Instruments of Coercion: International Institutions and the Sites of Power in International Relations

Allison Carnegie

August 15, 2013
Abstract

The international institutions literature suggests that institutions foster cooperation by allowing states to credibly commit to specific policies. However, these commitments increase the costs associated with some foreign policy instruments, causing members to substitute towards less constrained options. This paper argues that by altering the tools that states wield to influence other states, international institutions shift the sites of power in international relations. The analysis is focused on a particular institution, demonstrating that because WTO membership curtails states’ use of trade policies for foreign policy leverage, members employ others levers of coercion instead. After presenting detailed case study evidence in support of the theory, I test these claims systematically, showing that once states join the WTO, their trade flows become less correlated with political tensions, while other policy domains, such as foreign aid allocation and unilateral preference program eligibility, become more responsive to these political issues.

Keywords: foreign aid, GATT, GSP, human rights, international institutions, policy substitution, trade, WTO
As a member of the WTO, Zimbabwe is able to enjoy the rights of all members....WTO members cannot discriminate against Zimbabwe’s trade.”

The WTO director for information and external relations, explaining the U.S. and EU’s 2001 decision to respond to Zimbabwe’s human rights violations with travel bans, asset freezes, and aid cuts rather than tariff increases.

“Turkey has obligations. The Turkish state can’t do this given the WTO and Customs Union rules.”

The Turkish Ambassador to France, explaining Turkey’s 2011 decision to not to retaliate against a controversial French vote through trade restrictions, and to instead pursue diplomatic avenues of retaliation.

“Since Burma is a member of the WTO....EU policy in the field of restrictive measures will have to take into account the international commitments of the EU, in particular WTO agreements.”

The EU Commission, explaining the EU’s 1997 decision to respond to Burma’s human rights violations with foreign aid cuts and asset freezes rather than tariff increases.

The idea that membership in international institutions can enhance cooperation between states is central to international relations. However, this article presents a revision and extension of this claim, demonstrating that while international institutions can bolster cooperation in the specific policy domains they govern, they can simultaneously reduce cooperation in areas outside of their purview. Despite the large body of work on the impact of international institutions, these indirect effects of institutional membership have been largely overlooked in favor of a focus on direct effects. I argue that by failing to consider the unintended consequences of institutional membership, scholars have been left with an incomplete picture of the role of international institutions in interstate dynamics. In particular, I show that by decreasing states’ flexibility with respect to some types of policies, membership in international institutions increases political maneuvering in other, less constrained policy domains. By altering the tools that states select to influence other states, these institutions thereby shift the sites of power in international relations.

How do international institutions politicize policies outside of the areas they govern? Institutions permit states to credibly commit to specific policies by imposing a variety of reputational, domestic, and economic costs to the state’s deviation from agreements.¹ Member states are thereby limited in their abilities to extend or revoke policy concessions within

¹See, for example, Busch, Raciborski and Reinhardt (2009); Davis (2006, 2012); Keohane (1984).
the policy domains regulated by institutions. Since states often offer (or retract) foreign policy concessions to influence other states, such as lowering trade protection, increasing foreign aid, or granting security concessions, the rigidity in policy induced by these institutions constitutes a loss of leverage over other members. However, I argue that rather than abandoning their attempts to influence the policies of other states, members of international institutions replace policies made more costly by institutional membership for less costly policy options. Indeed, a key factor shown to influence foreign policy substitution is cost: leaders choose between economic, military and diplomatic levers of influence as a function of the costs of the policies available to them (Clark, Nordstrom and Reed 2008; Most and Starr 1989). But while scholars have proposed a variety of domestic and economic factors which shape the costs imposed by certain policies, the role played by international institutions remains under-theorized. This paper demonstrates that by limiting members' options in specific policy domains, institutions lead these states to attempt to influence their partners through a range of more flexible tools. International institutions thus create ripple effects across policy arenas, bolstering cooperation in some areas, while politicizing others.

To test this theory, the analysis is focused on a particular institution; namely, how membership in the World Trade Organization (WTO) and its predecessor, the General Agreement on Tariffs and Trade (GATT), affects the means by which states attempt to coerce their partners. As one of the largest and most influential institutions in international relations, the WTO represents an ideal setting in which to test this theory. Indeed, the WTO is considered a success-story in terms of liberalizing trade relations among its 159 members, spawning a large literature on its inner workings and effects (Liu 2009; Rose 2004; Subramanian and Wei 2007; Goldstein, Rivers and Tomz 2007). A central finding of this body of work is that, on average, WTO membership increases trade flows between members. However,

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

\(^3\)The WTO can increase trade for a variety of reasons. For example, the WTO can resolve terms of trade
this predominant emphasis on economic gains has obscured the importance of the WTO’s political impact, which has led scholars to overlook many unintended consequences of WTO membership.

I demonstrate that because the WTO constrains the ability of its members to condition their trade policies upon their political relationships with their trading partners, members instead manipulate policies that are not regulated by international institutions in order to pursue their political objectives. In what follows, I first describe the international context of the theory, detailing donors’ available instruments of coercion and explaining how the WTO constrains policy leverage in the trade domain. Next, I present case study evidence showing that because WTO membership curtails states’ use of trade policies for foreign policy leverage, members use other policy arenas to exercise power. I then test these claims systematically, demonstrating that once states join the WTO, their trade flows become less correlated with political tensions, while other levers of influence become more responsive to foreign policy issues.

The WTO and Sites of Power

This article presents a theory of how international institutions cause their members to engage in foreign policy substitution, altering the tools that their members select to influence other states. Indeed, states seek a variety of policy concessions from partner states, such as democratization, respect for human rights, intelligence cooperation, technology sharing, access to military bases, etc. To entice their partners to make concessions in these areas, states often offer economic or political benefits in exchange, and withhold preferential treatment if their requests are ignored. This practice, known as foreign policy conditionality, is exercised

externalities (Bagwell and Staiger 1999), allow countries to avoid succumbing to domestic political pressures for protection (Büthe and Milner 2008; Maggi and Rodriguez-Clare 1998; Mansfield and Reinhardt 2008), and remedy political hold-up problems (Carnegie 2013).
frequently in international relations.

While states have many policy areas to choose from, I argue that their selection is shaped by the broader institutional environment. Specifically, membership in a particular international institution raises the cost of policy manipulation in areas governed by the institution. For instance, because the WTO governs trade relations between states, it limits its members’ use of trade policy conditionality; while non-members often use their trade policies to punish or reward other states, the WTO explicitly prohibits unilateral trade policy discrimination. Indeed, WTO members must agree to accord all members the same low tariff rates, known as Most Favored Nation (MFN) tariff levels,\(^4\) which are enforced through the WTO’s sophisticated Dispute Settlement Body (DSB). The DSB adjudicates WTO disputes, providing WTO participants with “a guarantee for the right to negotiate, a common standard for evaluating outcomes, the option for several countries to join a dispute, and incentives for states to change a policy found to violate trade rules” (Davis 2006). By specifying which states are non-compliant, the DSB impacts members’ reputations, which provides states with strong incentives to cooperate (Tomz 2007). If countries are known to violate agreements frequently, their partners may punish them in a variety of ways, including removing trade concessions, exhibiting unwillingness to form agreements, or reducing cooperation in other areas (Maggi 1999). WTO rulings can also provide countries with domestic political cover for adhering to agreements (Allee and Huth 2006; Staiger and Tabellini 1999) and the ability to develop domestic reputations and norms for compliance (Mansfield, Milner and Rosendorff 2002).\(^5\)

\(^4\)There are several exceptions to this rule. Under the GATT, exceptions include: Article I:2-4 based on Historical Preferences, Article IV(c) for Cinematographic Films, Article XX for General Exceptions such as those relating to morals or the environment, Article XXIV:3 for Frontier Traffic, Article XXIV:5 for PTAs and Customs Unions, Article XXI for Security Exceptions, the 1979 Enabling Clause, and the Marrakesh Agreement Article IX:3 Waiver. Many of these exceptions, such as the security clause, are rarely used, while others, such as the PTA exception, are used frequently. Similar MFN exceptions exist under the General Agreement for Trade in Services (GATS) and Trade-Related Aspects of Intellectual Property Rights (TRIPS). These exceptions are discussed in detail in the appendix due to space constraints; however, I note that they are limited and do not allow WTO members much leeway for trade policy manipulation. This is discussed further in the supplemental appendix.

\(^5\)I further elaborate on the enforcement capabilities of the WTO in the appendix due to space constraints.
By constraining the use of trade policies, the WTO therefore causes states to substitute towards levers of influence that are not governed by institutions, altering the sites of pressure within the international system. Indeed, a variety of alternative levers are available to WTO members. First, states often turn to bilateral foreign aid, which is assistance given to other countries in the form of grants or subsidized loans, as a means to pressure their partners. Although the primary goal of foreign aid policies is typically economic growth, donors have long sought to use foreign aid to obtain political influence, as well. When states comply with donors’ demands, the donors often provide additional aid, but when recipients ignore their requests, donors withhold aid.

Second, unilateral preference programs, permitted under the Enabling Clause of the WTO, function as an alternative source of political leverage. Unilateral preference programs specify a variety of goods on which tariffs are reduced for all countries that meet specific criteria, which typically include both political and economic factors. The most common preference program is the Generalized System of Preferences (GSP). Most developed countries, including the United States, the EU, Canada, Japan, and Australia, offer some form of

Note that states may still use trade policy in conjunction with other instruments; the argument is simply that they will lessen the use of trade as a political tool and increase the use of other tools in their arsenal.

Indeed, interviews with government and policy officials support the contention that raising tariffs above WTO mandated levels is often much more costly than altering other types of policy commitments. According to an official with extensive experience in U.S. trade policy, when a country joins the WTO, “companies believe that they have a legally secure agreement. Violating WTO principles hurts companies by disrupting the stability and security of their business environment.” However, “the effects of disruptions to the financial sector tend to be more opaque and distant. Unilateral grants...can be taken away and given back much more easily...Financial flows are an easy spigot to turn on and off.” The official pointed out that international courts do not become involved when, for example, a bilateral foreign aid agreement is violated, as there are no binding multilateral obligations created when one country agrees to provide bilateral assistance to another state. Interview by author. February 22, 2012. As an official of USAID explained, when choosing an instrument of coercion, states “look around at what tools [they] have...Once [a country] is in the WTO it’s harder to use trade for influence.” Official of USAID. Interview by author. February 10, 2012.

For example, the EU incorporates conditionality in many of its foreign aid agreements: The 1989 Lome IV Convention linked human rights, democracy, and good governance with aid allocation to 70 African, Caribbean and Pacific (ACP) countries (Holland 2002). In addition, the 2000 Cotonou Convention that replaced the Lomé agreements provided only a first tranche of aid, holding back the second tranche until compliance with conditionality was confirmed (Smith 2003). Similarly, many U.S. programs, such as the Millennium Development Program, make conditionality a crucial part of aid allocation.

See Onguglo (1999) for an overview of existing preference programs.
GSP. While GSP eligibility requirements vary by donor, they typically include many types of political and economic factors, and if countries do not meet these qualifications, tariff preferences may be withdrawn at any time. For example, eligibility for the U.S.’s GSP program may be revoked if a recipient violates human rights, harbors terrorists, nationalizes U.S. property, experiences high economic growth, or places undue pressure on American producers that compete with goods covered by the program.⁹

Third, a variety of financial restrictions exist which may be employed as leverage: For example, foreign direct investment (FDI), or direct investment into production or investment in another country, is often desired by recipient countries to bolster economic growth. Although FDI is a tool of private economic actors in many countries, states can use FDI for political leverage by threatening to place restrictions on its flow unless recipients make concessions.¹⁰ Additionally, some governments invest in the host country themselves, in which case FDI is more readily used as political leverage.¹¹ States may also employ other financial tools, such as the provision of capital through official export credit agencies, development finance institutions, or trade agencies.¹² Alternatively, states may gain political leverage

⁹If an interested party such as a firm, labor union, or NGO believes a recipient has violated one of the eligibility conditions, the party may request an investigation, which may be accepted or rejected by the Office of the U.S. Trade Representative (Jones 2013). Because accepting an investigation constitutes a threat of GSP revocation, these investigations are often used as leverage. For example, in Congressional testimony, then-U.S. Trade Representative Robert B. Zoellick stated, “The threat of loss of GSP...has proven to be an effective point of leverage with some of our trading partners (Zoellick 2002). Further, the U.S. Ambassador of the Brazilian Embassy stated that Brazil had made improvements “on piracy over the past 18 months, under the threat of U.S. revocation of GSP,” acknowledging that “GSP can be a powerful tool” (Sobel 2006).

¹⁰For example, a 2008 Congressional Research Service report describes the “good governance requirements, human rights conditions, approved-project restrictions, and environmental quality regulations that characterize U.S. and other Western government investments” (Dumbaugh 2008).

¹¹For example, China often requires host countries to adopt a “one-China” policy, and to use Chinese companies, suppliers, and banks, as a condition of receiving FDI.

¹²For instance, the United States’ Export-Import (Exim) Bank loans money to other countries at low interest rates to allow them to buy products from the United States. The ExIm bank requires human rights and political clearances by the State Department before it will agree to lend (Report 1994). Further, in deciding whether to accept an application for Ex-im Bank programs, the Bank may consider the extent to which a nation has been helpful in combating terrorism (Jackson 2003). Other U.S. tools include the Overseas Private Investment Corporation (OPIC), which is the U.S. government’s development finance institution, and the United States Trade and Development Agency (TDA).
through their treatment of foreign assets. Many countries have considerable assets invested in the financial institutions of their partners, and these partners may render such assets inaccessible in order to attain political influence.

Fourth, diplomatic levers may allow states to influence their partners. States may punish each other by recalling ambassadors, boycotting conferences and events, or refusing to allow participation in international fora. For instance, states often make entry into international institutions or bilateral agreements contingent on the fulfillment of specific criteria, such as economic or political reforms. Perhaps the most well-known instance of conditionality applied to accession agreements are those that provide a pathway to membership in the EU. Although reforms have been uneven, a large literature demonstrates that the desire for European integration has successfully promoted liberalization in Eastern Europe (Kelley 2004; Vachudova 2005; Levitz and Pop-Eleches 2010; Schimmelfennig 2005). Similarly, another institution that has demanded many stringent reforms prior to entry is the North Atlantic Treaty Organization (NATO), a multilateral alliance.¹³

Thus, once states join the WTO, a variety of alternative levers of influence are available that do not fall under the institution’s purview. But how do states choose between their various policy options? Scholars have shown that policies are selected due to their associated costs and benefits, which depend on a variety of factors including:¹⁴ the welfare of partner countries, national security concerns, costs to specific domestic groups, retaliation by the recipient, or the interests of lobbyists and constituents.¹⁵ While the precise considerations

---

¹³For example, Senator Bond noted that “Poland, Hungary, and the Czech Republic as well as other countries in Central and Eastern Europe that aspire to join NATO, have worked to alleviate historical grievances and build relationships with their neighbors based on mutual trust, respect and cooperation” (The Congressional Record, 105th Congress 1998). Similarly, Secretary Perry claimed that “NATO is the carrot encouraging reforms” (The Congressional Record 1996a).

¹⁴Although conditionality has been criticized for donors’ inconsistent applicability and conflicting demands (Crawford 2001), it is still frequently practiced by many countries (Dunning 2004; Bueno De Mesquita and Smith 2009; Beace 2010). Perhaps the most straightforward motivation for applying conditionality is self-interest, as obtaining concessions may enhance a country’s standing in the international community, or improve the administration’s electoral prospects at home (Crawford 2001).

¹⁵Businesses, investors, non-governmental organizations (NGOs), domestic consumer groups, and others
involved in selecting a particular set of policies likely vary by state, I argue that WTO membership, overall, results in a reduction in the reliance on trade policies as a means of coercion.

Existing Accounts of Institutions and Policy Substitution

By offering an account of how institutions affect interstate relations in areas outside of the institution’s purview, this article contributes to the large literature analyzing the impact of international institutions on international cooperation. Beginning with the seminal work of Keohane (1984), theories of international institutions have typically argued that these institutions benefit all members through increased cooperation. Some scholars have criticized this claim, suggesting that such benefits accrue most to the powerful states that created the institutions, potentially at the expense of weak states (Krasner 1991), or serve merely as “arenas for acting out power relationships” (Mearsheimer 1994, 13). However, I argue that these accounts are incomplete, since in addition to the direct effects highlighted by existing theories, international institutions also impact policy areas outside of those that they govern in ways which fundamentally alter interstate relations. Since institutional membership represents a credible commitment not to use certain policies for foreign policy leverage, I show that countries attempt to extract concessions using alternative, less costly tools.

Further, by showing that institutional membership induces foreign policy substitution, my theory also contributes to the literature examining the determinants of states’ foreign policy selection. While the motivations for choosing certain foreign policies over others has

---

often call for governmental responses to policies enacted by other states. For instance, a senior advisor to a U.S. Senator on the Foreign Relations Committee recalls that aid and trade concessions to Burma were cut partly in reaction to lobbying activities by U.S. citizens who resented the influx of Burmese immigrants. Interview by author. February 23, 2012.
been explored in a variety of areas.\textsuperscript{16} I offer new insights on how foreign policy substitution is conditioned by membership in international institutions,\textsuperscript{17} contributing to our understanding of the role of specific policies in relation to the broader international context in which they are used (McGinnis 2000; Palmer, Wohlander and Morgan 2002). Having suggested that states select policy levers based on their associated costs and benefits, I show that institutions increase the cost of particular tools, leading members to rely more heavily on alternative policy options.

In addition, while many scholars have investigated the determinants of foreign policy selection, their analyses tend to remain outside of the broader institutional context. For instance, while scholars have considered many potential donor motivations for aid giving,\textsuperscript{18} and have conducted innovative analyses of variation in aid institutions (Milner 2006; Schneider and Tobin 2010), the indirect effects of institutional membership remain under-explored. Similarly, empirical studies of unilateral preference programs typically focus on their economic causes and consequences,\textsuperscript{19} though some scholars recognize that these programs may be used for political purposes (Johnson 1967; Orbie 2011; Patterson 1965), and that domestic politics may impact their efficacy.\textsuperscript{20} Yet despite the large literature examining the average


\textsuperscript{17}Foreign policy substitution should not be confused with the interesting work conducted on issue linkage in the context of institutions (Davis 2004, 2009), on institutional membership as a means of allowing states to receive bribes (Dreher, Sturm and Vreeland 2009; Kuziemko and Werker 2006), or on the effects of both multiple and overlapping institutions (Busch 2007; Davis 2009; Tobin and Busch 2009).


\textsuperscript{19}For recent studies, see Aiello, Cardamone and Agostino (2010); Borchert (2009); Brenton (2003); Herz and Wagner (2011); Keck and Lendle (2012); Lederman and Özden (2004); Nilsson (2002, 2007); Özden and Reinhart (2005); Stevens and Kennan (2005); Subramanian and Wei (2007); Verdeja (2006). Also see De Benedictis and Salvatici (2011) and Hoekman and Özden (2005) for overviews.

\textsuperscript{20}For example, GSP may reduce incentives for exporters to lobby for liberal trade policies (Özden and Sharma 2006), and can therefore result in trade protection and higher export/GDP ratios ( Özden and Reinhart 2004). However, note that this interpretation is contested, as GSP benefits may also help countries
effects of these programs, I am unaware of any study examining GSP as a substitute lever of influence. Other tools, such as diplomacy, accession, and lending behavior, are also typically explored without reference to the larger institutional environment.

Evidence of Institution-Driven Foreign Policy Substitution

I now investigate whether states behave in the manner predicted by my theory: first by examining detailed, real-world examples, and then by conducting a systematic empirical investigation. To make this challenge more tractable, I focus my analysis on a particular policy area: human rights. Since the middle of the 20th century, increased respect for human rights has been an important policy goal of many powerful actors in the international community. In particular, members of the Organization for Economic Cooperation and Development (OECD) have long expressed concern with their partners’ human rights records and levels of democracy. Indeed, OECD countries espouse a moral commitment to human rights, stating that their mission is to “promote policies that will improve the economic and social well-being of people around the world” (OECD 2011). Accordingly, many of these states condition their foreign policy concessions upon recipients’ respect for human rights and democratization (Dobbins 2008). A reflection of the significant role that respect for human rights plays in OECD foreign policy decisions is the fact that each of the foreign policy instruments discussed above, when employed, is often explicitly linked to human rights promotion by the country in question.

Due to the salience of respect for human rights in interstate relations, the role of the transition to liberal trade policies before they graduate from the program (Conconi and Perroni 2004).  

\(^{21}\) For example, the United Nations’ Universal Declaration of Human Rights promises to protect the “equal and inalienable rights” of all people. Similarly, the EU’s founding 1957 Treaty of Rome states that the institution’s goal is “developing and consolidating democracy and the rule of law, and...respecting human rights and fundamental freedoms” (Article 177). See Simmons (2009) for an overview.
international community in advancing rights and freedoms has attracted a good deal of scholarly attention. Scholars have demonstrated that international commitments have secured significant improvements in the human rights records of many states (Conrad and Moore 2010; Hafner-Burton 2005, 2009; Sikkink 2011; Simmons 2009).²² International institutions, in particular, can promote such improvements (Hafner-Burton 2012b, 2013) by pressuring states to improve their human rights records in order to obtain material benefits, helping them overcome domestic barriers to political liberalization, or fostering liberal norms (Checkel 2005; Pevehouse 2002). But while scholars have analyzed how institutions can stimulate respect for rights, as well as how concerns about human rights drive policy decisions,²³ their effects on the policy tools used to promote rights remain opaque.²⁴

WTO Membership and U.S. Foreign Policy

I investigate whether membership in international institutions causes states to substitute toward other levers of influence by first examining the U.S.’s selection of foreign policy before and after its trading partners join the WTO, and then considering the policies of OECD countries more systematically. As the most powerful state in the international system, the United States provides an instructive example of institution-driven foreign policy substitution. By closely following a particular state’s interactions with multiple trade partners, I

---

²²See Hafner-Burton (2012a) for an overview. But see Hollyer and Rosendorff (2011) for an opposing view. In addition, the international community may influence rights simply by trading more (Compa and Vogt 2000).

²³For example, some scholars argue that human rights concerns impact foreign aid provision (Berthéleny 2006; Cingranelli and Pasquarello 1985; Poe 1992; Scott and Steele 2011), though some disagree (Barratt 2007; Carleton and Stohl 1987; Dollar and Levin 2006; Easterly 2007; McCormick and Mitchell 1988; Neumayer 2003a, b, c; Schraeder, Hook and Taylor 1998; Scholtz and Scholtz 1981). Still others assert that human rights only matter sometimes, or at least play a small role (Alesina and Dollar 2000; Apodaca and Stohl 1999; Carey 2007; Lai 2003; Nielsen 2012; Payaslian 1995; Poe and Sirirangsi 1994; Poe et al. 1994; Svensson 1999; Tomasevski and Tomasevski 1997).

²⁴See also Lebovic and Voeten (2009) for the argument that international organizations can shame recipients, providing justification for lenders to reduce spending, and Hafner-Burton and Montgomery (2008) for an argument that PTAs can sometimes increase, and sometimes decrease sanctions by raising competition but also providing trade benefits.
am able to demonstrate that institution-driven policy substitution represents a pattern of behavior, rather than a few isolated incidents. Thus, I investigate all cases in which the U.S. expressed strong resistance to providing WTO benefits for a particular trade partner.\textsuperscript{25} I show that before these trade partners entered the WTO, the U.S. focused primarily on using trade for leverage over its partners’ human rights policies. However, once these states joined the WTO, the U.S. became constrained in its ability to use trade policy to extract reforms through the use of trade policy and switched to other tools such as asset freezes, foreign aid cuts, unilateral preference programs, and NATO membership conditionality.

When the U.S. Congress disapproves of policies enacted by trading partners who are non-WTO members, it often offers the renewal of MFN status in exchange for policy concessions. As explained above, this treatment entitles countries to nondiscriminatory trade policies such that a country cannot lower tariffs for a partner with MFN status without lowering tariffs for all partners with MFN status. While all WTO members must grant each other this status, extending it to non-WTO members is optional. Indeed, the United States frequently used the designation of MFN status to attempt to extract concessions from partner countries who are non-WTO members. In particular, 1972 marked the passage of a bill which included the “Jackson-Vanik amendment,” blocking MFN status for countries that restrict emigration. The amendment requires the president to grant yearly MFN waivers to countries disallowing emigration and for Congress to renew MFN agreements every three years. The amendment has been consistently applied as an effort to incite political reforms, particularly in the area of human rights (Lilley and Willkie 1994). For example, MFN status was taken from Poland after it became more repressive, but was then restored in 1987 when Poland implemented liberalizing reforms (Pregelj 2005). Similarly, MFN status was rescinded from Afghanistan in response to the death of Ambassador Adolph Dubs, who was kidnapped and killed in 1979 (Gladstone 2001). It was also revoked from Serbia and Montenegro in 1992 due to “war-like

\textsuperscript{25}I exclude GATT accession cases due to space constraints.
activities” (Pregelj 2005). However, when countries join the WTO, the U.S. relinquishes its ability to revoke MFN status without violating WTO laws, since the WTO requires members are required to grant each other permanent MFN status, also known as permanent normal trade relations (PNTR) status. Thus, once these states are given PNTR status (along with WTO membership), the U.S. switches to alternative levers of influence to obtain human rights concessions. Several specific cases of this practice are detailed below.

**Vietnam**

During the period between the normalization of U.S.-Vietnam relations in the mid-1990s and Vietnam’s 2006 WTO accession, the United States relied primarily upon its trade policies to pressure Vietnam to improve its human rights record. In 1998, President Clinton granted Vietnam conditional MFN trade status, which was subject to a yearly renewal dependent upon Vietnam's human rights record. Congress consistently threatened to revoke trade concessions due to human rights concerns, and in response, Vietnam made several human rights reforms such as signing an agreement on religious freedom in which it pledged to improve conditions for religious citizens (Manyin 2006).

In 2001, the United States signed a bilateral trade agreement (BTA) with Vietnam which was the last major hurdle to Vietnam’s WTO accession (Manyin 2001). The U.S. Congress intensely debated the passage of the BTA, as it recognized that Vietnam’s near-certain WTO accession would eliminate the U.S.’s ability to credibly threaten to terminate Vietnam’s MFN status if Vietnam violated human rights. For instance, Rep. Loretta Sanchez argued for continuing to tie human rights to MFN renewal, rather than pass the BTA, because,

---

26 The prospect of revoking MFN status was similarly used to try to extract policy concessions from Albania, Georgia, Laos, and Ukraine. It has been denied to Cuba and North Korea due to political frictions (Pregelj 2005).

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

28 The agreement has not been released publicly.
“if we insist that Vietnam improve its human rights record as a condition to trading with America, we would gain human rights advances in Vietnam, so I think it is a tragic mistake for the United States to decline to use this tool” (The Congressional Record 2001).

To compensate for losing leverage over Vietnam in the realm of trade, the U.S. Congress sought to tie Vietnam’s aid allocation and GSP status to its human rights practices instead. On the same day that Congress passed the BTA, the House approved a companion bill, H.R. 1587, by a vote of 410-1, which sought to prohibit non-humanitarian increases in aid for Vietnam unless the Vietnamese government “made substantial progress toward releasing all political and religious prisoners from imprisonment, house arrest, and other forms of detention...respecting the right to freedom of religion.... respecting the human rights of members of ethnic minority groups.....[and was not] complicit in a severe form of trafficking in persons.” Congressional debate emphasized that the bill’s purpose was to connect aid to respect for human rights because of the probable decoupling of MFN status and human rights due to the passage of the BTA. Representative Henry Hyde (R-IL) stated, “This bill makes clear that progress towards freedom and democracy will continue to be a central theme of U.S. foreign policy toward Vietnam. It uses forms of leverage other than trade sanctions to promote this objective, such as conditions on non-humanitarian foreign assistance” (Hyde 2001).29

Congress also sought to tie Vietnam’s GSP status to its human rights record. Senator Barbara Boxer introduced the Vietnam Human Rights Act of 2008, which would “prohibit Vietnam’s entry into the U.S. GSP program unless Vietnam’s labor rights regime is certified as making improvements in certain areas” (Boxer 2008). The bill proposed that Congress be provided with a new lever of influence, because “Since Vietnam’s accession to the WTO on January 11, 2007, the Government of Vietnam arbitrarily arrested and imprisoned numerous

29 Perhaps under pressure from the U.S., other countries also moved to tie their aid allocations to Vietnam’s human rights record around this time, such as Japan in 2004 (AFP 2004).
individuals for their peaceful advocacy of religious freedom, democracy, and human rights” (Boxer 2008). However, Congress did not recommend revoking Vietnam’s MFN status; instead, it substituted toward linking the country’s GSP status and foreign aid allocation to its ability to demonstrate respect for human rights.

Cambodia

Prior to granting PNTR, the precursor to WTO accession, to Cambodia in 1996, the U.S. frequently conditioned its trade policies upon Cambodia’s human rights performance. Since 1975, the U.S. had maintained a trade embargo against Cambodia as punishment for its frequent civil and political rights violations. The embargo was lifted after Cambodia held elections and improved its human rights record (Lum 2009). These reforms led the United States to accord Cambodia PNTR status, which was viewed by Congress as the last major step to its WTO entry (Lum 2009). However, the U.S. remained concerned about respect for human rights in Cambodia. Indeed, John McCain stated: “It is true that the Cambodian people have a freely elected government, freedom of speech and freedom of association. It is also true, however, that each of these democratic institutions has at one time or another come under attack from the coalition government. The Senate is today approving unconditional most-favored-nation status for Cambodia....But...granting MFN to Cambodia should not be interpreted as disinterest in the course of Cambodian democracy. The United States Senate is committed to helping democracy and human rights to flourish in Cambodia. Our efforts will not end with this vote” (Mccain 1996).

Due to the concern over potential future human rights abuses, the U.S. House of Representatives unanimously passed the 1996 House Resolution 345, which linked foreign aid to Cambodia’s human rights record. Congressman Roth explained, “Recently, Congress sent to the President H.R. 1642, a bill to extend permanent most-favored-nation tariff treatment to Cambodia...The resolution we have passed today is meant to send a parallel message- that
the United States Senate remains deeply concerned about problems in Cambodia” (Roth 1996). The Congressman went on to detail the “problems” he was referring to, listing a variety of human rights issues in Cambodia that included corruption, politically motivated deaths, and lack of political freedom. The resolution also urged other aid donors to condition Cambodia’s foreign aid allocation upon its human rights record, stating, “The Secretary of State should encourage Cambodia’s other donors...to raise concerns with the RGC over Cambodia’s record on human rights” (Relative to Cambodia Human Rights Record 1996). Similarly, Senator Thomas argued that “the United States and other donor nations should reconsider the amount and extent of our financial aid” (Thomas 1996). Indeed, each year since PNTR status was granted, international donors have met to set political conditions for the receipt of foreign aid (Lum 2009).

Since Cambodia received PNTR status, the U.S. has relied on forms of leverage other than trade policy. For example, in 1997, Hun Sen staged an armed take-over of the Cambodian government, which involved considerable political violence and human rights violations. The U.S. acknowledged that “Vietnam’s overall human rights record...has deteriorated since Vietnam joined the WTO” (Human Rights Act 2009), but, as Congress had pointed out during the debates over PNTR, it was unable to use MFN status for leverage, and thus shifted toward other tools. In particular, the U.S. “announced it was suspending for 30 days all assistance provided to the Cambodian Government....until the democratically elected Government of Cambodia [was] restored” (Biden 1997). The U.S. also pressured ASEAN not to allow Cambodia to enter the organization until it improved rights and governance. Congress congratulated ASEAN for following the U.S.’s request; for instance, Senator Biden stated, “I applaud the decision taken by the Association of Southeast Asian Nations [ASEAN] to delay Cambodia’s membership in that organization” (Biden 1997). Further, the Senate introduced a resolution which “call[ed] upon the Secretary of State to impose visa restrictions on members of the Cambodian National Assembly and their families” who were found guilty of
human rights offenses (Brownback 2005). Thus, once Cambodia had made significant strides toward joining the WTO, the U.S. Congress moved to link aid disbursements, ASEAN membership, and visa applications to Cambodia’s human rights record, but refrained from using trade policy conditionality.

**Romania**

Although Romania entered the WTO in 1971, the U.S. had invoked its right under the GATT Article XXXV to withhold PNTR until Congress chose to grant it. Once Congress grants PNTR to a nation, it cannot be revoked without violating WTO law.\(^{30}\) Prior to the decision of whether to grant PNTR to Romania, renewal of MFN status was the primary tool employed by the U.S. to elicit improvements in Romania’s human rights record, particularly with regard to religious freedom and the release of political prisoners (Kirk and Raceanu 1994). In response, Romanian President Ceausescu sent a personal envoy to the U.S. to convince the government that Romania was respecting human rights, and asked the U.S. to grant MFN status in return (Kirk and Raceanu 1994, 7). However, in 1988 Romania became increasingly repressive, and as punishment MFN status was not renewed. It was subsequently renewed in 1993, after Romania held democratic elections and provided greater rights and freedoms to its citizens, prompting the U.S. Assistant Secretary of State to remark that the U.S. had used its MFN leverage to secure distinct improvements in Romania’s respect for human rights (Kirk and Raceanu 1994, 71).

In 1996, the U.S. Congress debated whether to extend PNTR to Romania. Members of Congress were concerned about relinquishing the ability to influence Romania through trade policy. Although Romania had made many human rights reforms by this time, they

\(^{30}\)This treatment is very rare; the U.S.-Romania case is one of only a handful of instances in which WTO and PNTR were not granted virtually simultaneously. Previously, 14 countries did not accord PNTR to Japan when it entered the WTO in 1995, Cuba did not grant PNTR to acceding states that restricted sugar imports, and India and Pakistan withheld PNTR from the Union of South Africa in protest of apartheid (Suzumura 1997).
were reluctant to lose the option of using MFN as a bargaining tool in the future. However, many members pointed out that the U.S. would retain influence over Romania due to the latter’s aspirations to enter NATO and the EU. Marshall F. Adair, the U.S. Deputy Assistant Secretary of European and Canadian Affairs, stated that MFN renewal “was a useful kind of leverage to try and move Romania onto the right path.” However, he argued that Congress should extend PNTR to Romania because the U.S. could rely on other forms of influence, stating, “We do have a lot of leverage with them to continue working with them, to continue encouraging democratic reform, human rights reform, and economic reform. They are desperate to become full-fledged members of the Western community of nations. They want to get into NATO, they want to get into the EU” (The Congressional Record 1996b). Senator Grassley concurred, arguing that Congress should capitalize on Romania’s “desire to become integrated into the European community and to become a member of NATO” (The Congressional Record 1996c). Congressman Lantos similarly advocated a focus on “Romania’s quest to join NATO, which, once Romania fulfills all of the obligations for NATO membership, [he would] be pleased to champion” (The Congressional Record 1996d). The PNTR issue therefore served to shift the locus of power from trade policy to Romania’s accession agreements.

**China**

In 1979, China signed a bilateral trade agreement with the United States granting China conditional MFN status, which had to be renewed yearly by the U.S. After the 1989 Tiananmen Square protests, the U.S. Congress repeatedly threatened China with tariff increases unless it addressed the United States’ concerns regarding human rights (Lilley and Willkie 1994). China made many policy concessions in response: between 1990-93, it released 881 Tiananmen prisoners, lifted martial law, released information on high-profile political

---

31 Congress sometimes attached other requirements to MFN renewal as well, such as measures to reduce weapons proliferation (Lilley and Willkie 1994).
prisoners, agreed not to export products made with prison labor, allowed the Red Cross to visit prisoners, sent two human rights delegations to the U.S., and gave passports to many families of political exiles (Lilley and Willkie 1994).

In 2000, the U.S. commenced a debate over whether to accord PNTR status to China, the last major hurdle to its WTO entry. The U.S. recognized that once China entered the WTO, any leverage the country through trade would be dramatically curtailed. For example, U.S. Rep. Smith advocated denying PNTR status to China, stating, “This is a real vote-the dictatorship will actually lose something they want. Deny China’s PNTR today- require them to move in the direction of reform and the protection of human rights (The Congressional Record 2000). However, other members of Congress argued that while PNTR would result in a decreased ability to pressure China using trade policy, the U.S could promote human rights there through other levers. Indeed, Congress introduced the “Levin Bereuter proposal,” which would allow it to monitor China’s human rights performance. Congressman Underwood explained, “Once China is a member of the WTO, the United States still can impose sanctions on China but they have to be ‘WTO consistent’...There are many other processes to affect this ‘leverage’ over China. For example, the U.S. could use the power of the Export-Import Bank, TDA and OPIC to apply pressure on China. Finally, the Levin-Bereuter language...will annually grant this body the opportunity to investigate and criticize China’s abuse in these areas” (Underwood 2000). Similarly, Congressman Hoyer claimed that monitoring China’s human rights performance would allow Congress to maintain diplomatic pressure on China, arguing that “the Levin Bereuter proposal...would establish a congressional executive commission on China....A China commission will be a more effective mechanism for maintaining pressure on China on human rights, worker rights, and rule of law issues than our brief annual reviews” (Hoyer 2000). China’s impending WTO entry thus led the U.S. to switch its focus from trade policy conditionality to other levers of influence.
Russia

In August of 2012, the U.S. Congress debated whether to extend PNTR status to Russia, which would pave the way for its WTO accession. Members worried that Russia’s WTO entry would end Congress’s long-time practice of using U.S. trade policies as a tool of influence over Russia’s human rights policies (Columbus 2003). For example, Congressman Devin Nunes argued against granting PNTR status to Russia because, “The 1974 Jackson-Vanik amendment [MFN conditionality] effectively pressured the Soviet Union over its appalling human rights record. It was an important part of America’s decades-long effort to contain and ultimately bring down an evil empire” (of Congress 2012a). Similarly, Congressman Peter DeFazio warned against approving PNTR status for Russia, stating, “We are giving up the tools we have to try and push Russia...We have more power today with the capability of depriving them of a normal trade relation status with the United States. If we want to use our clout, we should vote this bill down” (of Congress 2012a). Congressman Bill Pascrell also opposed the bill, stating, “I’d like to use trade as leverage” (of Congress 2012a).

Because Congress worried that Russia’s eventual WTO entry would remove its leverage over the country, it attached additional human rights provisions to the bill granting PNTR to Russia. These provisions were derived from the Magnitsky Act, which was named after a lawyer who had been imprisoned in Moscow due to his investigation of tax fraud by Russian officials. The provisions prohibit the officials blamed for the incident, as well as any other individuals involved in violations of human rights, from entering the U.S. and using the U.S. banking system. Members of Congress, as well as other U.S. news sources, readily acknowledged that the bill would substitute one form of pressure—trade—with another form of pressure, asset freezes. Congressman Howard Berman stated: “Just as Jackson-Vanik [MFN conditionality] became a tool to deal with one aspect of a horrible set of policies

---

by the Soviet Union during the Cold War, we now, using the Magnitsky legislation, deal with some very serious human rights issues remaining in Russia, but not in the context of restricting trade” (of Congress 2012a). Senator Cardin added, “Today we close a chapter in the U.S. history on the advancing of human rights with the repeal basically of Jackson-Vanik [MFN conditionality]. It served its purpose. Today, we open a new chapter in U.S. leadership for human rights with the Sergei Magnitsky Rule of Law Accountability Act” (of Congress 2012b).^33 Similarly, Congressman Robert Brady stated that because PNTR would eliminate a source of leverage over Russia, “This legislation also creates important new tools to continue to pressure Russia to make progress on the important issue of human rights” (of Congress 2012a).

The bill’s intent was summed up in a Washington Post opinion article that was read to the U.S. Congress. The article, written by a member of the federal council of the Republican Party of Russia, stated: “The prospect of losing access to the West and its financial systems...may well be, for now, the only serious disincentive to corruption and human rights violations by Russian officials....the adoption of the Magnitsky Act has been tied to the repeal of the antiquated Jackson-Vanik Amendment, thus replacing trade sanctions against a nation with personal sanctions against specific criminals” (Kara-Murza 2012). As this article and the surrounding Congressional testimony make clear, Russia was given PNTR, but only after the U.S. had substituted toward using Russian assets as leverage over the country’s human rights policies.

---

^33Congressman Dave Camp concurred, stating, “I also fully share the concerns of many of my colleagues on Russia’s abysmal human rights record, and that’s why I support adding the Magnitsky legislation to this bill” (of Congress 2012a).
Empirical Strategy

The preceding section provides evidence that WTO membership can cause foreign policy substitution, but it could be argued that these represent isolated cases. I now provide empirical evidence that the theory holds systematically across OECD donors. Indeed, the logic of institution-driven policy substitution yields several testable hypotheses, which I now examine. First, as detailed above, respect for human rights is a primary and longstanding goal of OECD members, which they often promote by extending or revoking trade privileges. However, WTO membership curtails OECD countries’ abilities to do so by increasing the cost of trade policy discrimination. OECD countries should therefore be more likely to condition trade concessions upon rights and freedoms when partner countries are not WTO members. Accordingly, I anticipate the following:

Hypothesis 1  *OECD countries should condition their imports upon the human rights records of non-WTO members to a greater extent than they condition their imports upon the human rights records of WTO members.*

However, OECD countries are not expected to abandon their efforts to promote respect for human rights among WTO members. Instead, states should substitute towards other policy levers in rewarding respect for human rights and punishing human rights violations. Thus, OECD donor countries should be more likely to condition other policy levers upon human rights practices when partner countries are WTO members.

Hypothesis 2  *OECD countries should condition non-trade policy instruments upon the human rights records of WTO members to a greater extent than they condition non-trade policy instruments upon the human rights records of non-WTO members.*

I now test these hypothesis using data from three areas of foreign policy: international trade, bilateral foreign aid, and GSP. I select the foreign aid and GSP policy arenas to test
hypothesis two for two primary reasons. First, the examples above showed that both foreign aid allocations and GSP eligibility are frequently used tools of influence, particularly once recipients join the WTO. Second, for a long period of time and across many donors, respect for human rights has been an important criterion in determining the allocations of these policies, as I explain further below.

**Testing Hypothesis 1**

To test whether OECD countries apply conditionality to trade policies with non-WTO members to a greater extent than they with WTO members, I estimate a gravity model of bilateral trade flows. I adopt the traditional work-horse model in the trade literature, the log-linear gravity model (Dutt and Traca 2010; Eicher and Henn 2011; Goldstein, Rivers and Tomz 2007; Gowa 1995; Herz and Wagner 2006; Mansfield and Bronson 1997; Mansfield, Milner and Rosendorff 2000; Rose 2004; Tomz, Goldstein and Rivers 2007). The sample consists of directed dyads, composed of OECD importers and their trade partners who are also eligible for foreign aid. I focus on trade partners who may receive foreign aid for two reasons: First, since I am interested in foreign policy substitution, concentrating the analysis on aid recipients ensures that the importers are able to substitute toward other policies. Second, using the same sample of states to test both hypotheses allows for comparability and consistency.\(^{34}\) The model is estimated using OLS with robust standard errors, clustered at the directed dyad level. All specifications include year and directed dyad fixed effects, as fixed effects are robust to many types of misspecification and endogeneity concerns. The data contain 31 OECD states and 165 recipient states from 1981-2003.\(^{35}\)

The dependent variable, *Log Imports*, is the log of imports of the first country in a pair

\(^{34}\) Note that the results hold when the full sample of exporters is used, and also when the sample of donors is restricted to members of the Development Assistance Committee (DAC).

\(^{35}\) Trade data was generously supplied by Liu (2009), who carefully accounts for observations of zero trade flows, as well as country formation and disintegration. This data is only available through 2003.
from the second (in constant 1995 U.S. dollars) and comes from the IMF’s “Direction of Trade Statistics.” I select OECD imports as the dependent variable rather than OECD exports because when an OECD member uses its trade policies to punish a trading partner for human rights violations, it usually reduces imports on goods from that partner by increasing trade protection. In other words, imports, rather than exports, are typically conditioned upon a partner’s respect for human rights.

A key independent variable is respect for Human Rights, which is measured by the Cingranelli-Richards (CIRI) Human Rights Project (Cingranelli and Pasquarello 1985) and is scored on a 14-point scale, ranging from least to most respect for human rights. The CIRI index is compiled using annual reports from Amnesty International and the U.S. State Department, which record specific instances of human rights violations. Because the CIRI index is measured using actual violations, instead of expert opinions, it may be more credible than alternative measures. For ease of interpretation, I rescale Human Rights such that it ranges from 0, indicating no respect for rights, to 1, indicating full respect for rights. Further, the theory implies that the effect of Human Rights on trade flows differs for WTO members versus non-WTO members. To account for the conditional effect of rights, I interact Human Rights with Both in WTO, an indicator of joint WTO membership.

I also include several variables which have been shown to impact trade flows. First, countries may trade more with states that accord them special trading privileges. This is

---

36Since dropping observations of zero trade leads to bias, the dependent variable is specified as \( \log(\text{imports} + 1) \) (McCallum 1995; Raballand 2003). Summary statistics for all variables are presented in the appendix.

37This variable is constructed using the following indicators: Foreign Movement, Domestic Movement, Freedom of Speech, Freedom of Assembly and Association, Workers’ Rights, Electoral Self-Determination, and Freedom of Religion.

38I focus my analysis on formal members of the WTO, though Tomz, Goldstein and Rivers (2007) note the existence of informal members as well, which are entitled to the majority of the rights and responsibilities granted to WTO members. However, these informal members include the following groups: colonies, which did not have an independent foreign policy and therefore do not fit the theory; de facto members, who could not access the DSB and thus likely found it difficult to enforce agreements; and provincial members, who only obtained rights from members who had agreed to grant them. However, I note that the results are robust to the inclusion of informal members.
captured by \textit{RTA}, which indicates pairs that are part of a regional trade agreement (RTA), and \textit{GSP}, which indicates whether an importing country extends GSP tariff preferences to its partner.\footnote{None of the exporters in the analysis extend GSP status to OECD importer countries.} Further, for each state in a pair, I control for \textit{Log GDP} and \textit{Log GDP Per Capita}, measured in logged constant 1995 U.S. dollars.\footnote{Trade and GDP data were supplied by Liu (2009). Many gravity models include an indicator of whether only one state in a pair is a WTO member. However, since virtually all OECD members are WTO members for the sample period, this variable is collinear with the fixed effects. Additionally, since WTO members are not bound by WTO laws in their trade relations with non-member partners, only \textit{Both in \textit{WTO}} is interacted with the key independent variables.} Note that many variables often included in gravity models such as the distance between states, an indicator of a shared border, the number of islands in a pair, etc. are collinear with the fixed effects.

\textbf{TABLE 1 ABOUT HERE}

Column 1 of Table 1 presents results which comport with the hypothesis. The coefficient on \textit{Human Rights} is positive and statistically significant ($p < 0.001$) and indicates that among non-WTO trading partners, OECD countries import 317\% more from regimes that fully respect rights relative to those that do not respect rights. The estimated effect of respect for human rights on OECD imports is much smaller for WTO members and is not statistically significant ($p = 0.252$); the coefficient corresponding to respect for human rights among WTO members is only 0.211 (calculated by adding the coefficients on \textit{Human Rights} and \textit{Human Rights X WTO}), indicating that OECD members trade 23\% more with WTO members who fully respect rights than with WTO members that do not.

In addition to the results presented above, I demonstrate the robustness of my findings to a variety of alternative empirical specifications. In all specifications, I find strong support for the theory. First, we might worry about many time-varying factors specific to the importing country. For example, importers’ strategic goals, political environments, policy priorities, and a variety of other factors may change overtime. To account for these possibilities, column 2 of Table 1 presents results that also include time-varying importer fixed effects (in
addition to the year and dyad fixed effects). Second, column 3 controls for other variables that could impact whether states use trade policy to punish or reward their partners for human rights violations: \textit{Log(Foreign Aid)} measures the foreign aid given by the importer to the exporter, \textit{Post Cold War} is an indicator of the post Cold War period (beginning in 1989), and \textit{Alliance} is an indicator of a strategic military alliance.\footnote{Alliance data comes from Leeds et al. (2002), and aid data is from OECD (2011).} Finally, columns 4 and 5 use alternative measures of human rights: column 4 employs a measure of civil liberties and column 5 includes a measure of political rights, as recorded by House (2006). Civil liberties are defined as policies that “allow for the freedoms of expression and belief, associational and organizational rights, rule of law, and personal autonomy without interference from the state,” while political rights “enable people to participate freely in the political process.” These variables are again rescaled such that they range from 0, indicating no government respect for rights, to 1, indicating full government respect for rights. Since these measures are available for a longer time span than the measure used in the baseline analysis, the model is now estimated for the period 1972-2009. Additionally, since colonizers often accord special trade privileges to their colonies, I include an indicator of whether the importer is a \textit{Current Colonizer} of its partner. This indicator was collinear with the fixed effects in previous specifications, but can now be included due to the larger time frame.

\textbf{Testing Hypothesis 2}

To test whether OECD countries condition non-trade policy instruments upon the human rights records of WTO members to a greater extent than they do for non-WTO members, I examine two specific policy levers: first, I explore whether the hypothesis holds in the domain of foreign aid, and second, I test whether it helps to explain unilateral preference program eligibility.

Foreign aid serves as an ideal setting in which to test my hypothesis, as respect for hu-
man rights is commonly included in OECD criteria governing aid allocation. For example, the EU has often incorporated human rights conditionality into its foreign aid-giving, using instruments such as the The Lomé IV Convention and the Cotonou Convention, and the U.S. conditions much of its aid upon human rights through programs such as the Millennium Challenge Account. More broadly, human rights are emphasized as an important determinant of aid allocation in many OECD countries; for instance, the Millennium Development Goals for foreign aid list explicit human rights objectives.

Similarly, GSP eligibility criteria often state that recipients must respect human rights, particularly labor and worker rights. The U.S. in particular places strong emphasis on this, leading Ambassador Barshefsky to testify to the U.S. Congress that, “the GSP program has been particularly valuable in furthering...worker rights” (U.S. Congress 1995). Indeed, if U.S. GSP recipients are thought to have violated rights, interested parties may file petitions requesting an investigation into a state’s eligibility. The vast majority of petitions are filed by the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO), the largest federation of unions in the U.S., in response to perceived labor violations. These investigations represent a threat to revoke GSP, and are therefore frequently used in an attempt to induce changes in labor practices. For example, the U.S. Ambassador to Bangladesh stated, “The GSP review process can help motivate Bangladesh to reenergize its efforts on labor issues” (Embassy Dhaka 2007). Similar examples abound. Due to the

---

42The Lomé IV Convention provided financial aid to 70 African, Caribbean and Pacific countries that could be cut off from receiving aid if these countries violated the terms of the conditionality (Holland 2002). Similarly, the 2000 Cotonou Convention that replaced the Lomé agreements provided only a first tranche of aid while holding back the second tranche until compliance with conditionality was confirmed (Smith 2003).

43The U.S.'s program currently has 128 beneficiary developing countries (BDC) that face no tariffs on about 4,650 tariff lines; 43 beneficiaries are designated as least-developed countries and pay no tariffs on an additional 1,750 tariff lines.

44For instance, when the U.S. commenced an investigation of Guatemala’s labor practices in 1992, the executive director of the U.S./Guatemala Labor Education Project (U.S./GLEP), stated: “If Guatemala fails to respect basic worker rights, it will increasingly find...ever-increasing efforts to deny Guatemala access to the U.S. market.” In response to the investigation, Guatemala made many reforms to its labor practices including union recognition and increased penalties for violations of labor laws (Multinational Monitor 1993). In another case, in response to a GSP investigation in 1995, a representative of the Dominican Association of
emphasis placed on promoting respect for human rights in both GSP eligibility and foreign aid allocation, these policy areas represent instructive domains in which to test the theory.

Foreign Aid

I investigate whether OECD members substitute towards foreign aid conditionality once their partners become WTO members. I test this hypothesis using data on the foreign allocations of OECD donor states from 1981 to 2009. As above, the sample includes 31 OECD member states and 165 aid recipients. To estimate the model, I use OLS with year and directed dyad fixed effects in all specifications. The dependent variable, Log Aid Disbursements, is the logged net official development assistance (ODA) disbursements from OECD donor countries, measured in constant U.S. dollars. The key independent variables are Human Rights, measured by Cingranelli and Pasquarello (1985), and its interaction with Both in WTO, all of which are defined above.

The foreign aid literature indicates that recipient need, recipient merit, and donor interest are important factors in determining aid allocation; thus, measures of these elements should be included in any such model (Hoeffler and Outram 2011). Because recipient merit is typically measured using respect for human rights, one of my key independent variables, I focus on accounting for recipient need and donor interests. To measure recipient need, I follow Hoeffler and Outram (2011) and include measures of recipient size and wealth: Log(GDP and Log(GDP per Capita), measured in logged constant 1995 U.S. dollars, as well as Log(Population). I also include the Infant Mortality rate (per 1,000 Live Births), a

---

Free Zones testified before the U.S. Congress that the government had undertaken many labor rights reforms to prevent the loss of GSP, including: “the adoption of a New Labor Code in June 1993 (and implementing regulations in October 1993), the establishment of significant new protections for union organizers, the formation of new Labor Courts, the formation of a tripartite (government, business, and labor) Oversight Commission for the free zones, and the appointment of a new, reform-minded Minister of Labor” (U.S. Congress 1995). The representative expressed hope that these reforms would satisfy the U.S. government and would therefore reduce investigations.

45The OECD defines ODA as non-military grants and net disbursements of loans which contain at least 25% in the form of a grant. The data come from OECD (2011).
commonly used measure of need (Boone 1996; Feyzioglu, Swaroop and Zhu 1998), as well as the Government’s Share of GDP, which is often used as an indicator of aid dependence (Alesina and Weder 1999). Because recipient need also may depend on the amount of aid the recipient receives from other donors, I control for \( \log(\text{Other Aid}) \), defined as the log of the foreign aid that a recipient receives from sources other than the donor. Similarly, states receiving large amounts of \textit{FDI Inflows} may have less need for foreign aid.\(^{46}\)

In addition, I include several measures of donor interest. Since donor motivations for aid giving often depend on the donor’s strategic environment, I include an indicator of the \textit{Post Cold War} period (beginning in 1989), as the geopolitical landscape changed dramatically at the end of the Cold War (Dunning 2004). I also include an indicator of the presence of a strategic military \textit{Alliance} between the donor and recipient (Leeds et al. 2002). Additionally, since donor interests may depend on the donor’s trade relations with the recipient, I include the \( \log(\text{Imports}) \) from the recipient. Many other common indicators of donor interest, such as the donor’s colonial relationship with the recipient, global economic shocks, and geography are accounted for by the presence of dyad and year fixed effects.

TABLE 2 ABOUT HERE

Column 1 of Table 2 presents the results of the analysis, which show strong support for the hypothesis. Among non-WTO members, the relationship between human rights and foreign aid is weak and insignificant, as states that fully respect rights are only allocated about 1% more aid than states that do not respect rights. However, WTO members that show full respect for human rights receive a large and statistically significant increase in aid relative to WTO members that do not respect rights, obtaining 109% \((p < 0.001)\) more aid than repressive states receive. Figure 1 displays these results graphically, plotting the marginal effect of human rights on logged aid for WTO members versus non-members, along

\(^{46}\)All measures are from \textit{World Bank} (2011) except for Government’s Share of GDP, which is from Heston, Summers and Aten (2009).
with the associated 95% confidence intervals.

Further, I show that these results are robust to a variety of alternative model specification and coding decisions. First, column 2 accounts for any time-varying factors affecting donor strategy or aid priorities. For example, donors’ aid preferences, domestic political environment, ideology, or other factors that influence aid giving may change overtime in ways that are difficult to measure. To capture these possibilities, I include time-varying donor fixed effects in addition to the dyad and year fixed effects. Second, column 3 presents the results from re-specifying the dependent variable, which was done by averaging the dependent variable over three periods. Fourth, column 4 adds other levers of influence that donors might employ instead of foreign aid conditionality: an indicator of GSP status and an indicator of an RTA. Column 4 also includes an indicator of whether a state is a Democracy, as another potential measure of recipient merit. Finally, as above, columns 5 and 6 use alternative measures of human rights: House (2006)’s measure of civil liberties (column 5), and House (2006)’s measure of political rights (column 6). These measures are available for a wider range of years than the CIRI score, so the analysis ranges from 1972-2009.

Unilateral Preference Programs

A second area in which I expect states to substitute towards foreign aid conditionality once their partners become WTO members is in the domain of unilateral preference programs. In particular, GSP is a wide-ranging, prominent program which is explicitly used to promote human rights. Because GSP investigations are frequently used to demand improvements in recipient’s human rights records, my theory implies that these investigations should occur more often once states join the WTO. To test this hypothesis, I collected original data of all instances of U.S. GSP investigations due to worker rights concerns, which I obtained directly

\footnote{These variables are again rescaled such that they range from 0, indicating no government respect for rights, to 1, indicating full government respect for rights.}

\footnote{See Compa and Vogt (2000) for an overview.}
from the USTR. The dataset begins in 1985, the year in which worker rights were added as a criterion for GSP eligibility, and ends in 2012, the most recent year for which data is available. While I only have data on the U.S.’s program, GSP eligibility across OECD countries is correlated, such that U.S. policy is a good indicator of the policies of many of those countries (Özden and Reinhardt 2005). This correlation is due to several factors: First, U.S. GSP eligibility is influenced by “the extent to which other major developed countries are undertaking a comparable effort” (USTR 1999), and, second, many OECD countries condition GSP eligibility upon respect for human rights.49

Using this data, I first present some descriptive statistics: I compute the number of years that GSP recipients were under investigation in the area of workers’ rights, and compare the number of investigations that occurred in the five years prior to a recipient’s WTO accession to the number of investigations that occurred in the five years after that recipient joined the WTO. Thus, the sample is restricted to GSP recipients that both joined the WTO between 1985-2012, and were under investigation within a 10-year window of WTO entry; this includes 16 countries. As shown in Table 3, in the five years prior to joining the WTO, investigations occurred in only three country-years, whereas in the five years after joining, investigations occurred in 16 country-years.

TABLE THREE ABOUT HERE

While the large difference in the number of investigations conducted before versus after WTO entry is striking, I now investigate whether such a relationship between WTO membership and human rights investigations holds more systematically. The dependent variable, GSP Investigation, is an indicator of the presence of a GSP investigation on the basis on workers’ rights. The dataset contains a total of 190 country-years during which an investigation was underway. Since this variable is binary, I conduct the analysis using logistic

49For example, the EU also conditions GSP eligibility on workers’ rights and, consequently, investigates many of the same countries that the U.S. investigates, such as Pakistan in 1997, El Salvador in 2008, and many others (Orbie 2011).
regression. All specifications include year and county fixed effects.

The key independent variable is an indicator of whether the recipient is a member of the WTO. I also control for several other variables that could impact the decision to investigate a country’s GSP eligibility, specifically where this concerns workers’ rights. First, such a decision should depend on the country’s workers’ rights record. I therefore control for *Workers’ Rights*, which is measured by Cingranelli and Pasquarello (1985) on a scale from 1, indicating no respect for rights, to 3, indicating full respect. Second, a recipient may be more to be investigated if it is less likely to meet eligibility criteria for other reasons. The GSP guidelines explicitly state that eligibility depends on economic development; therefore, I include measures of \( \log(GDP) \) and \( \log(GDP \text{ per Capita}) \). The guidelines also highlight the importance of trade openness, so I control for a recipient’s total *Imports* and *Exports*, which are common measures of openness.\(^5\) I also include *Terms of Trade*, the ratio of the price of exportable goods to that of importable goods, since this is an observable indicator often used to evaluate GSP eligibility (Grossman and Sykes 2005; JOC staff 2013).\(^5\)

**TABLE FOUR ABOUT HERE**

Table 4 demonstrates that the hypothesis is borne out by the data. WTO membership increases the likelihood of investigation strongly and significantly: the coefficient on WTO, 1.462, indicates that for WTO members, the odds of an investigation increases by 4.314 relative to non-WTO members. Reassuringly, improvements in workers’ rights strongly and significantly decreases the likelihood of a GSP investigation based on violations of workers’ rights.

Column 2 adds additional variables that may impact whether an investigation occurs. First, I include measures that may reflect the U.S.’s economic relationship with the recipient, including *U.S. Aid*, *Total Aid*, *U.S. Imports*, and *FDI Inflows*. I also control for the *Post*

\(^5\)Imports, exports, and GDP are used to calculate Deardorff’s “openness index.”

\(^5\)All economic data come from *World Bank* (2011).
Cold War period (beginning in 1989), as this may impact the strategic environment. Finally, I include a measure of Property Rights Enforcement, which is sometimes considered when determining GSP eligibility, along with Economic Growth. The results remain statistically and substantively significant.

Conclusion

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

Analysis of the unintended consequences of institutions is not only important for a more complete understanding of their general benefits, but also for discerning the distribution of those benefits. For example, this article focuses on the effect of WTO membership on foreign policy selection, finding that membership politicizes other levers of influence. An implication of this result is that the indirect effects of the WTO differ for powerful and weak states. For powerful states, who frequently seek to influence their partners, the WTO restricts the use of trade policies as a lever of influence, causing substitution toward potentially less desirable
tools. For weak states, the WTO increases the political requirements necessary to receive benefits such as foreign aid, unilateral trade preferences, loans, FDI, etc. These two types of states therefore face distinct trade-offs from WTO membership.

Further, recognition of the substitutability of levers of influence contributes to the large literature examining the motivations underlying foreign policy selection. This article suggests that policy selection depends on the entire bundle of available policies, which is shaped by membership in international institutions. Incorporation of this important source of heterogeneity provides a more complete picture of the calculus by which states select policies from an array of policy options. This paper therefore demonstrates that cognizance of the larger institutional environment within which states operate is essential for understanding interstate behavior.
References


35


Biden, Joseph. 1997. URGENT CALL FOR RESTORATION OF DEMOCRACY IN CAMBODIA. Senate.


Hollyer, James and Bryan Rosendorff. 2011. “Why do authoritarian regimes sign the convention against torture? Signaling, domestic politics and non-compliance.” *Signaling, Domestic Politics and Non-Compliance (June 1, 2011)*.


Mccain, John. 1996. EXTENDING MOST-FAVORED-NATION TREATMENT FOR CAMBODIA. Senate.


Orbie, J. 2011. “Promoting labour standards through trade: normative power or regulatory state Europe?”.


*Relative to Cambodia Human Rights Record.* 1996. Congressional Record.


Roth, Toby. 1996. Relative to Cambodia Human Rights Record. Congressional Record.


Thomas, Craig. 1996. DEMOCRACY IN CAMBODIA. Senate.


Verdeja, L. 2006. “EUs Preferential Trade Agreements With Developing Countries Revisited.” *Unpublished, University of Nottingham, School of Economics*.


### Table 1: Effects of WTO and Human Rights on Imports

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Rights X WTO</td>
<td>-1.217***</td>
<td>-1.204***</td>
<td>-1.223***</td>
<td>-0.173**</td>
<td>-0.111*</td>
</tr>
<tr>
<td></td>
<td>(0.337)</td>
<td>(0.331)</td>
<td>(0.337)</td>
<td>(0.062)</td>
<td>(0.048)</td>
</tr>
<tr>
<td>Human Rights</td>
<td>1.428***</td>
<td>1.478***</td>
<td>1.434***</td>
<td>1.158***</td>
<td>0.538</td>
</tr>
<tr>
<td></td>
<td>(0.343)</td>
<td>(0.340)</td>
<td>(0.343)</td>
<td>(0.336)</td>
<td>(0.278)</td>
</tr>
<tr>
<td>Both in WTO</td>
<td>0.659**</td>
<td>0.640**</td>
<td>0.669**</td>
<td>0.695**</td>
<td>0.517*</td>
</tr>
<tr>
<td></td>
<td>(0.251)</td>
<td>(0.245)</td>
<td>(0.251)</td>
<td>(0.230)</td>
<td>(0.204)</td>
</tr>
<tr>
<td>Log(GDP$_i$)</td>
<td>8.070***</td>
<td>8.461***</td>
<td>11.169***</td>
<td>11.123***</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(1.750)</td>
<td>(1.813)</td>
<td>(1.472)</td>
<td>(1.473)</td>
<td></td>
</tr>
<tr>
<td>Log(GDP$_j$)</td>
<td>1.465*</td>
<td>1.658**</td>
<td>1.371*</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.634)</td>
<td>(0.627)</td>
<td>(0.638)</td>
<td>(0.532)</td>
<td></td>
</tr>
<tr>
<td>Log(GDP per Capita$_i$)</td>
<td>-8.204***</td>
<td>-8.668***</td>
<td>-11.924***</td>
<td>-11.890***</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(1.893)</td>
<td>(2.079)</td>
<td>(1.963)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Log(GDP per Capita$_j$)</td>
<td>0.629</td>
<td>0.475</td>
<td>0.717</td>
<td>1.556**</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.574)</td>
<td>(0.567)</td>
<td>(0.702)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>RTA</td>
<td>0.236</td>
<td>0.300*</td>
<td>0.247</td>
<td>-0.138</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.139)</td>
<td>(0.143)</td>
<td>(0.140)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GSP</td>
<td>0.291</td>
<td>0.271</td>
<td>0.314</td>
<td>0.593***</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.181)</td>
<td>(0.204)</td>
<td>(0.184)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Currently Colonizer</td>
<td>-6.087***</td>
<td>-6.111***</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(1.483)</td>
<td>(1.506)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Alliance</td>
<td>-0.612*</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.277)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Log(Foreign Aid)</td>
<td>0.007</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.006)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Post Cold War</td>
<td>-0.767*</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.369)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>-81.071***</td>
<td>-83.113***</td>
<td>-106.764***</td>
<td>-106.242***</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(18.535)</td>
<td>(19.894)</td>
<td>(15.406)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>R-Squared</td>
<td>0.755</td>
<td>0.7935</td>
<td>0.755</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>37320</td>
<td>37844</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>50546</td>
<td>50546</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Notes:** Estimates from OLS regression. The unit of observation is the directed dyad-year and the dependent variable is the natural log of (imports +1). The data in columns 1-3 cover the years 1981-2003, and the data in columns 4-5 cover the years 1972-2003. Robust standard errors, clustered by directed dyad, appear in parentheses. All models include year and directed dyad fixed effects, which are not shown. "**", "***", and "****" denote $p < 0.05$, $p < 0.01$, and $p < 0.001$ respectively.
Table 2: Effects of WTO and Human Rights on Foreign Aid

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Rights X WTO</td>
<td>0.725*</td>
<td>0.726*</td>
<td>0.795*</td>
<td>0.888*</td>
<td>0.105***</td>
<td>0.079***</td>
</tr>
<tr>
<td></td>
<td>(0.368)</td>
<td>(0.350)</td>
<td>(0.382)</td>
<td>(0.372)</td>
<td>(0.028)</td>
<td>(0.023)</td>
</tr>
<tr>
<td>Human Rights</td>
<td>0.013</td>
<td>0.053</td>
<td>0.035</td>
<td>-0.071</td>
<td>0.450**</td>
<td>0.302*</td>
</tr>
<tr>
<td></td>
<td>(0.322)</td>
<td>(0.308)</td>
<td>(0.317)</td>
<td>(0.323)</td>
<td>(0.160)</td>
<td>(0.133)</td>
</tr>
<tr>
<td>Both in WTO</td>
<td>-0.167</td>
<td>-0.107</td>
<td>-0.494</td>
<td>-0.355</td>
<td>-0.119</td>
<td>-0.039</td>
</tr>
<tr>
<td></td>
<td>(0.263)</td>
<td>(0.249)</td>
<td>(0.272)</td>
<td>(0.266)</td>
<td>(0.099)</td>
<td>(0.087)</td>
</tr>
<tr>
<td>Log(GDP)</td>
<td>2.662***</td>
<td>2.232***</td>
<td>2.329**</td>
<td>2.444**</td>
<td>2.463***</td>
<td>2.255***</td>
</tr>
<tr>
<td></td>
<td>(0.726)</td>
<td>(0.631)</td>
<td>(0.779)</td>
<td>(0.748)</td>
<td>(0.389)</td>
<td>(0.389)</td>
</tr>
<tr>
<td></td>
<td>(0.727)</td>
<td>(0.632)</td>
<td>(0.781)</td>
<td>(0.749)</td>
<td>(0.389)</td>
<td>(0.388)</td>
</tr>
<tr>
<td>Government Share of GDP</td>
<td>-0.005***</td>
<td>-0.005***</td>
<td>-0.004***</td>
<td>-0.005***</td>
<td>-0.004***</td>
<td>-0.004***</td>
</tr>
<tr>
<td></td>
<td>(0.001)</td>
<td>(0.001)</td>
<td>(0.001)</td>
<td>(0.001)</td>
<td>(0.000)</td>
<td>(0.000)</td>
</tr>
<tr>
<td>FDI Inflows</td>
<td>0.004</td>
<td>0.004</td>
<td>0.005*</td>
<td>0.003</td>
<td>0.003</td>
<td>0.003</td>
</tr>
<tr>
<td></td>
<td>(0.003)</td>
<td>(0.003)</td>
<td>(0.002)</td>
<td>(0.003)</td>
<td>(0.002)</td>
<td>(0.002)</td>
</tr>
<tr>
<td>Infant Mortality Rate</td>
<td>-0.021***</td>
<td>-0.016***</td>
<td>-0.019***</td>
<td>-0.022***</td>
<td>-0.014***</td>
<td>-0.014***</td>
</tr>
<tr>
<td></td>
<td>(0.005)</td>
<td>(0.005)</td>
<td>(0.006)</td>
<td>(0.005)</td>
<td>(0.002)</td>
<td>(0.002)</td>
</tr>
<tr>
<td>Log(Other Aid)</td>
<td>0.090***</td>
<td>0.093***</td>
<td>0.070***</td>
<td>0.094***</td>
<td>0.106***</td>
<td>0.104***</td>
</tr>
<tr>
<td></td>
<td>(0.017)</td>
<td>(0.017)</td>
<td>(0.016)</td>
<td>(0.018)</td>
<td>(0.007)</td>
<td>(0.007)</td>
</tr>
<tr>
<td>Log(Imports)</td>
<td>0.021**</td>
<td>0.002</td>
<td>0.017*</td>
<td>0.023**</td>
<td>0.005</td>
<td>0.006</td>
</tr>
<tr>
<td></td>
<td>(0.008)</td>
<td>(0.007)</td>
<td>(0.008)</td>
<td>(0.008)</td>
<td>(0.004)</td>
<td>(0.004)</td>
</tr>
<tr>
<td>Post Cold War</td>
<td>-0.151</td>
<td>-1.064***</td>
<td>-0.899**</td>
<td>0.687</td>
<td>0.733</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.269)</td>
<td>(0.286)</td>
<td>(0.281)</td>
<td>(0.571)</td>
<td>(0.571)</td>
<td></td>
</tr>
<tr>
<td>Log(Population)</td>
<td>3.654***</td>
<td>2.870***</td>
<td>2.365*</td>
<td>3.189***</td>
<td>2.305***</td>
<td>2.056***</td>
</tr>
<tr>
<td></td>
<td>(0.890)</td>
<td>(0.747)</td>
<td>(0.936)</td>
<td>(0.917)</td>
<td>(0.400)</td>
<td>(0.399)</td>
</tr>
<tr>
<td>Alliance</td>
<td>-0.502</td>
<td>-0.039</td>
<td>-0.335</td>
<td>-0.307</td>
<td>-0.275</td>
<td>-0.298</td>
</tr>
<tr>
<td></td>
<td>(0.780)</td>
<td>(0.787)</td>
<td>(0.786)</td>
<td>(0.752)</td>
<td>(0.155)</td>
<td>(0.155)</td>
</tr>
<tr>
<td>Democracy</td>
<td>-0.101</td>
<td>(0.110)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GSP</td>
<td>0.973*</td>
<td>(0.388)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RTA</td>
<td>-0.072</td>
<td>(0.352)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(2.107)</td>
<td>(6.350)</td>
<td>(5.768)</td>
<td>(1.614)</td>
<td>(1.614)</td>
<td></td>
</tr>
<tr>
<td>Year and Dyad Effects</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>R-Squared</td>
<td>0.597</td>
<td>0.688</td>
<td>0.606</td>
<td>0.557</td>
<td>0.557</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>49625</td>
<td>49625</td>
<td>41040</td>
<td>46664</td>
<td>59013</td>
<td>59013</td>
</tr>
</tbody>
</table>

Notes: Estimates from OLS regression. The unit of observation is the directed dyad-year and the dependent variable is the natural log of (ODA +1). The data in columns 1-4 cover the years 1981-2003, and the data in columns 4-6 cover the years 1972-2003. Robust standard errors, clustered by directed dyad, appear in parentheses. All models include year and directed dyad fixed effects, which are not shown. Dummy indicating missing import data is also not shown. “*” , “**”, and “***” denote p < 0.05, p < 0.01, and p < 0.001 respectively.
Table 3: Years Under GSP Investigation Before and After WTO Entry

<table>
<thead>
<tr>
<th>Years Under Investigation</th>
<th>5 Years Pre WTO Entry</th>
<th>5 Years Post WTO Entry</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3</td>
<td>16</td>
</tr>
</tbody>
</table>
Table 4: Effects of WTO on GSP Human Rights Investigations

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Both in WTO</td>
<td>1.462*</td>
<td>1.546*</td>
</tr>
<tr>
<td></td>
<td>(0.658)</td>
<td>(0.751)</td>
</tr>
<tr>
<td>Log(GDP)</td>
<td>6.800*</td>
<td>6.406</td>
</tr>
<tr>
<td></td>
<td>(3.039)</td>
<td>(3.357)</td>
</tr>
<tr>
<td>Log(GDP per Capita)</td>
<td>-5.821*</td>
<td>-4.629</td>
</tr>
<tr>
<td></td>
<td>(2.822)</td>
<td>(3.347)</td>
</tr>
<tr>
<td>Exports</td>
<td>0.069*</td>
<td>0.072*</td>
</tr>
<tr>
<td></td>
<td>(0.033)</td>
<td>(0.036)</td>
</tr>
<tr>
<td>Imports</td>
<td>-0.088**</td>
<td>-0.094*</td>
</tr>
<tr>
<td></td>
<td>(0.033)</td>
<td>(0.037)</td>
</tr>
<tr>
<td>Terms of Trade</td>
<td>-0.008</td>
<td>-0.011</td>
</tr>
<tr>
<td></td>
<td>(0.006)</td>
<td>(0.008)</td>
</tr>
<tr>
<td>Workers’ Rights</td>
<td>-1.056***</td>
<td>-1.231***</td>
</tr>
<tr>
<td></td>
<td>(0.280)</td>
<td>(0.307)</td>
</tr>
<tr>
<td>Economic Growth</td>
<td>-0.005</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.041)</td>
<td></td>
</tr>
<tr>
<td>FDI Inflows</td>
<td>-0.031</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.070)</td>
<td></td>
</tr>
<tr>
<td>Log(U.S. Aid)</td>
<td>-0.109**</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.034)</td>
<td></td>
</tr>
<tr>
<td>Total Aid</td>
<td>-0.000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.000)</td>
<td></td>
</tr>
<tr>
<td>Post Cold War</td>
<td>-15.127*</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(6.498)</td>
<td></td>
</tr>
<tr>
<td>Log(U.S. Imports)</td>
<td>0.284</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(18.839)</td>
<td></td>
</tr>
<tr>
<td>Security of Property Rights</td>
<td>-0.445</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.236)</td>
<td></td>
</tr>
<tr>
<td>Log likelihood</td>
<td>-157.715</td>
<td>-141.121</td>
</tr>
<tr>
<td>Chi Sq</td>
<td>73.960</td>
<td>100.860</td>
</tr>
<tr>
<td>N</td>
<td>593</td>
<td>577</td>
</tr>
</tbody>
</table>

Notes: Estimates from logistic regression. The unit of observation is the directed dyad-year and the dependent variable is an indicator of the presence of a GSP investigation. The data cover the years 1985-2009. All models include year and directed dyad fixed effects, which are not shown. Dummies indicating missing import data and missing property right data is also not shown. “*”, “**”, and “***” denote p < 0.05, p < 0.01, and p < 0.001 respectively.
Figure 1: OLS regression estimates of the effect of full respect for human rights relative to no respect for human rights on logged imports and logged aid, conditional on WTO membership. Estimates presented with 95% confidence intervals.
Supplemental Appendix

WTO and Cooperation

The WTO in particular represents a large, multilateral trading arrangement whereby all states agree to provide their trading partners with the same low tariff rates, known as Most Favored Nation (MFN) treatment. WTO members may not discriminate by offering some trading partners better tariff treatment than others, although several exceptions exist to these rules, which I discuss below. Commitments made to other states are enforced by the WTO’s Dispute Settlement Body (DSB), which adjudicates disputes between members. Potential violations of WTO laws are often identified by industries that have a stake in parties’ compliance with those laws, after which the government decides whether to take the case to the WTO. Once one party has initiated a complaint against another, the two parties begin consultations. If they are unable to reach an agreement, a panel is formed, consisting of three expert judges chosen from the member states and nominated by those states. Third parties may also participate in a case if they have a “substantial interest” in the outcome. The DSB may authorize retaliation against the offending party, after which it monitors compliance with the ruling. In this way, the court can resolve uncertainties about the law, provide the authority to retaliate, and allow states to develop reputations for compliance.

An important feature of the WTO’s impact on states’ reputations is that it ensures transparency in compliance with the law in several ways. First, it publicizes the cases brought before it along with the rulings, so that all members learn which states were found to be in violation, and whether they complied with the court. Second, it regularly monitors compliance with international law through trade policy reviews. Reviews are conducted

\[52\text{The DSB was strengthened when the GATT became the WTO in 1995, such that an appellate body was formed, strict timetables were established, and parties could no longer veto the adoption of a panel.}\]
every two years on the trading practices of the biggest traders, the U.S., EU, China and Japan: every four years for the next 16 largest traders: and every six years for the smallest traders. Third, the WTO requires states to provide notification of changes in their trade policies that would affect other members.

The DSB therefore provides WTO participants with “a guarantee for the right to negotiate, a common standard for evaluating outcomes, the option for several countries to join a dispute, and incentives for states to change a policy found to violate trade rules” (Davis 2006). By developing norms and behaviors that states are expected to follow and by specifying whether states are compliant or non-compliant, the DSB impacts members’ reputations, which serves as an effective restraint in many settings (Tomz 2007). Developing a reputation for cooperation encourages continued cooperation in the future. Conversely, if countries are known to be frequent violators, their partners may reduce cooperation with them by withdrawing trade concessions, becoming more reluctant to enter agreements, or becoming less cooperative in related areas (Maggi 1999). Additionally, the WTO provides systemic incentives for cooperation: if a country often breaches WTO law, what is to prevent its trading partners from recurrent violations? This could lead to a breakdown of the system as a whole— an outcome which many states have a strong incentive to avoid. Finally, WTO rulings can provide countries with domestic political cover for adhering to agreements (Allee and Huth 2006; Staiger and Tabellini 1999) and an ability to develop domestic reputations for compliance (Mansfield, Milner and Rosendorff 2002).

The loss of reputation before the large audience of WTO members appears to be a strong deterrent, as there are many examples of the WTO helping to uphold agreements between powerful and weak states. Powerful states have shown high rates of compliance with WTO rulings on cases brought by weak states (Busch and Reinhardt 2003, 2004; Davis 2006; Wilson 2007). Additionally, Busch, Raciborski and Reinhardt (2009) shows that large WTO members reduce protectionist practices against small members in particular. Further,
evidence shows that stock prices respond to WTO rulings, indicating that investors anticipate compliance (Busch, Raciborski and Reinhardt 2009).\footnote{An example is the movement in the stock price of Chiquita bananas after the WTO ruling that the EU had to lower tariffs on them.} Often, the mere threat of a WTO case can lead to compliance with WTO law. For example, Japan threatened to file a case against the U.S. in 1995 in response to U.S. threats regarding Japanese automobiles, after which the U.S. backed down (Davis 2012). By improving members’ abilities to commit to agreements, the WTO can help countries to limit political hold-up problems.

Indeed, members certainly seem to believe that the WTO can enable their partners to commit to agreements. Consider the U.S. Congress’ discussion of the potential benefits from Russia’s recent WTO accession. Congressman Sandy Levin argued that Russia’s entry would benefit the U.S. because “now that they’re in the WTO...when they violate the requirements, there’s a dispute settlement system that can be enforced.” Similarly, Congressman Howard Berman argued that without the constraints imposed by the WTO, “we have no idea how Russia will treat our U.S. exports and we will have no way to hold them accountable” (of Congress 2012a). Senator Portman stated, “By joining [the WTO], Russia did agree to abide by a certain set of common rules, and when they break those rules, other countries can then take them to court and help hold their feet to the fire” (of Congress 2012a).

\section*{WTO and Conditionality}

While the previous section discussed incentives for adhering to WTO law, this section now discusses WTO law with regard to policy conditionality. The WTO limits trade policy conditionality by restricting unilateral discrimination against specific trade partners. Outside of the WTO, states often use their trade policies to punish or reward trading partners.\footnote{Note that there is a large legal debate regarding WTO members’ abilities to restrict trade due to human rights concerns (Ala’i 2000; Appleton 2000; Bhagwati 1998; Cleveland 2001; Cohn 2000; Howse and Mutua 2000; Lim 2001; Marceau 2002; Petersmann 2000; Qureshi 1998; Stirling 1996). However, I simply claim that the WTO makes restricting trade for these types of reasons more costly, as explained below.} How-
ever, WTO members must agree to accord all other members MFN tariffs. Several exceptions to this rule exist, which either allow countries to implement additional trade restrictions, or enable them to offer concessions beyond those guaranteed by WTO membership. Consider the exceptions which permit additional trade restrictions. Although Articles I and XI of the GATT prohibit discriminatory trade restrictions, exceptions to the rule are given by Article XXI, which states that GATT laws are subordinate to the United Nations (UN) Charter. If the UN votes to sanction a specific country, WTO members may abide by the decision. Importantly, unilateral action is not covered by this exception. UN decisions are multilateral in nature, and therefore do not permit individual countries to sanction partners without UN approval (Zagel 2004). Securing approval can be difficult and time-consuming, resulting in many instances where a country would like to administer sanctions but is not able to obtain UN agreement.

Article XXI also contains a national security exception stating that “nothing in this Agreement shall be construed to...prevent any contracting party from taking any action which it considers necessary for the protection of its essential security interests.” At first glance, this seems like an extremely permissive exception. Yet countries have been very cautious about invoking the security exception due to fears about its potential to undermine the trading system. For example, in 2007, the U.S. sought to use Article XXI to clarify that it does not have WTO gambling commitments, for which the EU sought compensation. The U.S. and EU reached an agreement, and in a declassified cable from then-Secretary of State Condoleezza Rice, the U.S. stated that it “shared the systemic concerns expressed by the EU and a number of other claimants about setting any precedent that might encourage misuse of Article XXI by WTO Members. The United States therefore agreed that in order to address the overall systemic concerns, it would make an offer for compensatory adjustment” (Rice Dec 10, 2007). Countries have clearly exercised considerable restraint regarding the use of the security exception, as there have been very few cases where the exception has been
invoked.\textsuperscript{55} According to an official with extensive experience in U.S. trade policy, “The bar is high for the national security exemption. If the bar is too low, the [WTO] system falls apart. Countries must believe in a stable, predictable environment.”\textsuperscript{56} Thus, although this tool is technically available to justify discriminatory policies, countries must carefully weigh the gains of invoking the exception against the risks posed to the WTO as a whole.

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

Exceptions also exist which permit preferential trade schemes. Under the Enabling Clause, countries may grant each other extra concessions as part of a preferential trade

\textsuperscript{55}The United States used the exception to defend its import ban on Czechoslovakia during the second year of the GATT; Sweden tried to use it to justify a 1975 import quota on footwear but instead revoked the quota; the EEC, Australia and Canada used it to defend a 1982 two-month ban on Argentinian goods after Argentina’s annexation of the Falkland Islands, although no dispute panel was convened; the U.S. used it to justify a 1985 trade and transactions ban on Nicaragua, although the panel refused to rule on the dispute; and the U.S. invoked it to justify the 1996 Helms-Burton Act embargo on Cuba, though the parties reached an agreement and the WTO proceedings were dropped (Guide to GATT Law and Practice (Analytical Index) 1995).

\textsuperscript{56}Interview by author. February 22, 2012.
agreement, and may provide programs such as Generalized System of Preference schemes and EU development agreements, which offer lower tariffs for developing countries (Hafner-Burton 2009). While these types of trade concessions may be conditioned upon a partner’s policies, such as its human rights record, they often provide limited leverage over partner countries since the maximum penalty that a country can exact unilaterally is the repeal of the preference program. In other words, the WTO sets an upper bound on states’ abilities to punish partners, as states can withhold preferential treatment, but must grant MFN status regardless (Jones 2008). Because the WTO limits the ability of states to lower their tariffs below MFN levels, these states often substitute towards other forms of conditionality.

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