

# Interest Group Influence on WTO Dispute Behaviour: A Test of State Commitment

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*This study examines the influence of interest groups on a state's willingness to pursue their most favourable decision during a WTO dispute. States are committed to their WTO agreements, but they also have to act as a watchdog for their domestic industries in states that may not hold WTO agreements in high esteem. Interest group influence on the state has been examined through case studies, but never at the systemic level. I hypothesize that states being pressured by many interest groups are more likely to pursue a dispute into the higher levels of dispute resolution. I test this using data from the WTO as well as interests groups from around the world. I find that complainant states are more likely to be pressured by their interest groups to pursue a favourable outcome rather than settle or accept an earlier decision.*

I will go anywhere in the world to open new markets for American products. And I will not stand by when our competitors don't play by the rules. We've brought trade cases against China at nearly twice the rate as the last administration, and it's made a difference.... It's not fair when foreign manufacturers have a leg up on ours only because they're heavily subsidized. – Barack Obama, January 24, 2012

## 1 INTRODUCTION<sup>1</sup>

In August 2009, the World Trade Organization (WTO) ruled against China and its quota policies that limit the amount of books, videos, and music that was imported into the country each year. The United States trade representative in Geneva commended the decision by stating that it would 'level the playing field for American companies working to distribute . . . products in China' (Bradsher 2009, A1). While China is one of the United States' largest trade partners, both the Bush and Obama administrations have been pressured from many sectors to make this relationship less asymmetrical. President Barack Obama reinforced his commitment to this issue by mentioning it in his 2012 State of the Union address,

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as well as introducing a new 'Trade Enforcement Unit' purposed with observing Chinese trade practices. This aggressive behaviour illustrates that governments are focused on preserving the expectation of freer trade within the WTO regime, especially with their largest trading partners, to provide a more level playing field for their goods in foreign markets.

The creation of the WTO in 1995 led to an evolvement of Member States' commitment to free trade, in light of the strengthening of the institutional structure and rules. One of the most important facets of the WTO is the creation of the Dispute Settlement Body (DSB), where states have the opportunity to file complaints against other members that they believe are engaging in unfair trade practices. The DSB has been showcased as a vehicle to promote harmonious relations between members: states are more likely to engage in dispute settlement behaviour within the WTO now that it is more structured and formally institutionalized than the General Agreement on Tariffs and Trade (Kim 2008; Zangl 2008). This argument is based on the assumption that, ultimately, states within the WTO seek cooperation that results in an absolute increase in international trade, which then leads to more peaceful relations. However, if it is assumed that states are rational actors, then states may not always seek cooperation as a primary goal. Liberal institutionalists who promote the idea of cooperation in world politics point to states as self-interested actors and admit to situations where state interests are not always harmonious. Institutions provide a space for sharing information and reducing uncertainty in an anarchic world. Although states have incentives to try to resolve these disparate goals, they often protect their own individual interests (Keohane 1984).

The objective of this study is to investigate the influence of interest groups on how aggressively states pursue their interests within the DSB. Similar to Putnam's (1988) two-level game, governments experience the pull of domestic and international groups that either support or are against freer trade, which, in turn, affects state behaviour within the context of the WTO and the DSB. Governments are expected to honour international commitments, but at the same time, they must garner domestic support in order to stay in power. While all Member States are given the power to file formal complaints against each other, this can also be an avenue for reacting against those states that are identified as competitors in the trade arena.

While the effects of interest groups on a single state's trade policies have been studied previously (Bailey et al 1997; Hiscox 1999, 2002; Ehrlich 2007, 2008, 2001; Davis and Shirato 2007), this study is different in that it considers interest groups influence across the WTO Member States. Previously, these studies have been confined to case studies of one or two countries. While accessing data on interest groups from a number of different countries including non-democratic states is a

challenge, I was able to successfully create a dataset that includes interest groups in countries outside of the major actors in the WTO, as well as those outside the OECD (Mehmet 2009).

The use of dispute levels as way to investigate trends in the DSB is also novel to this study. Previously, the literature mostly focused on dispute initiation, as well as the various actors (third parties) and influences (legal capacity) that affect the dispute itself. However, by ignoring the trends of the dispute itself as it is ongoing, a significant portion of the trade dispute story is missing from the literature. Fattore (2010) has investigated the effects of legal capacity on dispute duration. However, in the context of the DSB, which level to which the dispute has progressed and duration are not synonymous. The factors that affect duration, such as scheduling and clerical issues (Kennedy 2011), do not necessarily affect how aggressively a state pursues a decision in their favour. In the next section, these motivations will be explored further to provide insights into the intersecting pressures that lead states to pursue certain interests within the sphere of the global free trade regime.

The rest of the paper will follow in this order: First, I will discuss previous literature related to the role of interest groups on trade policy formation. Then, I will present my theory on interest groups and their effect on higher levels of dispute resolution, which encompasses a state's willingness to commit resources to pursuing a DSB outcome in their favour. Finally, I present the results of a statistical test, which supports my expectations on the effects of interest group pressure on a state's willingness to pursue a dispute through the many stage of WTO dispute resolution. I conclude with a discussion of interest group pressure and its impact outside the initiation of trade disputes in the WTO.

## 2 THE ROLE OF INTEREST GROUPS IN TRADE POLICY FORMATION

Since 1995, Member States have been encouraged to resolve trading issues within the boundaries of the DSB. Previous studies have investigated which states are more likely to be involved in these complaints (Bown 2005; Simmons and Guzman 2005; Busch, Reinhardt, and Shaffer 2009). While this literature explains the difference in numbers of DSB complaints between larger and smaller states, it neglects the motive behind the filings: the questions of whether states (small or large) seek to use the DSB as a tool of economic competition.

Part of the answer lies in the idea of 'aggressive multilateralism' (Bhagwati 1991). While states are committing to more multilateral agreements, as evidenced by the creation of the WTO in 1995, they are also concerned about their unilateral well-being. States do not become less focused on their individual benefit because

of this multilateral movement, and the collective benefit being derived from the WTO is not their main priority. Instead, states will focus on protecting their goods in the markets of their commercial rivals, to ensure that not only are their products penetrating the market, but also, given a chance to be successful.

The endogenous protection literature illustrates such interactions, specifically in the realm of democratic regimes.<sup>2</sup> As the post-war period progressed, states began to liberalize their trade policies within the confines of the GATT system. In turn, domestic industries formed interest groups that pressured the state to minimize liberalization in their given field (Goldstein 1998). Politicians that were receptive to such pressures supported these protectionist policies in return for campaign contributions for future elections. As time progressed, the international trade regime became more stringent in enforcing liberalization policies, and, in fact, became more supportive of the idea of formalizing the organization that governs such movement (the WTO). States began to receive stronger pressure from the WTO to follow their rules and agreements more closely, or they could and will be pursued by other states within the confines of the DSB. Therefore, the officeholders find themselves in the precarious position of wanting to please two constituencies: the international community at large as well as domestic interest groups (see Putnam 1988).

Recent studies of interest group influence on trade policy have turned to the importance of government structure, specifically in democracies. These studies claim that different electoral systems either isolate or expose policymakers to the influence of interest groups and other constituents, which in turn, results in more or less protectionist policies. Policymakers in proportional representation systems are much more isolated from various constituencies and interests (since they are not elected by a specific group) than policymakers in majoritarian electoral systems, which depend on certain groups for their electoral support. Therefore, states with a PR system should have less protectionist policies than their majoritarian counterparts (Rogowski 1987; Mansfield and Busch 1995; Persson and Tabellini 2000; Grossman and Helpman 2004).

Ehrlich (2007, 2008, 2011) finds that electoral systems do not matter when studying the effects of interest group lobbying. Instead, he introduces a new theory regarding lobbying access points: depending on the number of actors in the state that actually makes trade policy, a state could be more or less protectionist. Systems with many access points would increase lobbying, leading to more protectionist policies, where a system with fewer access points would be less protectionist. However, Ehrlich's theory is more applicable on domestic policies such as tariffs

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<sup>2</sup> For the economic basis of the endogenous protection literature, see Magee et al. (1989); Trefler (1993); Grossman and Helpman (1994); Maggi and Rodriguez-Clare (1998); Goldberg and Maggi (1999); Mitra (1999); Eicher and Osang (2002).

rather than complaint filings within the WTO. Also, it is hard to categorize complaint filings as being protectionist, when all WTO Members have signed onto and understand their commitment to global free trade.

Goldstein and Martin (2000) show that states act strategically in regards to the complaints filed. In terms of targeting specific rivals, officeholders are able to hide behind the DSB in order to placate interest groups by targeting those states that are seen as commercial rivals, that is, their main competitors in certain industries.<sup>3</sup> First, interest groups are happy because the government is acting as the rule enforcer within the legal boundaries of the WTO to keep their rivals at bay.<sup>4</sup> Second, targeted states can respect this dispute behaviour for the same reason: that any state has the right to assert compliance with fair trade rules within the DSB. Therefore, states which are strong trading partners can remain on good terms with one another, while, at the same time, pleasing those domestic interest groups that want the state to act aggressively towards others that may be deriving more benefit within the trade liberalization regime.

Within this highly interdependent world, it has become more likely that domestic groups, even among dyads with strong trade relationships, will support the adoption of protective policies that will promote their products in the domestic market as well as in third markets. Because they view freer trade as detrimental to their success, these groups will want the government to ensure that they are able to maintain this protective status. They will lobby the government to file disputes against states they identify as their industry rivals in order to protect their status within the domestic market as well as their access to other markets. Therefore, as states make their decisions as to which disputes to pursue in the DSB, they will consider if other states pose a threat to their economic competitiveness. In fact, firms have to approach their government 'with a strong legal case supported by a detailed factual record.... [a government] does not want to waste its resources, impair its international credibility, and tarnish its reputation ... by bringing and then losing a weak legal case before the WTO' (Shaffer 2003, 34). The state is usually interested in promoting the domestic product rather than allowing the foreign product to not only penetrate the market, but to become the preferred item in a manner inconsistent with WTO rules.

Therefore, I fully expect the strength of a given industry's lobby will not only influence the initiation of a trade complaint within the DSB, but also, the

<sup>3</sup> This is the opposite of what is presented in Allee and Huth (1996). The authors find that states use IOs as a cover to enact unpopular domestic policies. However, in this situation, I suggest that states use IOs such as the WTO to cloak their more aggressive behaviour towards states they deem as economic rivals and are supported in this venture by domestic interest groups.

<sup>4</sup> In fact, Keohane et al. (2000, 463) describe interest groups in democracies as having almost complete access to their state's DSB proceedings: 'industry lawyers ... participate quite closely in the preparation of the [DSB] suit.'

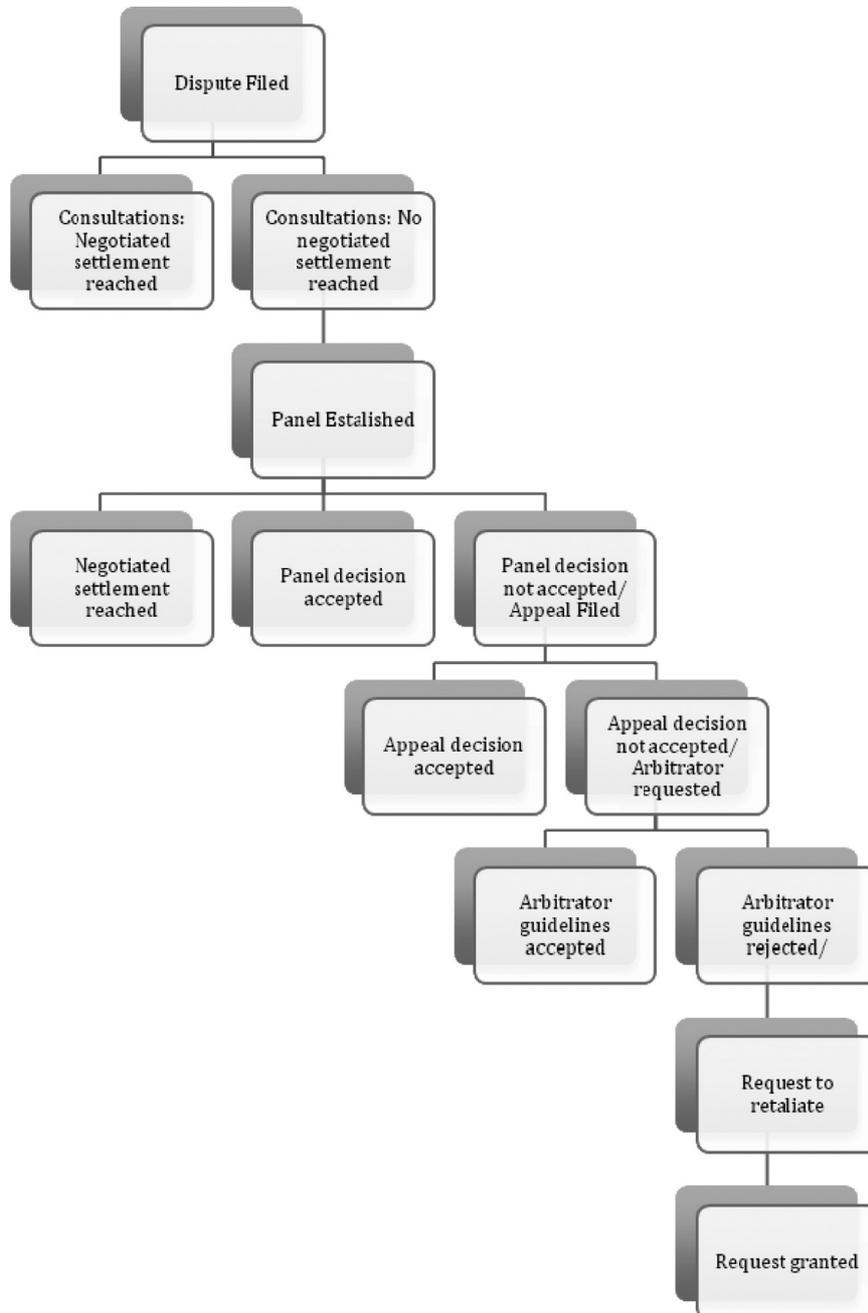
aggressiveness with which the state pursues its interest regarding that specific case. Considering the importance of industry interest groups on building the necessary pre-case arguments that motivates a state to take action (Keohane et al 2000; Shaffer 2003), the expectation should be evident past dispute initiation. There is no reason to expect that industry interest groups would not continue to support the state's delegation in Geneva either through providing evidentiary support or legal assistance. While the state is invested in ensuring that free trade agreements are upheld, the industry interest groups have just as much, if not more, at stake. Their competitiveness in the global market, especially in those states that are WTO Members, should be at expected levels, given those states' commitments to free trade. However, it is not only left up to the state, but also those industry interest groups, to act as a watchdog over their fellow WTO Members and their trade behaviour.

This influence of interest groups should extend past dispute initiation into the path in which the dispute plays out. Figure 1 illustrates this process. Once a complaint has been filed (and, hence, a dispute initiated), the complainant and defendant states enter a consultation phase, where they attempt to negotiate a settlement that is beneficial to both (Busch and Reinhardt 2001, 2003). If they are unable to do so, the complainant may request a panel to be formed in order to give an outside, unbiased opinion on the case. Once a panel makes a decision, a number of different steps are possible. The first scenario is that no wrongdoing is found on the part of the defendant state. The complainant state could either accept the panel decision or it can appeal.

The second scenario is when a defendant state is found to be at fault and must change its policies or actions to come in line with WTO rules and agreements. From there, the defendant state could either accept the panel decision or appeal. If an appeal is pursued, the Appellate Body makes a decision, and, again, the defendant state is expected to accept this decision and revise its policies or actions. If the defendant state does not implement the appeal decision, the complainant may turn to an arbitrator within the WTO to negotiate a timeline for the decision's implementation. If that fails, many times, the complainant is given permission by the DSB to retaliate against the fault-laden defendant. This is done by the complainant administering tariffs and qualitative barriers against the defendant as an attempt to recoup their losses while the defendant acted outside of WTO rules and agreements.

I expect interest groups to be influential on a state's willingness to pursue a dispute through these various levels of resolution. The path through WTO dispute settlement is a long in a temporal sense, but also costly, monetarily as well as resource-wise. Prior to the filing of a dispute, interest groups supplement a state's ability to pursue a case by providing legal and technical assistance. There is no

Figure 1 Dispute Resolution Process and Possible Outcomes



reason to expect this support (as well as political and monetary pressure) to dissipate, once a dispute has been initiated. If a state has invested the large amount of capital necessary to begin a dispute and not settle it in the early stages, the expectation is that they will follow through with the dispute resolution process with the expectation of an outcome in their favour. This expectation will increase as governments receive pressure from the industry in question's interest groups. I also expect that this pressure increases dependent on the number of interest groups seeking a resolution that is favourable to their industry or sector. As such, I expect that industry interest groups will also have a strong influence on how aggressively a state pursues a decision in their favour.

H1: A complainant state with strong industry interests will pursue a panel decision in their favour, therefore, leading to higher levels of aggression.

H2: A defendant state with strong industry interests will pursue a panel decision in their favour, therefore, leading to higher levels of aggression.

### 3 DATA AND METHODS

In order to test the hypotheses above, I have compiled an original dataset regarding WTO disputes filed between 1 January 1995 and 31 December 2005. This unit of analysis is the dyad in which a complaint has been filed and a dispute initiated. While a selection model would have been ideal to test my hypothesis, it is impossible to observe which industries and interest groups have failed to motivate their government to file a complaint. While I assume this mechanism is at work at the dispute initiation stage, it is difficult to develop a test that could truly identify it due to this lack of data at the systemic level. A case study may be a more appropriate approach to understanding how interest groups influence dispute initiation (see Davis and Shirato 2007 as an example).

Disputes that have multiple parties involved are disaggregated and treated as individual disputes (similar to Hudec 1993 and Busch and Reinhardt 2006). Also, disputes involving the members of the European Union (EU) are treated similarly, as separate disputes. For instance, if the EU filed a complaint against India, it would be treated as a dispute between Austria and India, Belgium and India, and so on. Most disputes are solely dyadic, and only about 17% of disputes involve more than one defendant or complainant. Also, there are many times where EU states are targeted singularly (such as DS 173, where the US filed a complaint against France alone) or in conjunction with the EU (DS347 is a complaint by the US against the EU and 'certain Member States'). Therefore, deconstructing these multiparty disputes provides an opportunity to test my hypotheses in an environment that most closely resembles the norm in the DSB. I also provide a control variable for any multiparty disputes, as well as any disputes involving the EU.

The dependent variable is an ordinal scale reflecting the various stages in WTO dispute resolution. It is coded using information derived from the WTO's Chronological List of Dispute Cases. Disputes that have been filed and are in either the pre-panel consultation stages or have been settled prior to a panel being formed are coded 0. Those disputes where a panel has been established (by request of either the complainant or defendant) and/or a panel decision has been rendered are coded 1. Disputes that have moved onto the appellate stage and/or decisions have been handed down are coded 2. Finally, those disputes that have progressed to the appellate stage or beyond (e.g., a state requesting and being given permission to retaliate) are coded 3. Many of these disputes are still current, and therefore, have been coded using their status on 15 March 2012. The dispersion of this measure is shown in Table 1.

Table 1 *WTO Dispute Outcomes By Category*

<i>Outcome</i>	<i>Frequency</i>	<i>Percentage of Total</i>
Pre-panel stage	1063	53.55%
Panel established/ decision made	384	19.35%
Appeal filed/ decision made	449	22.62%
Arbitrator/ Permission to retaliate	89	4.48%
<b>Total</b>	1985	100 %

My main independent variables are the number of interest groups associated with the dispute's focus. This is measured for both the complainant and defendant states. The data was collected using Volumes 4, 5 and 6 of the *World Guide to Trade Associations*. These books provide information on countries throughout the world, their various industries, and the interest groups associated with trade in these areas until the end of 2005.<sup>5</sup> I assume that these groups (which include labour unions) will be the ones lobbying the government for intervention in the WTO on their behalf. This is coded as a count variable, accounting for all the related industry interest groups. In some cases, there are multiple industries that are involved in a case. For example, DS77 was filed by the EU states against Argentina, regarding measures affecting textiles, clothing and footwear. In building this dataset, I included all the interest groups for the three industries involved: clothing, textiles and shoes. I expect both variables (for the complainant state and the defendant

<sup>5</sup> There has not been a seventh edition published of this book, which restricts my dataset to include all disputes through the end of 2005.

state, respectively) to have a positive effect on dispute aggression, that as the number of interest groups pressuring the state to hold their ground in the WTO increases, a state's willingness to pursue a panel decision and beyond increases until they obtain the decision that favours them. However, I believe the complainant state's interest groups will have a larger substantive effect, as the complainant state is the party seeking support from the WTO to protect their good against states that they believe to be breaking WTO rules.

One complication with these variables is pinpointing which interest groups are influential in EU disputes. Lobbying within the EU works mainly two ways. First, domestic lobbying groups work through the national government to garner support, which then turns into the national government lobbying the EU to file a complaint. Second, lobbying groups that are headquartered in Brussels could be considered to be those that lobby the EU directly, either through the Commission or through Parliament. In order to control for this, I include a second set of interest group variables that measure those Brussels-based/EU-level interest groups rather than the state-level interest groups. This data was collected using the EU's transparency register, which keeps track of 'European institutions interaction with citizen's associations, NGOs, businesses, trade, and professional organizations, [and] trade unions ...' (Europa 2012). By using this second set of EU-level interest groups, I will be able to present two models with robust results considering the unique political landscape of the EU.

I include a number of control variables that are used in previous DSB literature that would also affect a dispute's progression to higher levels. The first group focuses on the economic relationship between the dyad. The first is the GDP per capita of both the complainant and defendant states. GDP per capita is a proxy measure for a state's legal capacity, which refers to a state's ability to fully participate in the WTO and observe their trading partners' commitment to WTO agreements (Busch et al 2009). While not a superior proxy, GDP per capita has been used quite often in this literature (Bown 2005; Besson and Mehdi 2004).<sup>6</sup> Wealthier states are able to participate fully within the DSB when compared to their less wealthy counterparts, and are more often involved in WTO disputes (Simmons and Guzman 2005; Bown 2005, 2009). I expect that states with higher levels of legal capacity also have the resources necessary to pursue a favourable dispute outcome in the DSB, and, therefore, will be more likely to be involved in a dispute that evolves to higher levels of aggression. GDP per capita is measured in current US dollars (prior to the logarithmic change) and is taken from the Penn World Table (Heston et al 2006). Also, I expect bilateral trade to have a negative effect on the probability of a dispute progressing to higher levels of dispute resolution. A dyad with a

<sup>6</sup> Busch et al. (2009) composed a new measure for legal capacity through surveying WTO Members. However, the survey results remain confidential, which restricts who could use this proxy for legal capacity.

high level of bilateral trade may be more willing to either negotiate a settlement or accept a panel or appeal decision, in order to avoid disrupting current and future trade. This is coded using data from the International Monetary Fund's Direction of Trade database, and is measured as the total imports and exports between country X and Y.

The second set of control variables describes the dispute itself. I expect disputes with a focus on 'complex' issue (such as agriculture or a politically sensitive issue such as national security or environment regulations) will be more likely to lead to a more hostile dispute. A complex issue is coded 1 in this dichotomous measure. This operationalization is borrowed from Busch and Reinhardt (2006). I also include another dichotomous measure regarding whether or not the dispute is dyadic or has multiple states involved. If the dispute involves third parties, the states involved may be further pressured to pursue a favourable outcome. This too is accounted for using a dichotomous variable. Finally, disputes involving the US or members of the EU are included in the model, as these two entities have the highest number of disputes than any other members of the WTO. I expect all of these variables relating to the dispute itself to have a positive effect on higher levels of dispute resolution.

I will estimate an ordered logit using the following model:<sup>7</sup>

Level of dispute resolution = f (Complainant's interest groups, defendant's interest groups, complainant's GDP per capita, defendant's GDP per capita, complainant/defendant bilateral trade, complex issue dispute, multiparty dispute, third party dispute, US dyad, EU dyad)

#### 4 RESULTS

Table 2 provides the results for both logit models. The first model includes the non-EU specific, state-level interest group variables. The second model utilizes a variable where the state-level interest groups for EU Member States have been replaced by EU-level interest groups that are based in Brussels. Estimating the models using those two different interest group variables was a robustness check, since I am uncertain, in the various cases involving the EU, which interest groups are influencing this decision-making, and whether the influence is being targeted to the national government or the EU itself. Both models produce very similar results.

<sup>7</sup> I decided to exclude a variable which measures democratic characteristics of the various regimes involved in this study, following Ehrlich's access points theory which discredits the effect of democracy on trade policy making. In order to support my decision, I estimated the model using democracy variables for both the initiating and defendant states. The results were both negative and insignificant and their inclusion in the model made no effect on the other variables' results.

Table 2 Ordered Logit Estimates for Resolution Stages of WTO Disputes, 1995–2002

<i>Variable</i>	<i>Model 1 (State-specific interest groups) (SE)</i>	<i>Model 2 (Inclusion of EU interest groups) (SE)</i>
Complainant Interest	0.0073**	0.0089**
Groups	(0.0030)	(0.0044)
Defendant Interest	-0.0009	0.0026
Groups	(0.0027)	(0.0036)
Complainant GDP	0.3361***	0.3318***
per capita	(0.0728)	(0.0731)
Defendant GDP	0.3729***	0.3507***
per capita	(0.0732)	(0.0728)
Bilateral Trade	-0.0503	-0.0449
	(0.0344)	(0.0341)
Multiple Party	0.5860***	0.5835***
Dispute	(0.1382)	(0.1381)
Third Party	-0.2622**	-0.2885**
Involvement	(0.1034)	(0.1045)
Complex issue	0.5812***	0.5773***
	(0.0980)	(0.0989)
EU dyad	-0.4701**	-0.4563**
	(0.1732)	(0.1729)
US dyad	-0.3209*	-0.3866*
	(0.1671)	(0.1762)
Constant for panel	6.2146	6.0033
establishment/decision	(1.0575)	(1.0587)
Constant for appeal	7.1759	6.9636
request/decision	(1.0608)	(1.0619)
Constant for arbitrator/	9.3098	9.0992
retaliation	(1.0683)	(1.0692)
Observations	1679	1679
Chi <sup>2</sup>	105.30	103.39
Prob (chi <sup>2</sup> )	0.0000	0.0000
Pseudo R <sup>2</sup>	0.0264	0.0259
*** p<0.001		
** p<0.05		
* p<0.10		

The hypotheses presented earlier focus on the effects of interest group pressure on a trade dispute's progression through the levels of resolution. The expectation is that, once a dispute is initiated, interest groups pressure the government to commit resources to reaching a conclusion to the dispute that is self-beneficial. I hypothesized that both a complainant state's and defendant state's interest groups will advocate their government to aggressively pursue their respectively beneficial outcome. In other words, interest groups want their government to move through the steps involved in the dispute resolution process (consultations, panel formation, panel decision, appeal, arbitrator, possible retaliation for non-conformity to a decision) in order to protect the industry in question. Therefore, I predicted both variables to have a positive effect on dispute progression. Instead, Hypothesis 1 (relating to the complainant's interest groups) is supported by the test, while Hypothesis 2 (focusing on the defendant's interest groups) is not.

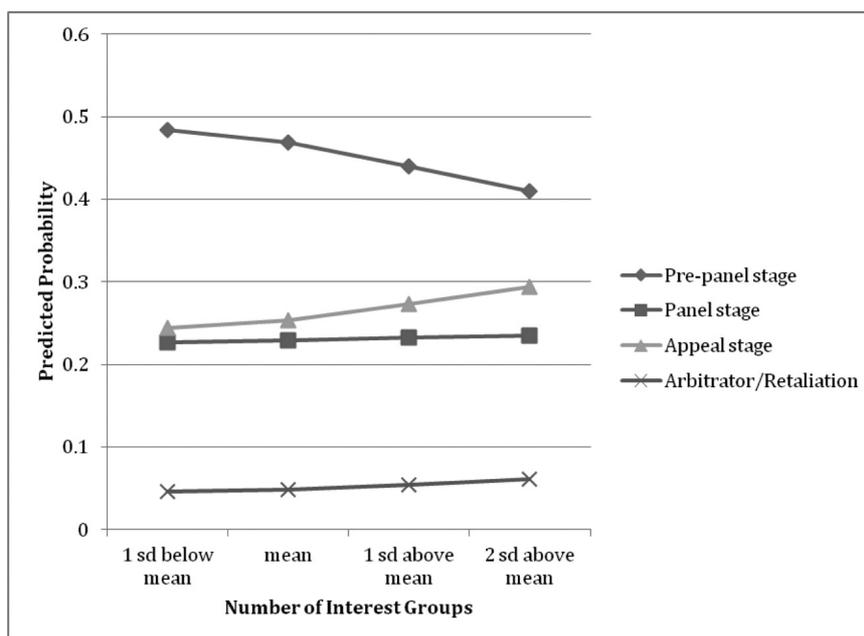
The fact that Hypothesis 1 concerning the complainant is supported by the test is not surprising. In fact, I suggested earlier that industry related interest groups in the complainant state drive dispute initiation. The government is receptive to such pressure in order to placate certain industries, and, in turn, garner their political support. I expect that these same motives will not only make the complainant state responsive at the dispute initiation stage, but also in pursuing a decision that is favourable for their domestic industries. If a favourable decision is not the result, industry interest groups may withdraw their political support and instead look for other potential groups to represent their interests in the future. Both models presented in Table 2 support this expectation.

However, Hypothesis 2 regarding the effects of interest groups on the defendant state's willingness to aggressively pursue a resolution in their favour is not supported by the tests. This variable's coefficient is statistically insignificant and negative. Therefore, an increase in the number of industry interest groups in a defendant state leads to a lower chance of a higher level dispute. This may be that the defendant state realizes they are in the wrong and have been caught going against WTO rules and agreements. Instead of expending resources in attempting to garner support for behaviour that goes against WTO norms, these defendant interest groups (and therefore, the government) may be more willing to cut their losses in earlier stages of the dispute resolution process rather than dragging their heels. Interest groups in states where WTO policies have been conscientiously disregarded only benefit when this behaviour has not been discovered or complained about by other Member

States. Once a dispute has been initiated against them, these defendant actors are not willing to risk their resources any further.

The relationship between the level of dispute resolution and a complainant's interest group pressure is explored further in Figure 2, which illustrates the changes in predicted probability for the various possible outcomes. At the pre-panel stage, an increase in the number of interest groups (the average is 8) actually leads to a lower probability of settlement prior to the formation of a panel. This supports my hypothesis, in that interest group effects will be better illustrated in the higher levels of dispute resolution. Once a panel is formed (outcome = 1), there is a slight positive change in the probability of a panel decision being accepted as the number of interest groups increase. The probability of a panel decision being the highest level of a dispute changes by a little more than 4% when moving from one standard deviation below the mean (zero interest groups) to two standard deviations above the mean (forty-one interest groups).

Figure 2 Predicted Probabilities for State-Specific Interest Group Influence on Different Dispute Stages



More significant changes are observed at higher levels of dispute resolution. The probability of an appeal being the highest level of dispute resolution changes by 25% when moving from no interest groups to two standard deviations above the mean. This illustrates that complainant states that continued to be pressured by a large number of interest groups are more likely to press onward through the levels of dispute resolution. Their resolve for obtaining a decision in their favour (and, therefore, in the favour of their interest groups) increases when more interest groups are involved in lobbying the government for support.

The final level of dispute resolution includes those dyads that have turned to an arbitrator to solve their dispute or those states that have pursued permission to retaliate against a state that does not implement previous decisions against its policies. There are not many cases that reach this stage (89 out of 1985 total observations), but there is still a 41% increase in the probability of a dyad reaching this stage when moving from no interest group involvement to high levels of interest group involvement within the complainant state. Again, complainant states have more domestic support to lose if they walk away from a dispute without a favourable outcome. Therefore, their commitment to a dispute is shown to be much stronger when they receive pressure from many interest groups back at home.

The control variables produced mixed results. These controls were grouped in dyadic characteristics (legal capacity, bilateral trade) and dispute characteristics (third party involvement, complex issue at hand, EU involvement, US involvement). Both coefficients of the variables measuring the complainant's and defendant's legal capacity were statistically significant and in the predicted direction. Therefore, the influence of a state's legal capacity extends beyond the initiation stage and provides the resources necessary to pursue a dispute through the various stages of resolution. However, the coefficient for the bilateral trade variable was statistically insignificant but in the originally predicted direction (negative). Therefore, dyads with high levels of bilateral trade will be more likely to resolve their disputes in a less aggressive manner.

The dispute specific controls provided the most surprising results. As expected, disputes that involve multiple parties (those that are not dyadic) have a higher probability of being involved in a higher level dispute, similar to those disputes that are focused on a contentious issue. However, many of the variables that were predicted to contribute to higher levels of dispute resolution ended up contributing to lower levels. Disputes with third party involvement, along with those dyads involving the US or the Member States of the EU, have a lower probability of higher levels of dispute resolution. I expected third parties to act as external 'interest groups', that would pressure the complainant to obtain an outcome that would not only be beneficial to their domestic interest groups, but

those states that were not directly involved in the dispute. These results illustrate that third parties have the opposite effect, probably because they do not have the resources to expend in order to achieve their preferred outcomes. Finally, I predicted that US or EU involvement would lead to disputes that reach higher levels of dispute resolution, as these two political entities have the highest number of overall dispute involvement. The negative effect of these variables may be attributed to the many disputes that have been filed by either of these entities, but are stagnant in the pre-panel consultation stage (953 EU observations and 446 US observations have not made it to the panel stage; many of this disputes are between the EU and the US).

## 5 CONCLUSION

I set out to explore two phenomena that are thought to affect DSB behaviour, but are scarcely studied in an explicit and multinational manner: the role of interest groups and how aggressively a state pursues a decision in their favour within the DSB. The role of interest groups and their influence on trade policy/dispute initiation has been examined through case studies, but I utilized a large-N quantitative approach in order to generalize the understanding of mechanism by which they affect WTO dispute behaviour. Collecting data on interest groups across a large number of states is very difficult, but I used a source that provides a plethora of information on interest groups around the world, in democracies and non-democracies, developed and underdeveloped states, which allows for more states to be included in my study.

The literature on dispute settlement in the WTO focuses on isolated stages: initiation, panel formation, and eventually, termination. By examining the complete process, I am better able to illustrate how the DSB works. When a state initiates a dispute, it is signalling its resolve to win; that is, to fight until they receive a decision that supports their policy position, and their commitment to WTO rules. They are pressured within the state by interest groups that represent the industry in question. However, states only initiate disputes that they believe they can win (Simmons and Guzman 2005), and, therefore, they must commit the necessary resources to achieve that favourable decision. Throughout this process, interest groups continue to encourage the state to sustain their momentum through the dispute resolution process and their commitment to achieving a favourable outcome. Without this, the state will lose the support of that industry's interest groups. My tests support this theory.

This study shows that domestic groups continue to pressure the state past dispute initiation. By highlighting this finding, future work should consider the influence of domestic sources in affecting how a state acts within an international

organization. Similar to Putnam's two-level game, the state always has to please its domestic audience while working within international organizations. When certain states stray from their commitments, domestic actors will push their state to be vocal and protect their industry in line with those universal obligations. This can be observed at any level of interaction within the DSB: dispute initiation, panel formation or dealing with a state that refuses to conform to WTO rules.

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