real terms (Liu 2009).

Further, Japan and the U.S. became closely tied politically, as Japan became one of

the U.S.'s strongest Cold War allies. The states signed a military agreement in which the U.S. became responsible for the defense of Japan and received access to its military bases in exchange. Japan provided a military base for the U.S. during the Korean War and contributed labor and goods for use in the war (Forsberg 2000), even signing secret agreements allowing U.S. nuclear-armed ships to access its ports despite its commitment not to let nuclear weapons onto its soil (BBCNews 2010). In 1963, the U.S. undersecretary of state said the strengthened trade ties between the two states led Japan to become "a model" partner (LaFeber 1997, 332). During this period, Japan maintained restricted economic relations with China in accordance with U.S. wishes (Wang 1993), visited Pearl Harbor in 1961 and dropped a lei on the USS Arizona memorial, and voted consistently with the U.S. in the United Nations (Russett 1966). The two cultures "appeared to be converging" (LaFeber 1997, 333), and the State Department stated that it saw Japan the U.S.'s "principle ally" (LaFeber 1997, 334). Many have argued that it was precisely the strength of the economic interdependence between the two states that allowed them to overcome irritants to the relationship (Forsberg 2000), both because they wanted to avoid threatened the partnership and because commercial groups frequently lobbied for the successful resolution of disputes (LaFeber 1997).

By contrast, trade with India remained relatively stable and low after Japan's GATT accession. It should be noted that, like many GATT members, India invoked GATT Article 35 against Japan, which allows for non-application of the agreement, though India quickly reversed this policy and ceased to invoke the Article by 1958. In the first five years following Japan's entry into the GATT, India's imports from Japan actually declined slightly, while exports increased by only about 18% in real terms (Liu 2009). In consequence, as Japan became more interdependent with the allies, India and Japan's political relationship suffered. Indeed, Japan's deep GATT-induced ties with the U.S. virtually precluded a deep relationship with India, since the U.S. opposed India during the Cold War. For instance, in

1957, Japan was “eager to bring [India] to as sympathetic an understanding of Toyko’s pro-Western policy as the basic conflict in preponderant Indian and Japanese views will permit” (Trumbull 1957). The two states also differed strongly over policy regarding China, as India argued that Japan should accept China’s Communist government (Trumbull 1957).

While India entered the Cold War as a non-aligned state, it became increasingly close to the USSR throughout the period. India tended to view Japan as blindly following the U.S.’s wishes (Rajamohan et al. 2008), and therefore feared cooperation with Japan due to Japan’s close relations with the U.S. (New York Times 1961). Meanwhile, Japan hesitated to cooperate with India for fear of alienating the U.S. For instance, in the U.N. Japan did not support India’s position on a variety of issues, including its conflict with Pakistan (Rajamohan et al. 2008). Further, after the U.S. suspended aid to India, Japan followed suit by halting the flow of credits and loans to India, as well (Rajamohan et al. 2008). Political relations between the two states essentially became inactive from 1960 through the 1980s, as closer U.S.-Japan economic and political relations precluded further cooperation.

## **Example: Mexico’s GATT Entry**

Prior to Mexico’s 1986 GATT accession, Mexico and Cuba frequently worked together to try to overcome the perceived dominance of the United States. Constantly worried about U.S. attempts to curb its sovereignty, Mexico limited trade and investment with its northern neighbor, fostering political ties with developing countries, including Cuba, in the UN and other international bodies. After its entry in the GATT, however, which facilitated the subsequent signing of the NAFTA trade agreement, trade and investment between Mexico and the U.S. exploded. Mexico and the U.S. began adopting similar political positions, often to the detriment of Mexico’s relationship with Cuba. On a variety of issues, Mexico had to choose between competing perspectives, such as on human rights, nonintervention, support

of rebel groups, voting in the UN, regional initiatives, and policies towards Cuban refugees. After its GATT entry, Mexico increasingly sided with the U.S. over Cuba in many of these areas.

From independence, Mexico's foreign policies had been explicitly geared toward achieving greater autonomy with respect to the United States. To that end, Mexico actively promoted the rights of developing countries against the U.S. In 1972, Mexico proposed the Charter of Economic Rights and Duties of States at the UN, which would help to facilitate benefits for developing countries (Schmidt 1991). Mexico then assisted Venezuela with the creation of the Latin American and Caribbean Economic System (SELA) in 1975, which enabled the formation of joint positions among its 26 Latin American and Caribbean members on economic matters in international institutions. SELA provided an alternative to the OAS, which was dominated by the U.S. (Domínguez and De Castro 2009). Mexico also actively participated in the Group of 77 at the UN to try to achieve greater benefits for developing nations, leading the group from 1974-1975 (Krauze 2013). More generally, Mexico was instrumental in forming a "third world" voting block in the UN (Purcell 1997).

Further, throughout the 1980s, Mexico assisted many revolutionary groups that the U.S. opposed. For instance, Mexico was the main supporter of the Sandinistas in Nicaragua, providing oil and other supplies (Leiken 2001) while the U.S. actively worked against them by funding and training anti-Sandinista guerrillas, the Contras. Mexico similarly diverged from U.S. policy by backing rebels in El Salvador (Leiken 2001). Indeed, Mexico frequently resisted U.S. involvement in the region, maintaining a firm stated policy of nonintervention in the domestic affairs of other states (Leiken 2001).

In line with its political stance, Mexico's economic policies were also explicitly geared toward avoiding excessive dependence on the United States, as Mexico consistently expressed unwillingness to trade with the United States due to political tensions and concerns over sovereignty. (Salvucci 1991). Import substitution was used in part as a strategy to rely less

heavily on trade with the U.S., and Mexico applied a variety of restrictions on foreign capital as well (Purcell 1997). The hesitation to invest in trade with the U.S. continued through the 1980s due to these political hold-up problems. For instance, in 1976, the United States and Mexico discussed the construction of a natural gas pipeline, which had the potential to improve the welfare of both countries through gains from trade. However, Mexico expressed concerns that once the pipeline was built, the United States could violate the terms of the agreement to extract political concessions from Mexico (Grayson 1981). The United States and Mexico therefore failed to reach an agreement at the time. In another example, when Mexico first contemplated acceding to the GATT in 1979, a common allegation was that the U.S. had threatened to raise tariffs on Mexico if Mexico did not join (Contreras 2008).

By contrast, Cuba and Mexico have a long history of close relations, based initially on their struggles against Spain, and later on resistance against the U.S., with Mexico assisting Cuba in its fight for independence. Mexico's assistance with planning Cuba's rebellion against Spain and its hosting of Cuban rebels and exiles led Cuban president Fulgencio Batista to write to the Mexican Ambassador in 1953, "We will never forget that...[Mexico] was asylum and home...for Cuban patriots in the past century" (White 2007). These strong bonds with Cuba allowed Mexico to use Cuba to balance against the U.S. and to justify its own nationalist policies. Mexico's revolutionary history led it to view the Cuban revolution with sympathy (Pellicer de Brody 1972), resulting in public support for Cuba, which was considered Mexico's "sister republic."

Mexico demonstrated its strong ties with Cuba frequently in the international arena. For instance, Mexico opposed both Cuba's expulsion from the OAS in 1962 and the U.S.'s blockade of the country in 1964. Further, even after all other Latin American countries had cut relations with Cuba by 1964 under pressure from the U.S., Mexico refused to do so (Gilderhus 2008). Mexico's recognition of Cuba led Fidel Castro to present Mexico's president with an award in 1980, stating, "Mexico alone maintained the worthy and courageous

position of not breaking relations with Cuba...which we Cubans will never forget” (Gilderhus 2008). Because Mexico considered Cuba to be a critical partner in resisting dependence on the U.S., it actively worked to bring Cuba back into the international system. Between 1970-1976, Mexico stepped up efforts to reinstate Cuba in the OAS, which the U.S. strongly opposed. From 1976-1982, relations improved still further as the two states participated in joint projects in education and industry, held many cultural celebrations, and conducted multiple state visits (Gilderhus 2008). Cuba and Mexico also defied the U.S. by working together to assist the Central American guerrillas in El Salvador and Nicaragua (Gilderhus 2008). And while Cuba actively tried to incite revolution in other latin american nations, it typically refrained from doing so in Mexico (Sagebien and Tsourtouras 1999).

However, due in part to Mexico’s 1982 bankruptcy, Mexico decided to foster closer relations with the United States, particularly by joining the GATT in 1986. By making trade relations “binding and predictable,” the GATT was expected to recast Mexico’s view of the U.S. such that Mexico would see it “not as an adversary anymore but as a partner” (Nafey 2007). Indeed, there is widespread agreement that Mexico’s accession to the GATT fostered stronger ties with the United States, both economically and politically (Leiken 2001). GATT membership was essential for liberalizing Mexico’s economy, locking in crucial economic reforms that greatly expanded trade with the U.S. (Fund 1993). Prior to Mexico’s GATT entry, trade between the U.S. and Mexico had been relatively stable, hovering around \$20 million since 1980. Between 1986 and 1993, however, trade tripled, increasing steadily each year (Gilderhus 2008). The U.S. is now Mexico’s largest trading partner, and Mexico is its third largest trading partner and second largest export destination (U.S. Census Bureau 2013). Mexico’s GATT membership also paved the way for the two states to sign NAFTA in 1993, a free trade agreement between the US, Mexico and Canada, as the U.S. refused to do so until Mexico became a GATT member (Castañeda 2000).

Mexico’s GATT entry empowered many groups with interests in closer political relations

with the U.S. due to their increased economic ties (Purcell 1997). Many of Mexico's businesses with ties to the U.S. actively lobbied for the two states to adopt common political positions so as not to disrupt relations. For example, a wide array of Mexican firms lobbied the Mexico government not to oppose the U.S.'s policies in Central America (Bailey and Aguayo 1996). Government entities that benefitted from GATT accession, such as the Commerce Ministry, similarly advocated for pro-U.S. policy positions (Centeno 2010). Luis de la Calle, former chief trade negotiator for Mexico, believes that Mexico's shifting foreign policy positions reflect the increased incentives for common positions due to GATT membership. He stated that Mexico's resulting trade liberalization means that, "Mexico's interests are aligned with rich countries and countries with the same kind of economic structure."<sup>1</sup>

Since its GATT accession, Mexico therefore has adopted many policy positions that highlight its improved relations with the U.S. After pro-U.S. candidate Carlos Salinas de Gortari was elected president in 1988, he stated that Mexico would improve ties with the U.S. because Mexico wanted "to be part of the first world, not the Third" (De Gortari, Hearn and Rosas 2002). Accompanying economic integration with the U.S., Salinas felt "there would have to be a new international relations strategy" which would "turn Mexico's proximity to the world's largest economy into a permanent advantage by modifying the framework of our political relationship and the uncertainties that dominated trade" (De Gortari, Hearn and Rosas 2002). Consequently, Mexico created the Instituto Para los Mexicanos en el Exterior in order to boost ties between Americans and Mexicans (Vázquez 1987), stopped its prior practice of criticizing the U.S. in order to boost domestic support (Purcell 1997), rewrote textbooks in a light more favorable to the U.S. (Gilbert 1997), and backed U.S. efforts to combat guerrillas in Colombia (Leiken 2001). Mexico also advocated the U.S.'s proposed Free Trade Agreement of the Americas, which was highly unpopular in many south american countries. This position caused Venezuela's President Hugo Chavez to call Mexico's president

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<sup>1</sup>Interview by author. October 16, 2013.

a “puppy dog of the empire” and to denounce Mexico’s “surrender” to the U.S., resulting in both countries withdrawing their ambassadors (McKinley Jr. 2005). In addition, Mexico worked with the U.S. to promote human rights and democracy in the region at a time when such initiatives were denounced in many of these states (Nafey 2007). Mexico even allowed election observers into the country in 1994, which was previously unthinkable due to concerns over sovereignty (Purcell 1997).

Its membership in the GATT led to such close ties to the U.S. that many alleged that “Mexico belongs to North America” (Nafey 2007), and called it a “vassal of the United States” (The Economist 2000*a*). Indeed, South American countries tend to view any potential deal with Mexico with suspicion due to the perception that the United States will threaten their sovereignty through its links to Mexico (Soriano 2007). For its part, the U.S. overlooked many potential irritants after Mexico’s GATT accession. Especially troubling could have been widespread concerns over Mexico’s commitment to democracy in the early 1990s, yet U.S. President George H.W. Bush remained steadfast in his support of Mexico (Chabat 1991).

But while Mexico’s GATT accession stimulated closer economic and political relations with the U.S., it had the opposite impact on Mexico’s relations with Cuba. Trade between Mexico and Cuba had begun to grow during the early 1970s, when the two states signed several trade treaties, and then rose more rapidly after 1976 due to Mexico’s provision of oil and loans to Cuba. Trade remained strong in the early eighties, as Mexico was Cuba’s second largest trade and investment partner. After Mexico’s GATT entry, however, trade growth slowed, with many studies sighting increased ties to the U.S. as a contributing factor (Sagebien and Tsourtouras 1999). By 1998, Mexico was considered a minor investor in Cuba, in part because Mexican investors curtailed their activities in Cuba as a result of the Helms-Burton Act, which strengthened the U.S.-led embargo against Cuba. For instance, Mexican cement company Cemex pulled out of its joint venture in Cuba in 1996 due to concerns

over violations of the Act, and Mexican company Domos left its operations in Cuba due to problems obtaining financing as a result of the Act (De Cordoba 1996). State-owned companies in particular hesitated to invest in Cuba due to the likely negative ramifications such investment would have on Mexico's relations with the U.S. (Gilderhus 2008). Cuba's exports to Mexico thus made up a negligible fraction of Mexico's market throughout the 1990s and beyond, and Mexico's exports to Cuba remained flat until 1993. While a brief increase in Mexico's exports to Cuba occurred from 1993-1995, they then fell back down, in part due to U.S. pressure (Gilderhus 2008).

In tandem with Mexico's declining economic activity with Cuba, their political relationship gradually deteriorated as well. Mexico's former chief trade negotiator stated that because Mexico's GATT entry brought new groups to power, its "ideological composition changed a lot. Now Cuba not as important to Mexico."<sup>2</sup> Unlike its previous unwavering support of Cuba, Mexico began to engage in considerable debate over its relationship with Cuba (Pellicer 2006). Mexico also toned down its previously strong rhetoric, emphasizing that its stance toward Cuba was based on general nonintervention principles rather than approval of the regime (Sagebien and Tsourtouras 1999).

Mexico also came under increased U.S. pressure to limit its relations with Cuba coincident with the consideration of NAFTA, which would continue the process of liberalization made possible by the GATT. As a result, in 1992 Mexico stopped providing low interest credit to Cuba, agreed not to negotiate over Cuba's debt, and limited future trade with Cuba (Gilderhus 2008). Mexico altered its policies toward Cuban refugees, providing additional visas in line with U.S. preferences. A Mexican senior official said that the change in its stance on refugees was "a relatively small price to pay" for increased integration with the U.S. (Golden 1993).

Relations between Mexico and Cuba continued to weaken in the latter half of the 1990s

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<sup>2</sup>Interview by author. October 16, 2013.

and through the 2000s. In 1996, Mexico canceled a potential visit by Castro and then stated that Mexico would not support governments that were opposed to democracy (Sagebien and Tsourtouras 1999). At the end of the decade, Mexico refused to allow Cuba to enter the San Jose Pact, under which Mexico and Venezuela would sell oil to Central American and Caribbean nations at favorable prices (Sagebien and Tsourtouras 1999). In 2000, in a sharp reversal of its previous stance, Mexico abstained from voting to condemn Cuba's human rights record in the UN Human Rights Commission (Sagebien and Tsourtouras 1999). Human rights grew to be a major source of tension with the election of the PAN in 2000, as Mexico denounced Cuba's human rights record in Latin America, provided encouragement to Cuban dissidents (Dresser 2002), and voted against Cuba at the UN Human Rights Commission in both 2002 and 2005. These incidents culminated in 2004 when Mexico recalled its ambassador and expelled Cuba's (Nafey 2007). Fidel Castro stated, "It is truly painful to see the great prestige and influence Mexico earned in the eyes of Latin America and the world with its unimpeachable international policy, which stemmed from a genuine, far-reaching revolution, turn to ashes" (Sagebien and Tsourtouras 1999). He later called Mexico a "mafia at the beck and call of Washington" who supports "the U.S. trade embargo and participates in the aggressions of the government of the United States against Cuba" (Nevaer 2004). These disputes reflect Mexico's increasing incentives since joining the GATT to cooperate with the U.S. over Cuba when forced to choose.

## Empirics

The cases above demonstrate that the theory can shed light on real-world dynamics, but it could be argued that these represent isolated examples. I therefore turn to more systematic evidence that the WTO facilitates improved political cooperation between asymmetric countries. Using U.N. voting behavior as a measure of political cooperation, I show that

joint WTO membership leads states with unequal capabilities and political differences to strengthen their political ties. While Chapter Four demonstrated that the WTO boosts trade most between dissimilar states, this section substantiates the claim that these improved trade relations result in more cooperative political relations.

The dependent variable in the analysis is political cooperation, which is measured using United Nations voting behavior similarity, as coded by Strezhnev and Voeten (2012). U.N. voting behavior is a widely used proxy for political cooperation, as there is considerable evidence that voting behavior is strongly correlated with the strength of bilateral political relations (Andersen, Harr and Tarp 2006). Due to the importance that many states place on U.N. voting behavior, many states keep track of how often their fellow U.N. members vote with them (Thacker 1999). States that tend to cooperate more politically thus tend to vote together in the U.N., both to support their political allies and due to shared international concerns (Thacker 1999). Thus, WTO-induced trade ties between asymmetric states should lead states to vote together more often. UN Voting similarity is scored from  $-1$  to  $1$ , from least to most similar. It is calculated as  $1 - 2(d)/dmax$ , where  $d$  is “the sum of metric distances between votes by dyad members in a given year” and  $dmax$  is “the largest possible metric distance for those votes” (Strezhnev and Voeten 2012). Since political similarity may build gradually, I average the dependent variable over a period of five years.

The key independent variable is *Both in WTO*, an indicator of whether both states in a pair are members of the WTO, interacted with my measures of political dissimilarity. As before, I measure political dissimilarity using an indicator of whether states are *Non-allied*, an indicator of whether states have *Different Regime Types* and an indicator of whether there exists a *Large Power Difference* between states. Because a state’s size and wealth could influence its voting behavior as well, I control for the *GDP* and *GDP per Capita* of each states in a pair, where  $i$  indicates the larger state in a pair and  $j$  indicates the smaller state in a pair. Since each of these variables should not impact the dependent variable

immediately, all independent variables are lagged one year.

I conduct the analysis using a sample that consists of all U.N. members, spanning the years 1948-2011. I use OLS with dyad and year fixed effects in order to ameliorate many types of misspecification and endogeneity concerns, and employ robust standard errors clustered by dyad. The results of the analysis are displayed in Table XXX.

Table 5.1: Main Specification

	1	2	3
Large Power Diff X Both in WTO	0.011*** (0.003)		
Large Power Difference	-0.039*** (0.004)	-0.033*** (0.004)	-0.033*** (0.004)
Nonallied X Both in WTO		0.015 (0.008)	
Non-allied	-0.052*** (0.009)	-0.061*** (0.010)	-0.052*** (0.009)
Dissimilar Reg Types X Both in WTO			0.005 (0.003)
Dissimilar Regime Types	-0.014*** (0.003)	-0.015*** (0.003)	-0.017*** (0.003)
Both in WTO	0.027*** (0.004)	0.021** (0.008)	0.031*** (0.005)
One in WTO	0.032*** (0.004)	0.032*** (0.004)	0.032*** (0.004)
Log(GDP) <sub>i</sub>	0.029*** (0.005)	0.029*** (0.005)	0.029*** (0.005)
Log(GDP) <sub>j</sub>	-0.037*** (0.005)	-0.037*** (0.005)	-0.037*** (0.005)
Log(GDPPC) <sub>i</sub>	-0.029*** (0.004)	-0.029*** (0.004)	-0.029*** (0.004)
Log(GDPPC) <sub>j</sub>	0.030*** (0.004)	0.030*** (0.004)	0.030*** (0.004)
Constant	0.588*** (0.042)	0.586*** (0.042)	0.581*** (0.042)
Year and Dyad Effects	Yes	Yes	Yes
R-Squared	0.801	0.801	0.801
N	415159	415159	415159

Notes: Estimates from OLS regression. The unit of observation is the dyad-year and the dependent variable is UN voting averaged over five years. The data cover 1948-2011. Robust standard errors, clustered by dyad, appear in parentheses. All models include year and dyad fixed effects, which are not shown. “\*”, “\*\*”, and “\*\*\*” denote  $p < 0.05$ ,  $p < 0.01$ , and  $p < 0.001$  respectively.

The results presented in Table XXX comport with the hypotheses. First, outside the WTO politically dissimilar states have considerable difficulty cooperating. States with large differences in power capabilities, non allies, and states with dissimilar regime types experience a large and statistically significant drop in voting similarity compared to politically similar states. However, this effect is greatly reduced once states join the WTO. WTO membership leads political asymmetry to affect voting behavior only weakly. Indeed, joining the WTO leads to a large and statistically significant bump in voting similarity for states with large differences in power capabilities, non allies, and states with different regime types.

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