

The political-economy of trade agreements

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Overview

Part 1

- Selected research on the World Trade Organization
 - The Politicization of the WTO Appellate Body
- Selected research on Preferential Trade Agreements
 - Are PTAs copy-pasted?

Part 2

- The Trump Doctrine in Trade Policy and Its (Current) Implications

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WTO

- The role of International Organizations
- Keohane (1984)
 - Platform of negotiation – transaction cost story
 - Provides transparency and monitoring to expose non-cooperation (free-riding)
 - Enforcement is needed for commitments to be credible
- Neoliberal institutionalism

Research on the WTO

- Explaining success of Uruguay Round negotiations and creation of the WTO
- Growing disinterest in negotiations as of late 1990s
- Big trade rounds do not work (single undertaking)
- Explaining dead-lock
 - Development (eye of the beholder)
 - Emerging economies (more influential voices)
 - Moving from tariff negotiations to behind-the-border norms and standards
 - Decision-making
 - China

Research on the WTO

- The WTO dispute settlement system (panels and Appellate Body): the surprise outcome of the UR negotiations – legalization leap
- Increased attention paid to dispute settlement:
 - Most claims win, compliance records high
- Why cases occur?
- Quantitative studies on DS
 - What matters: trade flows, retaliation power, legal capacity
- Qualitative studies on DS:
 - The missing LDC cases – power (e.g. Elsig and Stucki 2012)

Research on the WTO

- The growing importance of WTO litigation (distributional consequences)
- Effect: The increasing politicization of the dispute settlement system
- Where mostly visible:
- The nomination and selection procedures of Appellate Body members (Elsig and Pollack 2014)

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The WTO Appellate Body as trustee or agents?

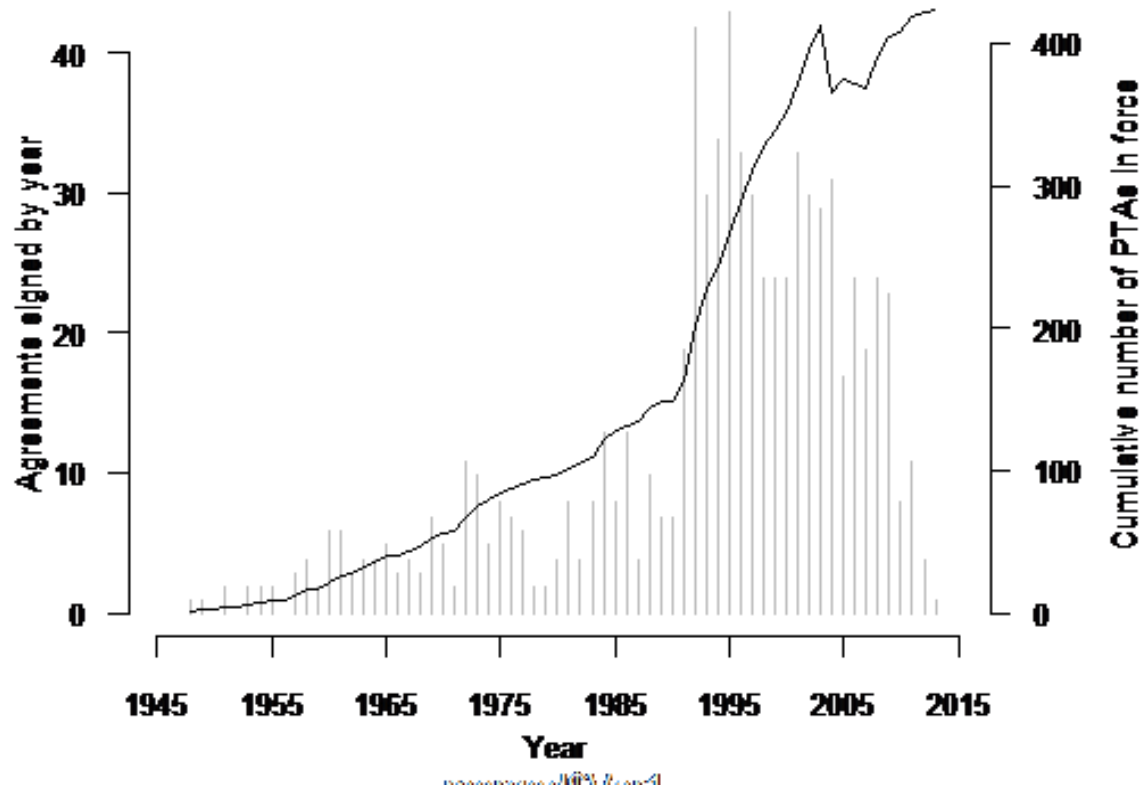
Our argument:

- Principals will attempt to use their powers in nomination and appointment to shape the preferences of the judicial candidates, rather than basing their decisions solely on the personal reputation and expertise of judicial candidates.
- Selective vs. full representative courts: strategic interaction over a two-stage period (nomination and selection)
politicization

WTO - Summary

- Increasing Asymmetry between rule-making and enforcement
- Has Legalization gone too far
- Positive assessment (economic and financial crises)
- Growing US criticism (Obama)
- Trump...

Preferential Trade Agreements

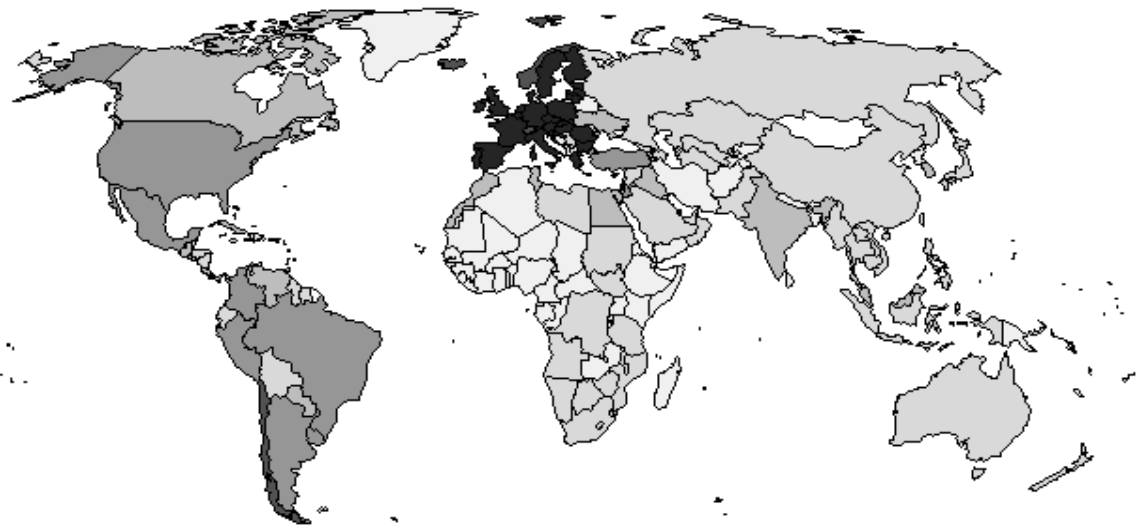


Universal Phenomenon

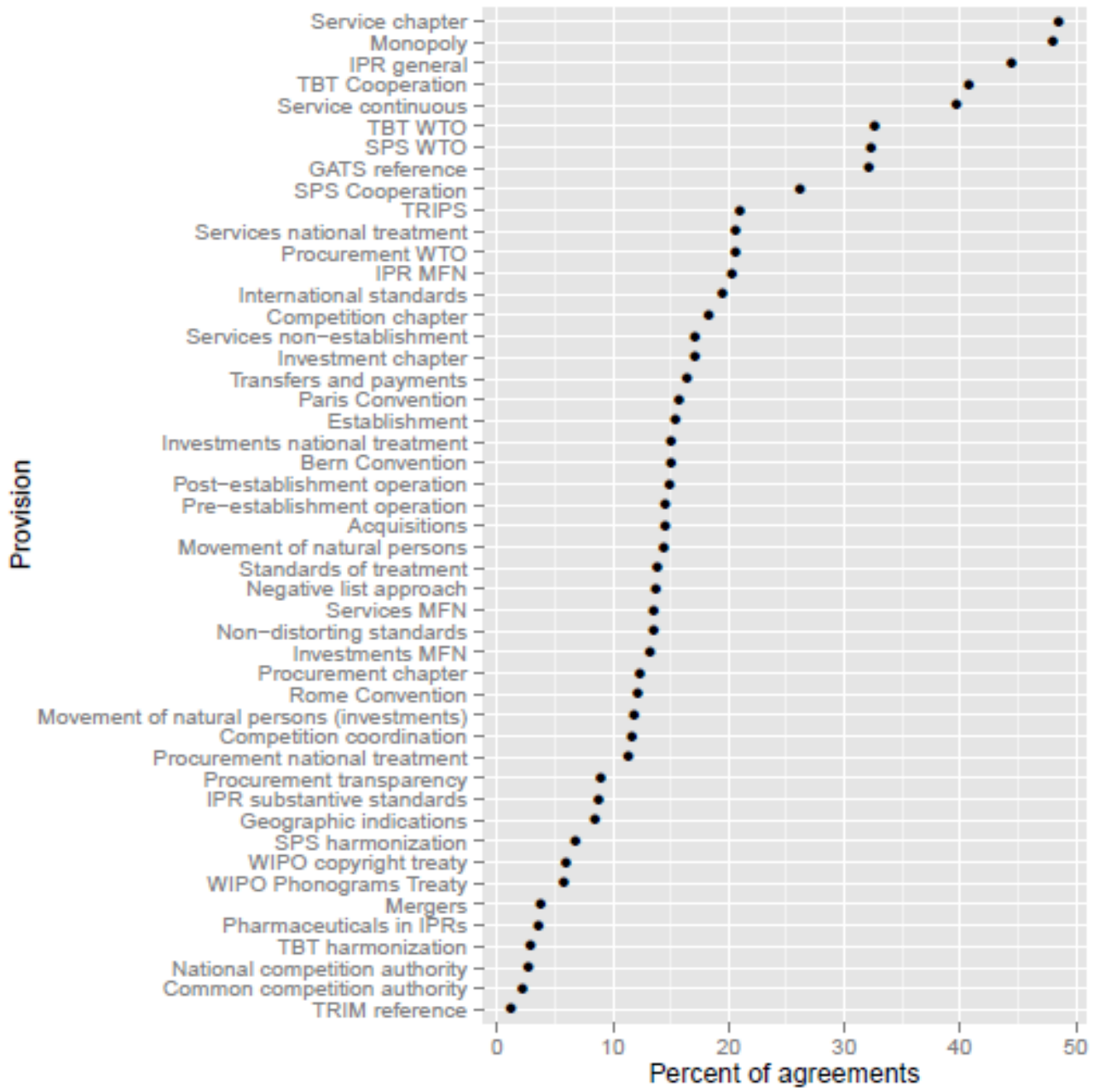
1992



2013



0 1-5 6-10 11-15 16-20 21-25 26-30 31+



Depth

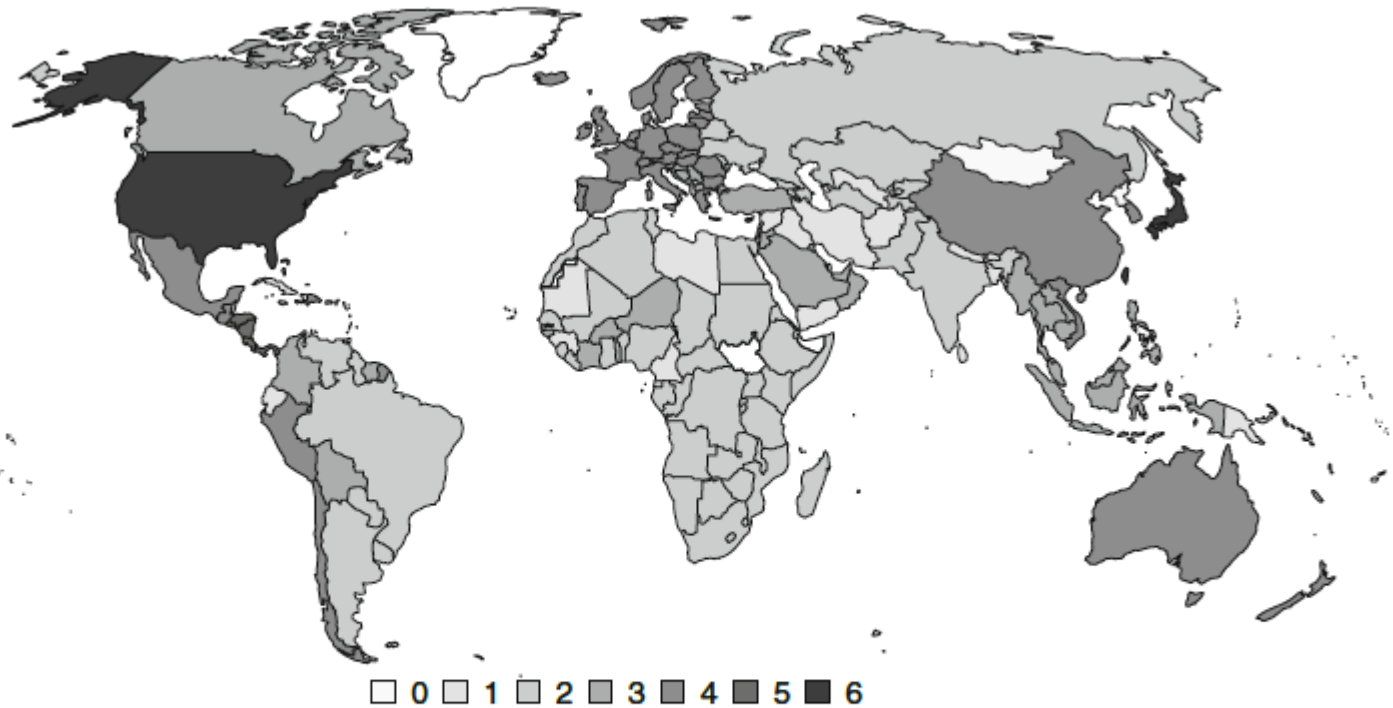


Fig. 6 Depth across countries. The map shows the average depth (index) by country of the agreements that were still active as of 2009. The map looks virtually the same when using the depth measure that relies on latent trait analysis

The political economy of PTAs: economic debates

- Trade diversion vs. trade creation
- Stumbling bloc vs. stepping stone
- Unbundling – locating lobbying!

Unbundling

- Unbundling of factories/offices
- Trade costs for goods, people, ideas fall rapidly
- Trade in tasks, not only in goods
- After the mid 1980s
- IT as driver, transport costs, regulatory systems..
- Effects: winners and losers from globalization more difficult to locate (not industry, sector but **firm-level**)

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Offshoring of tasks within the production

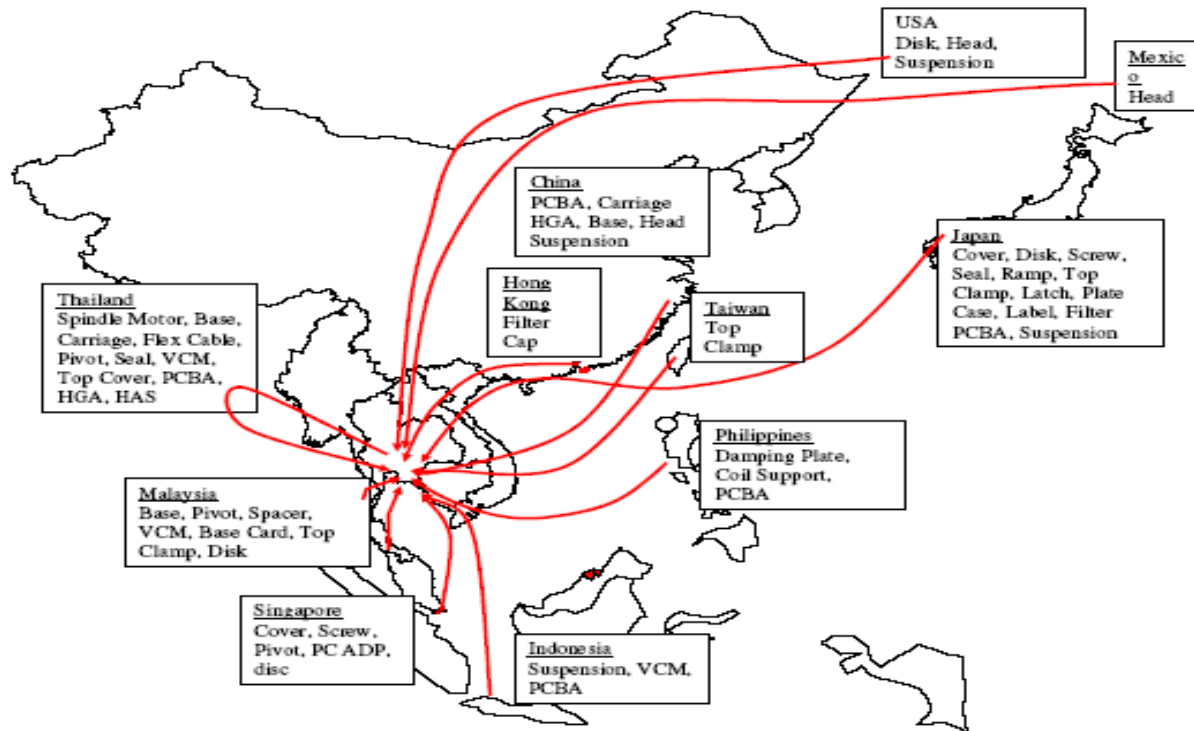


Figure 12: An example of global production unbundling in an IT good.

Note: This shows the nations where parts are sourced for a hard-disk drive assembled in Thailand; the disk drives are then shipped on to various markets to be used in various electronic goods.

Source: Baldwin (2006, a) adapted from Hiratsuka (2005).

Political economy explanations: Interest groups

- PTAs as a mechanism to lock-in reforms
 - Mexico and NAFTA
 - EU enlargement
- PTAs satisfy domestic political constituencies
 - Demand for market access (rent-seeking)
 - Exporter discrimination (domino effect)
 - Import-dependent firms' demand in a world of GVC
 - (Baccini, Dür, Elsig 2018)

Security-type explanations: old and new security agenda

- Improvement of inter-state relations
 - Security concerns within a region (e.g. EC)
 - Communist threat (ASEAN, Indonesia-Malaysia-relations)
- The New Security agenda
 - Environment, migration (e.g. NAFTA)
 - Access to resources (China)
- Granting market access to allies (US-Colombia PTA)
- TPP and TTIP (Obama's approach vis-a-vis China)

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Research on PTAs

- Why do states select into PTAs
- What explains the design of PTAs?
- What explains the diffusion of PTA templates over time and across space?
- How do PTAs impact on economic variables and political variables

Selected Research on Depth of PTAs

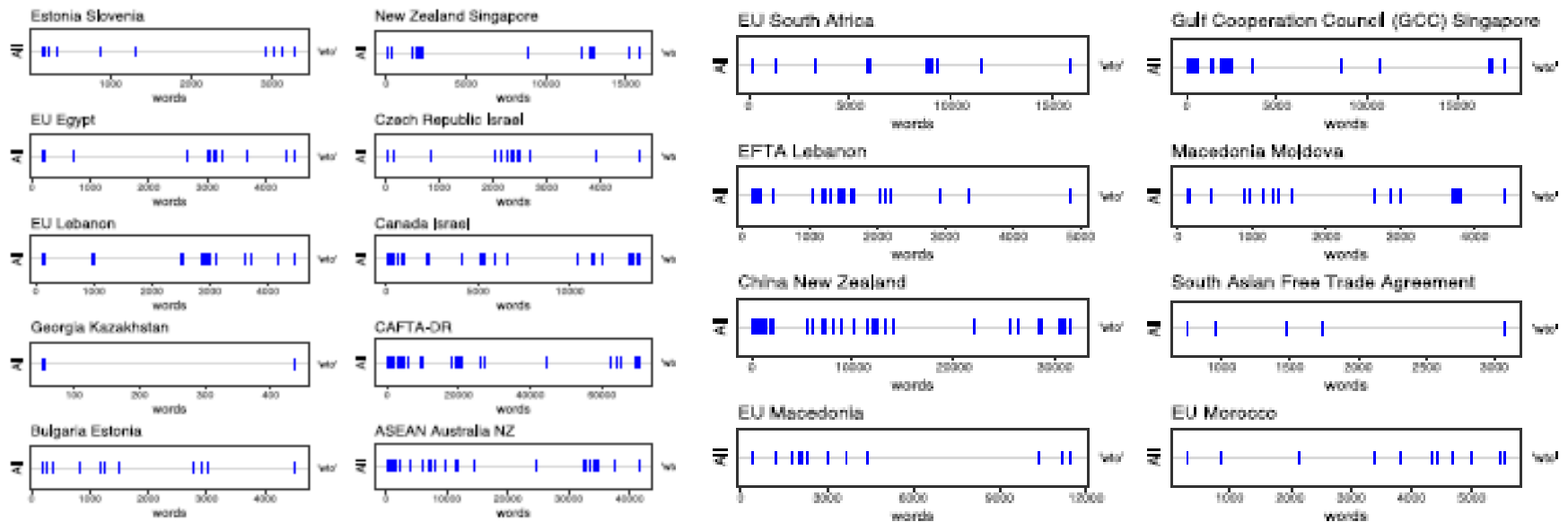
- Design:
- Deeper agreements have stronger enforcement mechanisms
 - Allee and Elsig 2016
- Deeper agreements are more flexible, in particular relationship holds for democratic countries
 - Baccini, Dür and Elsig 2015
- Deeper agreements create greater trade flows effects (including anticipatory effects)
 - Dür, Baccini and Elsig 2014

Are PTAs copy-pasted? (forthcoming Allee and Elsig)

- PTAs vary along many features: depth, flexibility and enforcement, but how much copy-pasting is happening in PTAs? Why would Asian PTAs have strong dispute settlement provisions?
- Copying: Public procurement annex to Canada-Peru PTA
- Uniqueness: Singapore permitting limited imports of U.S. chewing gum in their bilateral PTA.

Motivation

- WTO Presence in PTAs (Allee, Elsig and Lugg 2017)
- References to WTO / Lexical Dispersion Plots



Motivation

- WTO legal texts copied in PTAs

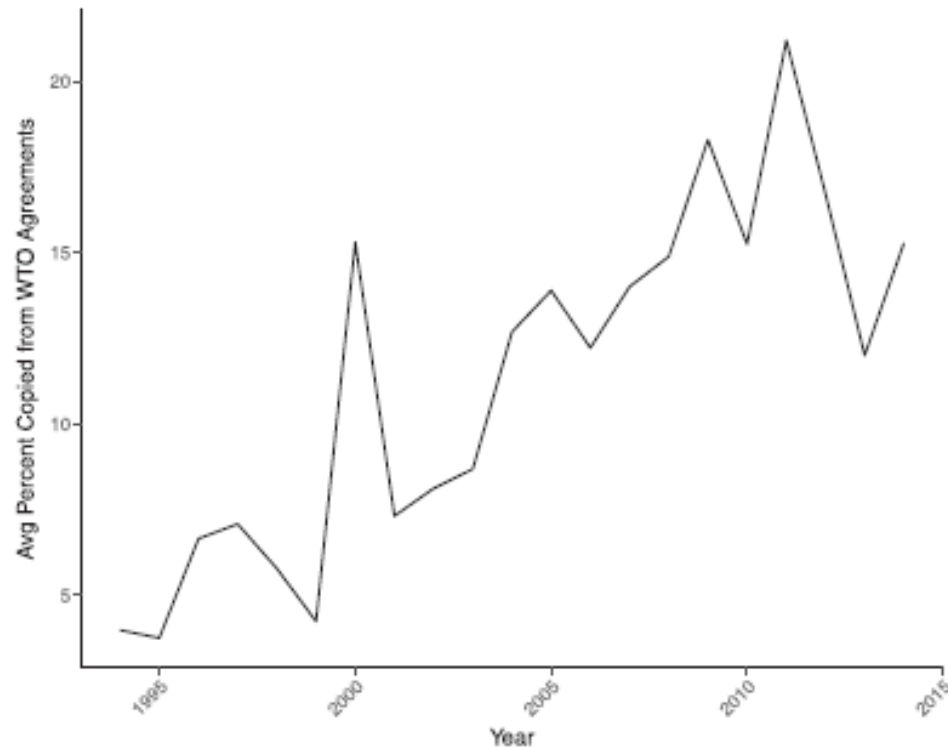


Figure 6. Average copied text across 11 WTO Agreements 1994–2015

Why Bother?

- Copy-pasting as deliberate strategy?
- Fragmentation/coherence debate in the international trading system – forum-shopping
- How we think about international negotiations
- Institutional design choices and consequences
- Power in international relations
- Diffusion and diffusion mechanisms?

Working Conjectures

- Benefits: Efficiency gains, legal texts accepted by domestic veto players
- Costs: Unintended consequences
- Which states are very likely to copy-paste?
- Developing countries: Bureaucratic capacity
- Democratizing countries: Signaling device
- Powerful countries: Pushing preferred templates
- Mechanisms: Competition, Emulation, Power

Initial Empirical Tests

- Text-as-Data approach
- WcopyFind: plagiarism software
- Complete texts, and 15 relevant subsets of 378 PTAs signed between 1954-2013 (Dür et al. 2014)
- English language treaties
- To avoid biasing results systematically, we eliminate the initial and concluding sentences of each document (which provide unique location, date, and other information) and eliminate any annexes (for the minority of agreements that have them).

Initial Empirical Tests

- To identify identical text, we require that the text between two agreements matches: 1) literally word-for-word (with no deviations), and 2) for sequences of six or more words
- To calculate the percentage of content in one treaty that is taken from another, we take the number of matching words (based on the two parameters above) and divide it by the total number of words in the agreement being analyzed.

Findings

- PTAs take the overwhelming majority of their content verbatim from existing agreements
- The median treaty among our 378 PTAs takes 56% of its text from its closest treaty match.
- The most likely, categorical outcome is for a PTA to take 80-84% of its text from a single source treaty.
- Time seems not to be driving results
- Interesting variation for various PTA chapters

Findings

Figure 1: Overlap between Each PTA and Closest Pre-Existing PTA
(n=378)

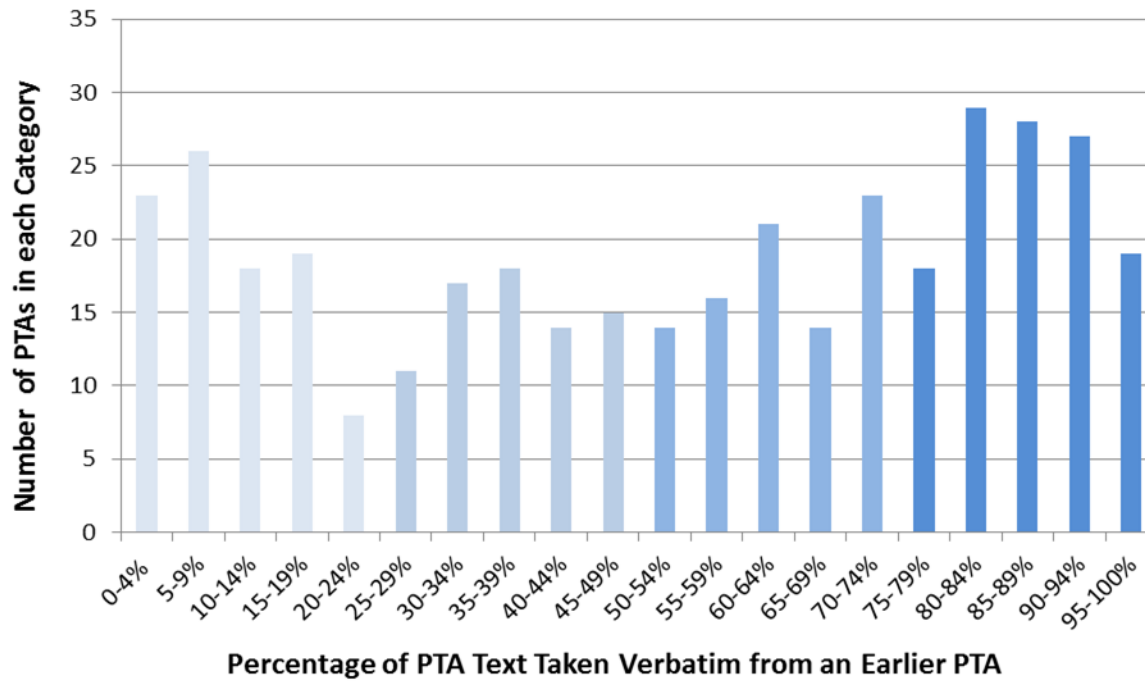
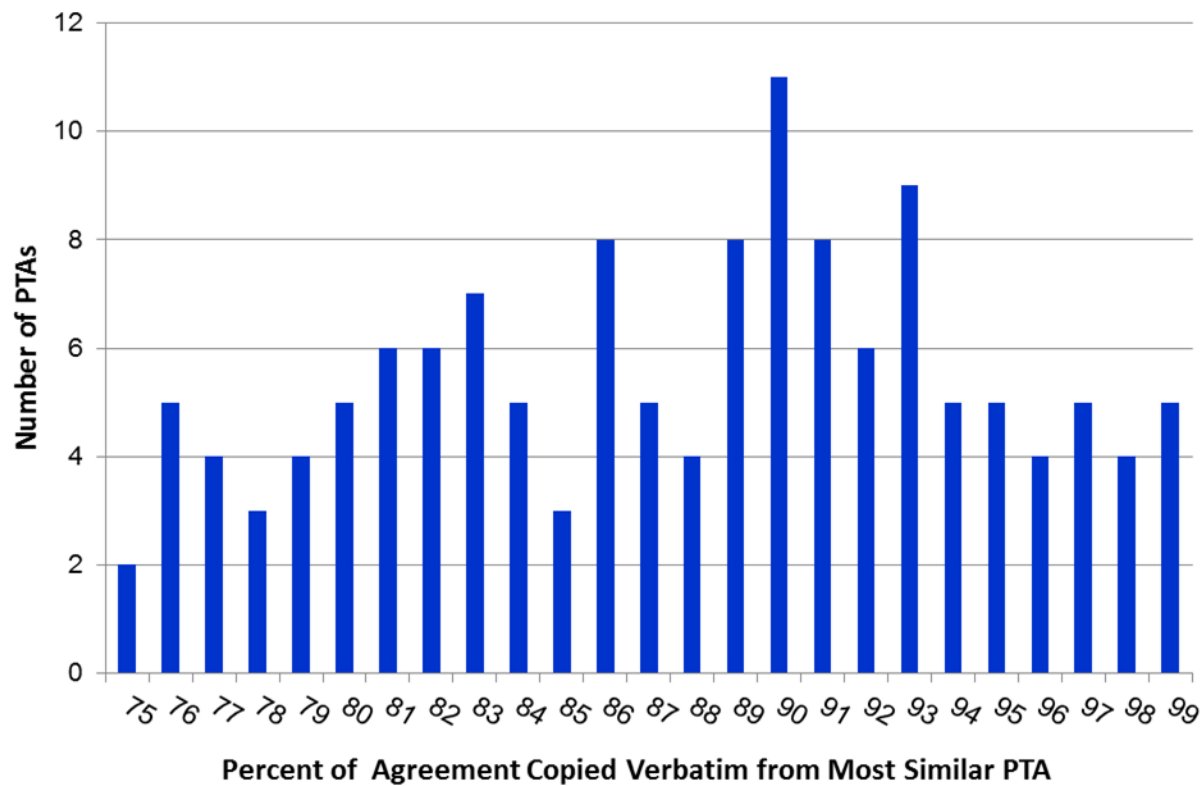


Figure 2: Distribution of Agreements that Copy the Most Text from another Agreement



Sensitivity Check for Alternate Text-Match Parameters

Match Specifications	Effect on Average Overlap Percentage (baseline is 6 words, Exact match)
4 words, Close match	+8.5%
4 words, Exact match	+5.8%
6 words, Close match	+2.5%
8 words, Close match	+0.2%
6 words, Exact match (<i>baseline</i>)	---
10 words, Close match	-0.9%
8 words, Exact match	-2.3%
10 words, Exact match	-3.3%

**Figure 3: Amount of Text Shared with Top 3 Treaty Matches
(among PTAs that copy most heavily)**

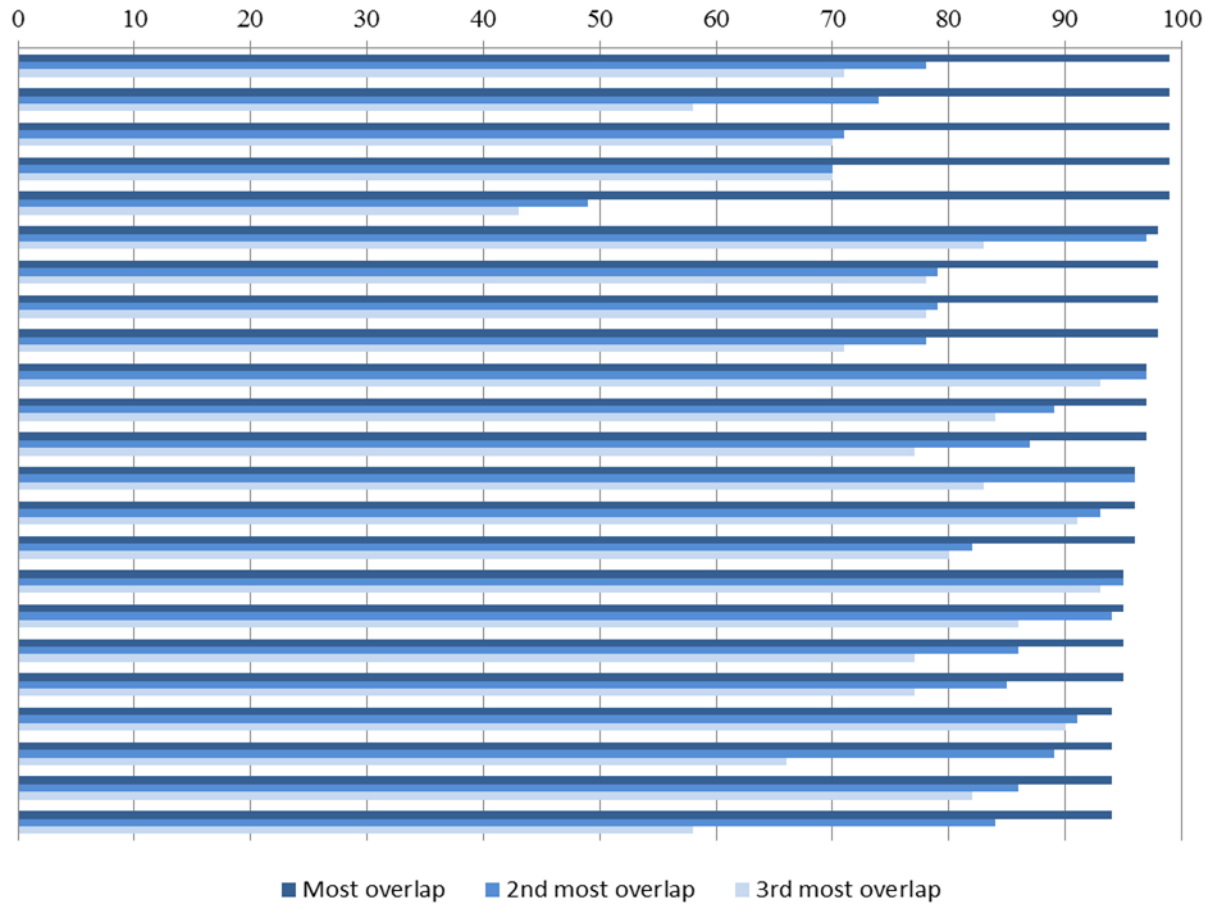
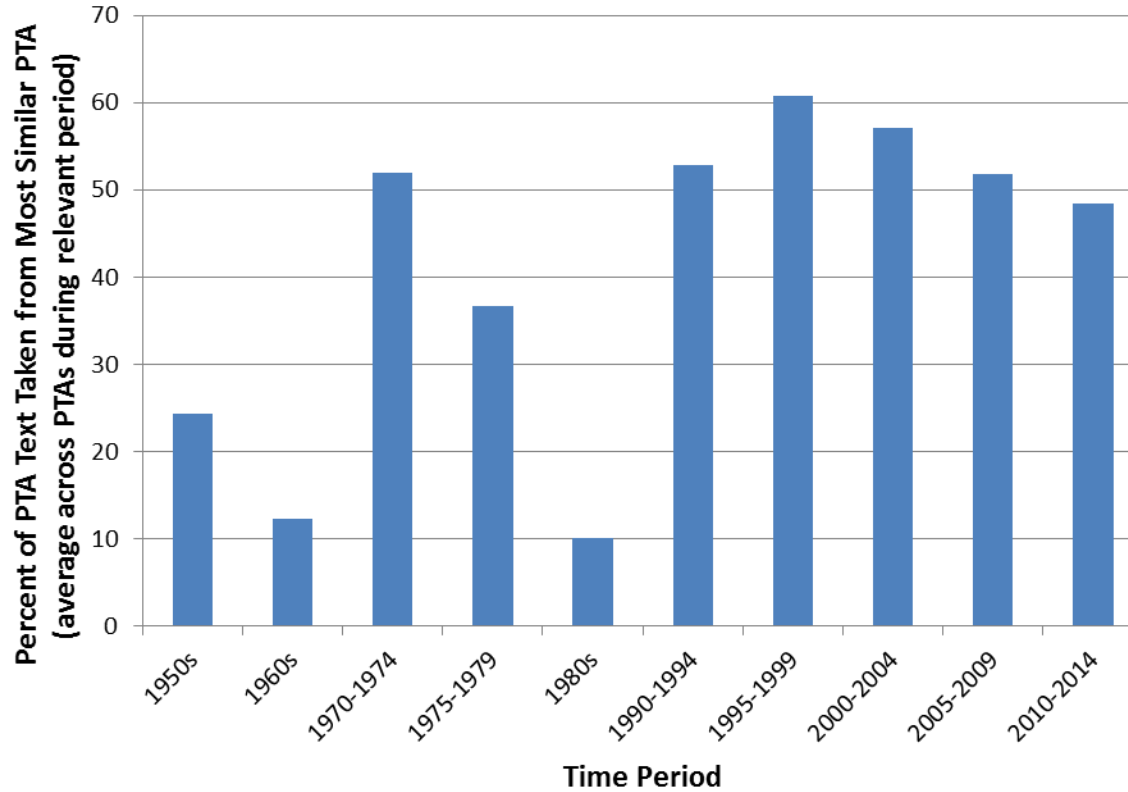


Figure 4: Copying-and-Pasting of PTAs over Time



<i>Part of PTA that is being Compared</i>	Median Overlap	Max Overlap	n
Complete Text	56%	99%	378
Antidumping	88%	100%	261
Procurement	86%	100%	194
Safeguards	80%	100%	327
Services	77%	100%	184
Labor	74%	99%	24
Intellectual Property	72%	100%	218
Sanitary and Phyto-Sanitary	71%	100%	217
Financial Services	70%	100%	61
Technical Barriers	68%	100%	221
E-Commerce	67%	100%	45
Dispute Settlement	66%	100%	366
Investment	65%	100%	177
Telecommunications	64%	100%	64
Movement	50%	97%	82
Environment	50%	100%	56
Average across all fifteen sub-issues	70%	-	378

Table 4: PTA Pairs with the Greatest Text Overlap

PTA	Year	Matching PTA	% Overlap
Israel-Slovakia	1996	Israel-Czech Republic	99
United States-Peru	2006	United States-Colombia	99
Albania-Bosnia and Herzegovina	2003	Albania-Moldova	99
EC-Israel Euro-Med Association	1995	EC-Israel	99
Norway-Estonia	1992	Norway-Lithuania	98
Turkey-Czech Republic	1997	Turkey-Slovakia	98
Romania-Macedonia	2003	Romania-Albania	97
EFTA-Latvia	1995	EFTA-Estonia	97
Lithuania-Slovakia	1996	Lithuania-Czech Republic	97
Slovakia-Latvia	1996	Slovakia-Lithuania	97
EC-Czech Republic	1993	EC-Slovakia	96
Norway-Latvia	1992	Norway-Lithuania	96
Estonia-Slovakia	1996	Estonia-Czech Republic	96
Norway-Lithuania	1992	Norway-Estonia	96
EC-Latvia	1994	EC-Lithuania	95
Slovakia-Latvia	1996	Slovakia-Lithuania	95
EC-Norway	1973	EC-Switzerland-Lichtenstein	95
EFTA-Latvia	1995	EFTA-Estonia	95
Latvia-Czech Republic	1996	Latvia-Slovakia	94
EC-Lithuania	1995	EC-Latvia	94
EC-Norway	1973	EC-Iceland	94
Romania-Macedonia	2003	Romania-Albania	94
Slovenia-Slovakia	1993	Slovenia-Czech Republic	94
Armenia-Turkmenistan	1995	Armenia-Moldova	93
Estonia-Slovenia	1996	Estonia-Slovakia	93
EC Serbia	2008	EC Montenegro	93
EC Estonia	1995	EC-Latvia	93
Latvia-Slovakia	1996	Czech Republic-Lithuania	93

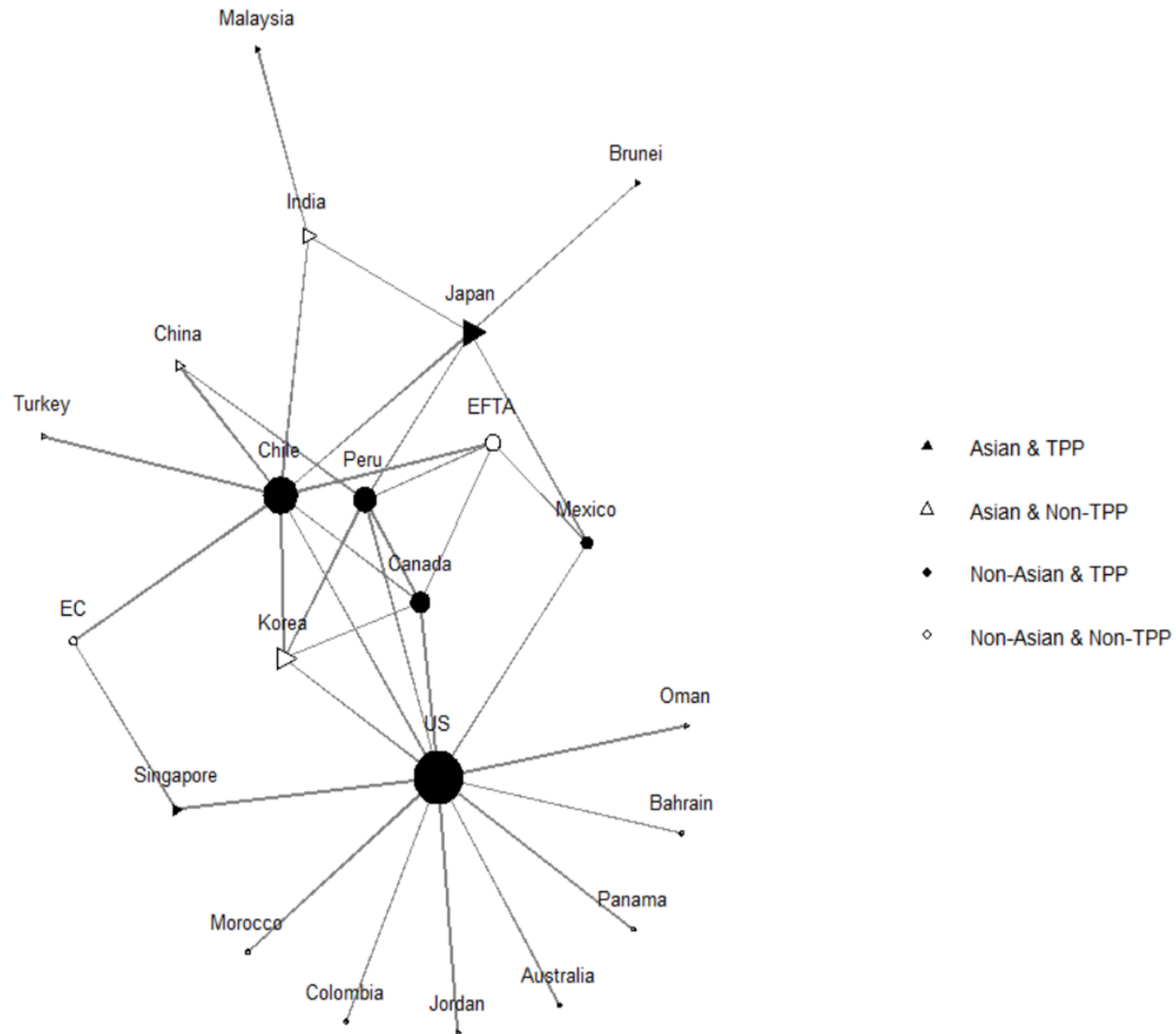
Discussion

- Focusing on the “heavy users”
- Bureaucratic capacity
- Powerful and resource-full actors (US, EC, EFTA)
- New democracies in Eastern Europe – Mothership treaty (CEFTA 1992)

Summary

- Copy-pasting pretty common practice
- Next steps: statistical analyses for country variation and chapter variation
- Finding mothership treaties...
- Testing causal mechanism and pathways / Use of network analysis

(Extension): Dispute settlement chapter in TPP



Literature

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