

Picking Fights: Rising Powers in WTO Disputes

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Abstract

Rising powers, such as Brazil, India, and China, are increasingly involved in World Trade Organization (WTO) trade disputes as both complainants and respondents. While the U.S. and the European Union still are the most frequent users of the Dispute Settlement Understanding (DSU) of the WTO, it is disputes involving emerging markets that have also contributed significantly to the accumulation of case law under the DSU in recent years. This paper analyzes the escalation of WTO disputes from the consultation to the panel stage under the DSU. We are particularly interested in cases brought by the U.S. and the European Union against Brazil, India, and China as well as a set of other emerging market members from among the G-20 countries. The analysis examines whether the factors affecting the escalation of these disputes are substantially different from disputes between other members, e.g., between the transatlantic powers (i.e., the U.S. and the European Union) themselves or the transatlantic powers and non-rising powers. In particular, the analysis compares the relative importance of economic factors, such as trade and market size, versus political factors in determining dispute escalation. The study contributes to the broader question of how rising powers affect the course of economic governance by analyzing how they are ‘engaged’ by the standing powers of the transatlantic community.

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*The United States needs to take a more assertive approach to
China's mercantilist policies*

Rep. Sander M. Levin (D-MI)

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Jeffrey J. Schott, Institute for International Economics

In a recent article in *Foreign Policy*, Stephen Walt (2011) singled out the belief that the rise of China would not challenge the United States' power position and the international institutional order that was established after World War II and that has been dominated by the transatlantic powers ever since as the number one example of unrealistic and wishful thinking in contemporary U.S. foreign policy. Indeed, others have gone so far as to argue that China provides an alternative and competitive model of economic governance, one that is based on authoritarian state-led capitalism (Bremmer 2010). These arguments provide the major counterpoint to arguments about China's rise as a socialization process (Johnston 2007) that has resulted in the incorporation of this important new actor into the existing liberal international order (Ikenberry 2009) rather than a challenge to it.

Walt's assessment is at least surprising as it seems that we are reminded about conflicts between the U.S. and China on an almost daily basis, and certainly about the new importance of China as a central actor in global governance (Florini 2011). Reports of clashes between the U.S.

and China over such diverse issues as human rights, Taiwan, or the Chinese Yuan-U.S. dollar exchange rate seem to be omnipresent whenever we open a newspaper or turn on cable news. But it is not only disputes between the U.S. and China that make the headlines. Just this week, the European Union has announced that it was raising “tariffs on Chinese exports of high-end glossy paper used for magazines and catalogues [penalizing] China for using what it says are illegal states subsidies to boost its industries” (Financial Times, May 15, 2011). Would the European Union have taken similar action if it suspected Cambodia, Cameroon, or Columbia, instead of China, of illegally subsidizing exports of glossy paper?

Rising powers, such as Brazil, India, and China (a.k.a. the BICs¹), are increasingly involved in World Trade Organization (WTO) trade disputes as both complainants and respondents. While the U.S. and the European Union still are the most frequent users of the Dispute Settlement Understanding (DSU) of the WTO, there is no other pair of WTO members with more disputes between them, and the disputes between them are among the most well-known, thoroughly studied, and long-lasting disputes (cf., the disputes over the European Union’s banana import regime, the ban of hormone-treated beef, or the U.S. tax treatment of so-called foreign sales corporations), it is disputes involving emerging markets that have also contributed significantly to the accumulation of case law under the DSU in recent years.

¹ The abbreviation BRICs for Brazil, Russia, India, and China is much more common than BICs.

However, as Russia is not a member of the WTO, we remove the R and focus on Brazil, India, and China.

This paper analyzes the escalation of WTO disputes from the consultation to the panel stage under the DSU. We are particularly interested in cases brought by the U.S. and the European Union against the WTO's emerging market members, such as Brazil, India, and China, as well as a set of other rising powers from among the G-20 countries. Our analysis examines whether the factors affecting the escalation of disputes are substantially different across different types of members, e.g., across disputes between the transatlantic powers (i.e., the U.S. and the European Union) themselves, between the transatlantic powers and rising powers, and between the transatlantic powers and all other WTO member states. In particular, the analysis compares the relative importance of economic factors, such as trade and market size, versus political factors in determining dispute escalation. The study contributes to the broader question of how rising powers affect the course of economic governance by analyzing how they are 'engaged' by the standing powers of the transatlantic community. More specifically, it asks whether and how the rise of the emerging market countries affects interaction within the WTO's dispute settlement process. Do the standing powers of the transatlantic community behave differently in their interactions with the rising powers and if so, how can we explain it?

Immediately below, we review the existing literature on the escalation of WTO disputes before developing our own argument that tries to provide an additional insight in the interactions between the transatlantic and rising powers. Our argument builds upon the International Relations security and conflict literature on power transitions and international conflict, and we claim that the likelihood of dispute escalation increases when the complainant and the respondent are about equal in their level of capabilities and the respondent is closing in on the complainant. In other words, we expect that dominant WTO members like the U.S. and the

European Union use WTO dispute panels as road blocks against the further rise of rising powers. Following a more detailed discussion of this argument, we turn to testing its empirical implications using a dataset of all WTO disputes between 1995 and 2006. In particular, we test whether our model can explain the escalation of WTO disputes from the consultation to the panel stage of the DSU. After showing that the WTO's established powers do not (!) give 'special treatment' to countries like Brazil, India, and China, we summarize and provide suggestions for further research on the rising power-debate in the WTO context.

Choosing Defendants and Escalating WTO Disputes

Existing research on WTO disputes and the escalation of disputes from the consultation to the panel stage have primarily focused on economic and dispute-specific factors.

-- Literature review about here -- ;-]

What about the Rising Powers?

None of the studies discussed above, however, have either implicitly or explicitly addressed the idea that the rising powers might behave differently in WTO disputes. While Horn, Mavroidis, and Nordström (1999), Guzman and Simons (2002), or Busch and Reinhardt (2003) have all analyzed and shown that developing and developed countries vary in their use of and ability to use the WTO's DSU, the question of whether there is something unique and different about

disputes involving emerging market member states, such as Brazil, India, China, and other rising powers from among the G-20 countries, has remained unasked and unanswered so far.

There could be at least two reasons for this somewhat surprising lack of theoretical and empirical analysis on emerging markets in the WTO. *First*, it is far from self-evident why existing, general explanations of dispute escalation and defendant selection should not apply to the BICs or countries like Mexico, South Korea, or Turkey. One might ask whether there is a need for new and rising power-specific explanations at all. If we have a good general understanding for why member states escalate WTO disputes and go after some countries more often than after others, why would we even want to throw parsimony over board and develop new theoretical models that exclusively explain the behavior of emerging market countries?

Second, what should these theoretical models look like or focus on? After all, the rising powers have little in common besides their rising power-status. Some are democracies, while others are not. One is a permanent member of the United Nations Security Council, the others are not. China is the world's leading exporter of manufactured goods like consumer electronics, while India has a much larger and more competitive service sector and Brazil is a leading exporter of commodities like agricultural, fuel, and mining products. Brazil's gross domestic product per capita is above the world average, while those of China and India are below. The populations of both India and China top that of Brazil by more than one billion citizens. China and India possess nuclear weapons, while Brazil does not even have a nuclear weapons program. The BICs have very different colonial histories, being colonized by Spain, the United Kingdom, and Japan, respectively. They speak different languages, are located on different continents, etc.

All in all, it is not clear why these countries with their diverse economies, histories, cultures, and political institutions should not only display a dispute behavior that is coherent between them, but noticeably different from that of all non-rising powers in the WTO. And should they actually display such a ‘coherent, but different’ behavior, trying to develop a single theory that could explain it seems daunting, if not Sisyphean.

Power Transition Theory

Rather than trying to develop such a single theory of the dispute behavior of the various rising powers, we focus on rising powers as the respondents in WTO disputes. Rather than asking whether or why Brazil, India, or China might be different from other WTO member states with respect to the disputes they escalate and the respondents they select, we analyze the way this group of countries is engaged by the established powers, i.e., primarily the U.S. and the European Union. While existing theories of capacity, power, and economic integration provide us with a general understanding of why WTO disputes escalate to the panel stage and why some countries find themselves in the respondent-position more often than others, we want to understand how and why the interactions between the transatlantic community and the rising powers are different from the interactions between other members of the WTO – if they are different at all.

To answer these questions and make sense of the way the dominant players in the WTO treat the rising powers, we develop an argument that is derived from the International Relations security and conflict literature on power transitions and international conflict. Power transition

theory as originally developed by Organski (1958) claims that the probability of war increases as the distribution of political, economic, and military capabilities between contending groups of states become more even. On the one hand, we have rising powers that can be dissatisfied with the existing international order and pose a potential challenge to the dominant states. On the other hand, we have the dominant powers that are interested in maintaining the status quo of the existing international order and feel threatened by the rise of new powers.

As the political, economic, and military capabilities of regional hegemons increase and middle powers become great powers with the potential to pass the currently dominant states by in power, these rising powers face a problem of credible commitment. They cannot credibly commit themselves to maintaining the status quo of the existing international order once they have overtaken the currently dominant states in terms of power. Being aware of that, the currently dominant states have a strong incentive to prevent the transition of power or, at the very least, delay a seemingly inevitable power transition. This can lead the dominant states to engage rising powers in preventive war while the cost of fighting is still less than the cost of granting concessions to their challengers.²

² Of course, dominant states do not need to be the aggressors in power transition wars. Once rising powers feel that the benefits from an effort to defeat dominant states are higher than the costs of further deferring such an effort, it is the dissatisfied rising powers that have the incentive to initiate a war to change the current status quo (Kim and Morrow 1992).

Power Transition and WTO Disputes

How can this theory of war help us understand the escalation of WTO disputes from the consultation to the panel stage? If not yet in terms of military capabilities, emerging market countries, such as Brazil, India, and China, are clearly closing in on the WTO's established powers in the economic sphere. In fact, China has just last year surged ahead of Germany to become the world's top exporter and surpassed Japan as the world's second-biggest economy. In the wake of their economic rise, the rising powers have also fought for more political influence, e.g., in the Bretton Woods institutions that have governed the international economic order since World War II and have traditionally be dominated by the transatlantic community.

As the dominant states in the WTO are concerned about losing their dominant position and the changes to the status quo that might come with the rising influence of Brazil, India, China, and other G-20 countries, they have incentives to use the very rules of the WTO to defend the status quo and to slow down the transition of power. While the U.S. and the European Union might be willing to look the other way when middle or small powers violate WTO provisions, they take similar infractions by rising powers much more seriously. Being afraid that illegal export subsidies, unwarranted safeguard measures, exchange rate manipulation, etc. are actively used by the BICs to accelerate their rise, the transatlantic powers do not only file for consultations, but are more likely to request the establishment of a dispute panels as road blocks to the further rise of the rising powers.

While we do not dispute that some WTO disputes are initiated and escalated by the dominant states out of considerations about market access or the like, we hypothesize that conditional upon a country being a rising power and posing a potential threat to the status quo and status of a dominant state, increases in the rising power's capabilities make it more likely that the dominant state escalates WTO disputes involving that rising power. More specifically, we expect that dominant powers, such as the transatlantic powers, are particularly prone to escalate trade conflicts against countries that are almost similar in economic size, especially if the currently slightly smaller country is catching up. However, this does not have to be a U.S. and European Union-specific hypothesis. Generalizing the power transition argument, we would simply expect a greater likelihood of escalation when the complainant and the respondent are about equal in their level of capabilities and the respondent is closing in on the complainant. In short, our power transition-inspired hypothesis states:

If there is relative parity in capabilities between the complainant and respondent, then recent increases in the respondent's capabilities vis-à-vis the complainant makes it more likely that complainant will escalate a trade dispute.

Putting Dispute Escalation to the Test

Having developed the argument that the likelihood of dispute escalation increases when the complainant and the respondent are about equal in their level of capabilities and the respondent is closing in on the complainant in the section above, we now put it to the test. For that, we

employ a dataset of all directed WTO dispute-dyads between the years 1995 and 2006.³ This dataset allows us to test our and alternative hypotheses of the effect of various independent variables on the probability that WTO member states engage other members in dispute settlement proceedings. The unit of analysis is the directed dispute-dyad, in which the first country is the complainant or ‘initiator’ and the second country is the respondent or ‘target’ of the WTO dispute initiated by the complainant and escalated from the consultation to the dispute panel stage of the DSU.

Dependent Variable

The dependent variable of interest is ‘*Dispute Escalation*,’ measured as a dichotomous variable to indicate whether a country escalates a WTO dispute from the initial request for consultations to a formal panel. The analysis utilizes data available from Horn and Mavroidis’ (2008) compilation of WTO dispute characteristics.⁴ The data include 351 WTO disputes, yielding 374

³ Dyads were generated using EUGene 3.204.

⁴ <http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTRESEARCH/0,,contentMDK:20804376~pagePK:64214825~piPK:64214943~theSitePK:469382,00.html>. The dataset covers exhaustively all stages of dispute settlement proceedings from the moment when consultations are being requested to the eventual implementation of the rulings. The dataset contains several hundred variables, providing information on various aspects of the legal procedure. The total number of entries is approximately 28,000. The dataset has been compiled on the basis of approximately 3,000 official WTO documents available on the WTO website (<http://www.wto.org>).

dispute dyads, initiated by the official filing of a request for consultations under the WTO's DSU, from January 1, 1995, until October 25, 2006. For these recorded disputes, the data track events occurring until December 31, 2006. The Horn and Mavroidis dataset provides information on all stages of the dispute settlement proceedings, from the request for consultations to the eventual implementation of the panel and appellate body rulings.

Independent Variables

The independent variables of interest measure the power dynamics underlying the escalation of WTO disputes. We compare the impact of two main measures. First, we employ a measure for capabilities or military power to assess the degree to which military capabilities, reflecting a country's position in the systemic distribution of power, affects economic behavior by encouraging countries to initiate trade conflicts. We utilize the Composite Index of National Capability (CINC) from the National Material Capabilities dataset, available through the Correlates of War project (Singer 1987; Singer, Bremer and Stuckey 1972).⁵ The CINC index is a widely used measure of power in security and conflict studies, and it is based on six variables: total population, urban population, iron and steel production, energy consumption, military personnel, and military expenditures. We employ the natural log of the dyadic ratio of CINC indices. The '*Capability Ratio*' between the complainant and the respondent measures the ratio of the dispute-dyad members' individual capability indices. Following conventional usage, we employ the ratio of the larger capability index to the lower capability index within the dyad. Taking the natural logarithm of the ratio draws in extreme cases and smoothes out the

⁵ <http://www.correlatesofwar.org/>. National Material Capabilities data set, Version 4.0.

distribution of cases. To properly test our hypothesis, we also utilized the '*Change in Capability Ratio*' (not logged) between $t-5$ and t to capture the recent change in capabilities that has taken place between dyad members. In addition, we include the interaction term between the capability ratio and change in capability ratio ('*Capability Interaction*') to get at the conditional aspect of our hypothesis. Only if the difference between the complainant and respondent's capabilities is small should a change in the capability ratio affect the complainant's probability to escalate a dispute.

As a second and alternative measure of the power dynamics underlying the escalation of WTO disputes, we look exclusively at economic power. Here, we follow the existing literature and use gross domestic product (GDP) as this is the most widely employed variable to capture market power. More specifically, our independent variable of choice is the '*GDP Ratio*.' It indicates the difference in the size of the economy between the complainant and the respondent. We adopt the formulation of the capability ratio as described above. We also use the change in the respondent's economic power over the period $t-5$ to t as well as the interaction term between the ratio and the measure of cross-temporal change. Data for this variable were obtained from the World Bank's World Development Indicators database.⁶

⁶ <http://data.worldbank.org/indicator>.

Control Variables

In addition to the independent variables that allow us to test our power transition hypothesis, we also include a set of control variables in our analysis that have been used in the existing literature, and most of which were – unless otherwise noted – obtained from the World Bank’s World Development Indicators database. These variables include ‘*GDP per Capita*’ to measure the difference in their level of development. The complainant’s GDP per capita has also been employed as a measure of capacity. For instance, Guzman and Simmons (2005) use it to capture the capacity to muster the legal resources necessary to initiate and pursue a trade dispute. The respondent’s GDP per capita, on the other hand, might capture the attractiveness of the respondent’s market – not in term of size (cf. GDP), but individual buying power.

The control variables also include ‘*Trade openness*,’ measured as the proportion of exports and imports as a percentage of GDP. The analysis controls for both the openness of the complainant as well as that of the respondent. To account for the degree of trade interdependence, we employ ‘*Trade Concentration*,’ measured as total bilateral trade as a percentage of total trade of each of the dispute-dyad members, i.e., the complainant and the respondent. Data on bilateral trade flows and national import and export figures were obtained from Barbieri, Keshk, and Pollins (2009, 2008).⁷

⁷ <http://www.correlatesofwar.org/>. Correlates of War Project Trade Data Set, Version 2.01.

The analysis also includes a control for *'Joint Democracy,'* constructed as a dummy variable that equals one if both complainant and respondent are democracies. Data were obtained from Polity IV dataset, utilizing their democracy scores to select out country pairs scoring higher than 6.⁸ For all independent variables, the analysis employs values of the year in which the request for consultation is filed, i.e., the year that indicates the start of the dispute and precedes the request to panel.

Data Analysis

We start out our empirical analysis by estimating a model of dispute escalation, which controls for conventional measures found in the literature. The results are presented in Model 1 of table 1. The one statistically significant result that is also consistently significant across all other models in tables 1 and 2 is that the larger the economic size of the respondent, the more likely a trade dispute will escalate to the panel stage. The same might also hold true the more the respondent's trade is concentrated in the complainant's market. The combination of economic size and trade concentration on the part of the respondent reflects, respectively, the large export market presented to the complainant and also the degree to which the complainant can leverage the trade dependence of the respondent. Thus, they represent the potential gains to the complainant of moving a dispute from consultations to panel. Conversely, for higher levels of trade openness in

⁸ <http://www.systemicpeace.org/polity/polity4.htm>. Polity IV Project: Political Regime

Characteristics and Transitions, 1800-2009.

the complainant, reflecting the diversity of its trade linkages, it seems to be less likely that the complainant moves a dispute from the request for consultations to the panel stage.

To our surprise, we do not find support for the otherwise intuitive idea that the complainant's economic power and financial capacity should affect its decision to escalate disputes. Being able to muster economic influence and legal resources do not seem to influence whether WTO member states pursue a trade dispute. *Ceteris paribus*, developed and developing as well as large and small states are just as likely to move disputes from the consultation to the panel stage. Whether the disputing parties are both democratic or not does not affect the probability of dispute escalation either.

Table 1: Power Transition and WTO Dispute Escalation

	(1)	(2)	(3)	(4)
<i>Power transition</i>				
Capability ratio			-0.0716 (0.073)	-0.0735 (0.073)
Change in capability ratio			-0.0228 (0.018)	-0.0054 (0.084)
Capacity interaction				-0.0036 (0.017)
<i>Transatlantic community</i>				
vs. rising powers		-0.2133 (0.415)		
vs. non-rising powers		-0.2577 (0.279)		
vs. itself		-0.5244** (0.258)		
<i>Complainant</i>				
GDP	-0.0987 (0.073)	-0.0092 (0.085)	-0.1385* (0.081)	-0.1386* (0.081)
GDP per capita	0.0708 (0.084)	0.1107 (0.087)	0.1025 (0.089)	0.1023 (0.089)
Openness	-0.0056* (0.003)	-0.0043 (0.003)	-0.0065** (0.003)	-0.0064** (0.003)
Trade concentration	-1.5646 (1.186)	-2.7874** (1.308)	-1.6358 (1.195)	-1.6611 (1.202)
<i>Respondent</i>				
GDP	0.1784** (0.080)	0.2343*** (0.089)	0.1901** (0.081)	0.1895** (0.081)
GDP per capita	0.1477 (0.094)	0.1326 (0.119)	0.1498 (0.095)	0.1502 (0.095)
Openness	-0.0015 (0.004)	-0.0014 (0.004)	-0.0020 (0.004)	-0.0020 (0.004)
Trade concentration	2.4756* (1.378)	2.0697 (1.446)	2.8601** (1.429)	2.8868** (1.435)
Joint democracy	-0.1788 (0.252)	-0.1491 (0.260)	-0.2231 (0.255)	-0.2232 (0.255)
Constant	-3.9121* (2.170)	-7.9678*** (2.653)	-3.2442 (2.258)	-3.2222 (2.261)
Observations	374	374	374	374

Dependent variable is dispute escalation. Entries are probit coefficients. Standard errors are in parentheses. *** = p 0.01, ** = p < 0.05, and * = p < 0.1 (two-tailed).

Table 1: Power Transition and WTO Dispute Escalation (continued)

	(5)	(6)	(7)	(8)
<i>Power transition</i>				
GDP ratio	0.0580 (0.058)	0.0596 (0.059)	0.0608 (0.062)	0.0793 (0.057)
Change in GDP ratio	0.0150* (0.008)	0.0043 (0.045)	0.0023 (0.043)	0.0094 (0.044)
GDP interaction		0.0022 (0.009)	0.0022 (0.009)	0.0013 (0.009)
<i>Transatlantic community</i>				
vs. rising powers			-0.1612 (0.418)	
vs. non-rising powers			-0.2986 (0.296)	
vs. itself			-0.4673* (0.265)	
<i>Complainant</i>				
GDP	-0.0941 (0.077)	-0.0948 (0.077)	0.0020 (0.092)	
GDP per capita	0.0807 (0.086)	0.0805 (0.086)	0.1175 (0.088)	0.0218 (0.060)
Openness	-0.0060* (0.003)	-0.0060* (0.003)	-0.0044 (0.003)	-0.0039 (0.003)
Trade concentration	-1.4632 (1.196)	-1.4658 (1.196)	-2.6980** (1.332)	-0.5053 (1.112)
<i>Respondent</i>				
GDP	0.1580* (0.081)	0.1589** (0.081)	0.2078** (0.091)	
GDP per capita	0.1621* (0.095)	0.1612* (0.095)	0.1503 (0.120)	0.2943*** (0.065)
Openness	-0.0013 (0.004)	-0.0014 (0.004)	-0.0015 (0.004)	-0.0049* (0.003)
Trade concentration	2.1351 (1.398)	2.1355 (1.400)	1.8038 (1.448)	1.1370 (1.282)
Joint democracy	-0.1547 (0.263)	-0.1563 (0.263)	-0.1121 (0.273)	-0.1233 (0.261)
Constant	-3.8228* (2.228)	-3.8212* (2.229)	-7.9107*** (2.770)	-2.7390*** (0.844)
Observations	374	374	374	374

Dependent variable is dispute escalation. Entries are probit coefficients. Standard errors are in parentheses. *** = p 0.01, ** = p < 0.05, and * = p < 0.1 (two-tailed).

In a next step, we add three dummy variables to the previous model in model 2 of table 1. Here, we want to find out whether the transatlantic community, i.e., the U.S. and the European Union, are engaging the BICs, each other, and the other member of the WTO differently. The omitted reference category contains all the disputes that are escalated by any WTO member other than the U.S. or the European Union. Controlling for the economic characteristics of the complainant and the respondent, we find that the established transatlantic powers are actually significantly less likely to escalate disputes between each other than the disputes they have with other WTO members. The probability of them escalating these intra-transatlantic community cases is also significantly smaller than the probability that any WTO member state that is not the U.S. or the European Union escalates a dispute. However, what we do not find is a difference between the way the transatlantic powers treat rising and non-rising powers. Other than expected, the dominant states are not more prone to go after the BICs than any other country. This puts a first chink in the armor of our power transition argument.

Models 3 and 4 of table 1 finally put the power transition argument to the test by including the capability ratio and the change in the capability ratio in model 3 as well as the interaction term between these two variables in model 4⁹. As the non-finding in model 2 of table 1 already put a chink in the power transition argument's armor, so do models 3 and 4 put it to

⁹ While the interaction term is by design highly multicollinear with its constituent components and dramatically increases variation inflation in model 4, including the interaction term does not substantially affect our findings for any of the other independent variables in models 3 and 4.

rest. There simply is no empirical evidence that similar capabilities and changes to the capabilities balance between the complainant and the respondent increase the probability that a WTO dispute escalates from the consultation to the panel stage. *Ceteris paribus*, WTO member states are not more or less likely to go forcefully after other members that are closing in on their power – no matter what their relative power position. The claim that “we’re seeing a closer scrutiny of problems and more diligence in using unfair trade laws to counter perceived problems with trade with China” (cf. second quote on page 1) is not supported by our data. If the transatlantic powers were scrutinizing disputes involving China more closely, which they are clearly not, they would not do so over concerns about power transition. The fact that the BICs’ capabilities are relative similar to and have been growing much faster than those of the transatlantic powers does not make Brazil, India, and China a more likely target for dispute escalation by the U.S. and the European Union than such BICs as Benin, Indonesia, or Cuba.

That said, this finding might be the result of using the Composite Index of National Capability index, which might well be inappropriate and too broad and far removed from trade a measure to be used in the context of WTO disputes. Therefore, we estimate four additional models (models 5-8 of table 1) where we use GDP instead of the capability index. The finding is the same: no sign of an economic power transition effect on the probability of dispute escalation. Otherwise, we still find that the transatlantic powers are less likely to push WTO proceedings against each other as well as strong support for the already previously highlighted finding that large and developed respondents are the ones most likely targeted by dispute escalation.

Table 2: The Rise of the Rising Powers and WTO Dispute Escalation

	(1)	(2)
<i>Power transition</i>		
Capability ratio	-0.0156 (0.068)	
Change in capability ratio	-0.0200 (0.017)	
GDP ratio		0.0681 (0.059)
Change in GDP ratio		0.0145* (0.008)
<i>If respondent is rising power</i>		
Capability ratio	-0.7629 (0.564)	
Change in capability ratio	-0.0755 (1.073)	
GDP ratio		0.2555 (0.385)
Change in GDP ratio		0.1250 (0.246)
<i>Transatlantic community</i>		
vs. rising powers	0.8445 (0.586)	-0.2917 (0.837)
vs. non-rising powers	-0.4272* (0.256)	-0.3489 (0.255)
vs. itself	-0.2971 (0.248)	-0.3003 (0.252)
<i>Complainant</i>		
GDP per capita	0.1210 (0.075)	0.1232 (0.076)
Openness	-0.0047* (0.003)	-0.0046* (0.003)
Trade concentration	-2.0577 (1.288)	-1.7462 (1.275)
<i>Respondent</i>		
GDP per capita	0.3753*** (0.082)	0.3635*** (0.082)
Openness	-0.0073** (0.003)	-0.0057* (0.003)
Trade concentration	2.0748 (1.433)	1.4572 (1.403)
Joint democracy	-0.1689 (0.260)	-0.1309 (0.271)
Constant	-3.7809*** (1.004)	-3.9974*** (1.024)
Observations	374	374

Dependent variable is dispute escalation. Entries are probit coefficients. Standard errors are in parentheses. *** = p 0.01, ** = p < 0.05, and * = p < 0.1 (two-tailed).

Models 3-8 of table 1 test the power transition argument for the interactions between all WTO member states. To test whether the argument might not be generally applicable, but useful to specifically understand the power dynamics and their effect on dispute escalation by the transatlantic powers against the BICs, we interact the power transition indicators – capacity ratio and capacity ratio change in model 1 of table 2 and GDP ratio and GDP ratio change in model 2 of table 2 – with the transatlantic community vs. rising powers dummy. However, even this final test fails to unveil any evidence for treating the powerful and rising powers differently from other countries in the WTO. While we cannot answer the question whether “the United States needs to take a more assertive approach to China’s mercantilist policies” (cf. first quote on page 1), our data shows that the U.S. is definitely not picking fights with China out of concerns about China’s economic rise and increasing influence in the WTO, but because China is a large and attractive market that U.S. corporations are interested in further developing.

Conclusion

In future work, we plan to investigate a lot more stuff.

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