Who Benefits? International Institutions and Interstate Political Relations

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October 2013
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Implies a revision and extension to liberal peace theory.
The Problem: Political Hold Up

Threat of political exploitation prevents trade and investment: The Political Hold-up Problem
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- Problem could be solved through long-term trade agreement, but often unenforceable
International Institutions Can Solve Hold-Up Problems

The role of the WTO:

- Allow countries to commit not to hold up partners
- WTO makes violating agreements more costly for a variety of reasons
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- Allow countries to commit not to hold up partners
- WTO makes violating agreements more costly for a variety of reasons
- Multilateral reputation mechanism: countries develop reputations for compliance
- Dispute settlement body flags violators: impartiality, transparency, retaliation
- Domestic incentives for compliance
Who Benefits?

Institutions help states most who have the most trouble cooperating otherwise.
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- Asymmetrically powerful states – ability to renege
- States with political frictions – incentive to renege
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- Since the WTO increases trade most between these states, political relations improve most between these states
- Trade generates common interests, incentives for cooperation, domestic empowerment
Who Loses?

- Political ties strengthen between states with prior difficulties cooperating, at the expense of traditional partners.
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- Voting in the UN

- Allocating foreign aid with set budget

- Taking sides in a conflict
Prior to Saudi Arabia’s 2005 WTO entry:

- Pakistan-SA close: political Islam, culture, defense agreements, vote together in UN

After Saudi Arabia’s WTO entry:

- Trade skyrockets with India, stable with Pakistan
- Relations with India improve at expense of Pakistan: joint military exercises, terrorism from Pakistan, extradition, India’s plan to reduce Kashmir tension

Due to economic ties, “The Saudi relationship is no longer a monopoly of Pakistan” – Pakistan army general
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Example: India-Saudi Arabia-Pakistan

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Many Examples

- US-Japan-India (1955)
- India-Nepal-China (2004)
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Hypothesis

- Hypothesis: Joint WTO membership increases political cooperation between politically asymmetric states in particular

- Focus on WTO’s impact on UN voting behavior

- Considerable evidence that voting behavior is closely associated with strength of political ties

- Stronger WTO-induced trade ties between dissimilar states should lead to common positions on international issues
Empirical Analysis

- Unit of observation is the dyad-year, use OLS with year and dyad fixed effects, 1948-2011
- Sample: all UN members
- Robust standard errors, clustered by dyad
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- Dependent variable: UN Vote Similarity averaged over 5 years, scored from -1 to 1
- Key independent vars: Both in WTO X Large Power Diff, Both in WTO X Non-Allied, Both in WTO X Different Regime Type
- Capabilities(CINC): Singer (1988); Allies: Leeds et. al. (2002); Regime: Cheibub et. al. (2010)
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<tr>
<td>Large Power Diff X Both in WTO</td>
<td>0.011***</td>
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<td></td>
<td>(0.003)</td>
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<td>Large Power Difference</td>
<td>-0.039***</td>
<td>-0.033***</td>
<td>-0.033***</td>
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<td>(0.004)</td>
<td>(0.004)</td>
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<td>Nonallied X Both in WTO</td>
<td></td>
<td>0.015</td>
<td></td>
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<td></td>
<td></td>
<td>(0.008)</td>
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<tr>
<td>Non-allied</td>
<td>-0.052***</td>
<td>-0.061***</td>
<td>-0.052***</td>
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<td>(0.009)</td>
<td>(0.010)</td>
<td>(0.009)</td>
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<td>Dissimilar Reg Types X Both in WTO</td>
<td></td>
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<td>0.005</td>
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<td></td>
<td></td>
<td></td>
<td>(0.003)</td>
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<tr>
<td>Dissimilar Regime Types</td>
<td>-0.014***</td>
<td>-0.015***</td>
<td>-0.017***</td>
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<td></td>
<td>(0.003)</td>
<td>(0.003)</td>
<td>(0.003)</td>
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<tr>
<td>Both in WTO</td>
<td>0.027***</td>
<td>0.021**</td>
<td>0.031***</td>
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<tr>
<td></td>
<td>(0.004)</td>
<td>(0.008)</td>
<td>(0.005)</td>
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<td>One in WTO</td>
<td>0.032***</td>
<td>0.032***</td>
<td>0.032***</td>
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<td></td>
<td>(0.004)</td>
<td>(0.004)</td>
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<td>R-Squared</td>
<td>0.801</td>
<td>0.801</td>
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<td>N</td>
<td>415159</td>
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Covariates: \( \text{Log(GDP per Cap)}_{A,B}, \text{Log(GDP)}_{A,B} \)
Robustness Checks

- Different covariates profiles
- Alternative measures of independent variables
- Respecify dependent variable
- Drop outliers
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Conclusion

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More nuanced view of effect of institutions on political relationships.
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- Trade increases with India, exports to China stay steady
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“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”
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