Countersuits and the Politics of Abandoned WTO Trade Disputes

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December 2015
Prepared for the 2016 Political Economy of International Organizations
Annual Conference
Salt Lake City, Utah

Abstract

Why are so many WTO trade disputes initiated but never completed? At least one third of all WTO trade disputes are not settled early, nor go to panel. Given the costs associated with initiating a trade dispute, this is an unusually high number. I argue that abandoned disputes are the result of tit-for-tat strategy: countries abandon disputes when they are subject to countersuits by the respondent country. These countersuits serve as a signal of displeasure at the original dispute, activate industries in the original complainant country to mobilize, and make the dispute more costly. I find evidence that suggests that this tit-for-tat strategy may indeed play a role in disputes being abandoned.

Keywords: WTO, trade disputes, abandoned disputes, countersuits, tit-for-tat

1 Introduction

In 2011, Ukraine initiated a dispute through the WTO's Dispute Settlement Mechanism (DSM) against Moldova over environmental charges applied by Moldova to the beverages sector, but the dispute never progressed past the initiation phase. Similarly, India initiated a dispute against the European Union over duties on rice in 1998, but never took the case to a dispute panel, whereas it followed through on a 2004 dispute against EU duties on steel. This is a common pattern that emerges with the WTO dispute data and raises a general puzzle: why is there such variation in the progress of WTO disputes? Why are some WTO disputes abandoned after initiation, whereas others are not?

This variation is particularly puzzling for a few key reasons. First, there is the suspicious nature of some trade barriers. Many have argued these duties are simply clever protectionism, particularly antidumping duties (Blonigen and Prusa 2003; Prusa 2005); countries can manipulate data to justify AD duties when dumping is not really occurring (Lindsey and Ikenson 2003). Not surprisingly, countries are successful in disputes; the WTO usually finds some aspect of these disputed barriers inconsistent with WTO rules. This creates an additional incentive for countries to initiate disputes promptly they usually win.

Considering the success rate, if a country is willing to dispute a trade barrier, they are incentivized to follow through with the dispute. This is particularly true because dispute initiation is not inexpensive. This also seems puzzling: why would countries be willing to pay the expenses associated with initiating a dispute if they don't follow through with it? Dispute initiation involves substantial data gathering and intensive legal work, making it a costly endeavor. It also could ruffle diplomatic feathers with the partner country. Thus, dispute initiation has real and substantive costs. Why would a country undertake these to never follow through with the dispute?

I hypothesize that this pattern of dispute abandonment can be explained by the presence of countersuits. Even though this retaliatory behavior is not supposed to occur within the WTO DSM, this dynamic does seem to have emerged (Reinhardt 2000; Busch and

Reinhardt 2002; Beshkar and Bond 2008), as countries frequently file what seem to be tit-for-tat disputes with the WTO DSM. These countersuits can signal displeasure, alert exporters in the complainant country to mobilize, or, according to Beshkar and Bond (2008), serve as a "strategic move by the defendant to impose more costs on the complainant from pursuing the original dispute." The WTO DSM becomes a very useful institution for countries to use in this manner, as it limits the kinds of retaliation possible, meaning countries can show their displeasure while avoiding a dangerous trade war.

This paper will proceed as follows. I will describe the puzzle and then highlight the key literature on the topic of trade disputes and countersuits and tit-for-tat strategies. I will then specify my theory. Next, I will describe my statistical model and explain the key variables. Following that, I will test my theory, using a maximum likelihood estimation model. Following my results, I will point out further areas for research and discuss what my findings suggest about how countries use international organizations.

2 Puzzle

Why do countries opting to dispute trade barriers through the WTO DSM often abandon these disputes? Why did India initiate, but then not follow through with, a dispute it initiated against the EU over duties on rice in 1998, while following through with a 2004 dispute against the EU over AD duties on Indian steel? The agriculture industry is a major player in India, and the EU represents a large amount of trade, so it certainly had the incentives to follow through. Similarly, why did Ukraine abandon a dispute it initiated against Moldova in 2011 over barriers on beverages, even though its economy dwarfs Moldova's? Approximately one-third of all WTO disputes end up abandoned by complainants, stuck in "consultations" for years, never to be settled or go to a panel.

This large percentage of disputes is puzzling, considering the fact that countries have already expending time and money to initiate the disputes. Indeed, dispute initiation requires

a substantial amount of labor and legal capacity, a reason why developing countries have not utilized the DSM as much as the WTO initially envisaged. To put in the effort to gather detailed data and to perform the needed legal work to initiate a case, only to then essentially drop the dispute without any resolution, seems unusual.

This large percentage becomes even more puzzling given the somewhat arbitrary nature of some trade barriers. One major trade barrier disputed at the WTO, antidumping duties, may simply be a clever form of protectionism instead of a way to counter dumping activity (Lindsey and Ikenson 2003; Prusa 2005; Blonigen 2006). Safeguards and subsidies are also clearly aimed at protecting domestic industries, and while some of the definitions are somewhat problematic (Sykes 2003*a*,*b*), there is extensive WTO jurisprudence [1] that explains why these measures don't hold up well at the WTO (Sykes 2003*b*). As such, if these duties are often improperly invoked for protectionist purposes, and challenges to these duties through the WTO DSM are often successful, countries willing to challenge trade barriers at the WTO have every incentive to follow through with their disputes, as they are likely to win. They have already incurred significant costs in initiating the dispute. Not following through means those expenditures are wasted and their exporters are still subject to those trade barriers.

Additionally, firms in affected industries should be united in supporting disputes. While these firms face a collective action problem when lobbying *for* protection themselves, there is no such problem in *challenging* these duties, since they should all want these trade barriers eliminated. This is also primarily an exporter issue there is no reason to think domestic firms importing foreign products would oppose challenging those duties, because the trade barriers only apply to products being exported. Finally, there may be a positive effect for chief executives in challenging an AD duty through support from affected industries, something that is particularly beneficial during an election. This all makes the abandonment of trade disputes all the more puzzling.

[1] For example, see: http://www.wto.org/english/res_e/booksp_e/analytic_index_e/subsidies_01_e.htm

3 International Trade Disputes: History and Research

The dispute settlement system under the General Agreement on Tariffs and Trade (GATT), which preceded the WTO, was flawed in its design, but surprisingly effective. Cases would begin with a request for consultations from the complainant country. If a settlement could not be negotiated in the consultation phase, the complainant country could request a panel. However, the respondent country could block the panel request, though this did not occur very frequently. The 1989 Dispute Settlement Procedure Improvements gave countries the right to a panel, though this did not change panel initiation (Busch and Reinhardt 2003*b*). Respondents could also block the adoption of panel reports, which is what they did more frequently. Still, the GATT dispute settlement system worked fairly well (Hudec 1990).

The WTO DSM aimed to address the GATT system's main shortcomings: blocking panels/panel reports, and the use of unilateral sanctions (Pauwelyn 2005). The resulting WTO DSM made it almost impossible to block panels, and improved mulitlateralism to limit the use of unilateral sanctions like the U.S. Section 301 of the Trade Act of 1974. Additionally, it including the Appellate Body (AB) to soften the blow of panel decisions. Similar to the GATT, the first step of the process involves consultations between the countries. From consultations, there are two potential paths: early settlement or third party adadjudication through a three member ad-hoc panel of experts. The former is the most preferred path, as settlement terms are best if the dispute is resolved before adjudication (Busch and Reinhardt 2003*a*).

There is a third possibility following dispute initiation: dispute abandonment. This phenomena has not been examined in much research, even though, depending on measurement, between one-quarter and one-third of all WTO disputes follow this path. This is the case when a WTO dispute remains in consultation phase, never being resolved through either a panel or early settlement. Reynolds (2009) examines the issue and finds that countries with low legal capacity are more likely to have dropped disputes, a blow to the concept of equity in the WTO DSM.

If the countries opt for adjudication, but are dissatisfied with the panel finding, they can appeal to the 7-member AB. The dispute settlement body then adopts the AB report, and countries must comply with the ruling. It is extremely hard to reject AB findings: there would need to be either consensus or a 3/4 majority to impose authoritative interpretation (Alter 2008; Grant and Keohane 2005). The dispute settlement body monitors implementation, with the possibility of a compliance panel or WTO-sanctioned retalation if there are any issues with compliance. The full process, from dispute initiation through an appeals process, takes 15 months or longer, depending on whether there are any delays along the way.

The WTO DSM facilitates global trade by deterring non-compliance with free trade principles through the imposition of a legal process for countries reneging on WTO commitments. This leads to enforcement if non-compliance is found, but the DSM is careful to limit the level of retaliation so as to not encourage countries to withdraw from the WTO. Some legal scholars suggest the WTO DSM is more than just a commitment and enforcement device: it also serves to clarify legal rules (Schwartz and Sykes 2002). However, research suggests the DSM appears to be an enforcement device, not a rules-clarification device (Sattler, Spilker and Bernauer 2011). It also appears to work fairly well, as 83% of panel or AB reports are implemented, though implementation is tougher with trade remedies, sanitary and phytosanitary measures, agriculture, and subsidies (Davey 2005).

While the move from the GATT to the WTO was intended to limit the impact of power by shifting from a diplomatic approach to a rules-oriented highly legal system, this has not necessarily worked out. The transition to the WTO has raised entry costs into the dispute settlement system, as legal capacity has become increasingly important (Busch and Reinhardt 2003*a*; Kim 2008). While there have been many AD duties imposed by countries over time, only a fraction have been disputed at the WTO. Due to costs, countries are less interested in disputed duties over small amounts of trade (Bown 2005*a*,*b*). Some research suggests asymmetry plays a role in DSM usage, as smaller states stay away from disputes

because they fear revenge or lack the ability to enforce rulings through retaliation(Francois, Horn and Kaunitz 2010). As such, as power asymmetry between countries rises, disputes are less likely to be initiated (Sattler and Bernauer 2011).

More particular characteristics of countries and/or subject-matter of the issues at hand also shape dispute escalation. All-or-nothing lumpy disputes, where there is limited area for compromise, are more likely to go to panels, while early settlement is more likely with disputes over easily divisible issues like tariff rates (Guzman and Simmons 2002). Environmental, health, and safety issues are more likely to end up in compliance review panels. Finally, countries tend to "learn by doing", as developing countries are more likely to initiate a dispute if they have been involved in dispute before (Davis and Bermeo 2009).

4 Countersuits and Tit-for-Tat Strategy

Busch and Reinhardt (2002) note a possible tit-for-tat pattern of some WTO disputes, as respondents may file "countersuits" soon after the original dispute. Reinhardt (2000) finds that a WTO dispute initiation raises the probability that the respondent will file a dispute of their own against the complainant within a year by more than fifty times. "Technically, tit-for-tat countersuits are not permitted by the WTO," according to Stephen Kho, an international trade lawyer and former associate counsel at the Office of the United States Trade Representative (USTR), "but countries appear to be using this strategy. Some of them are not shy about it, either."[2]. Tit-for-tat WTO lawsuits are especially common for the main litigants: the United States, Canada, and the EU (Klimenko, Ramey and Watson 2008). There are numerous examples of these tit-for-tat disputes, including Canada filing a dispute against U.S. dairy restrictions immediately after the U.S. filed against Canada's ice cream and yogurt quotas (Hudec 1993; Klimenko, Ramey and Watson 2008), mutual accusations by Brazil and Canada over export subsidies for aircraft manufacturers (Valles and McGivern 2000), Russia filing a claim against EU energy laws and antidumping duties

[2]Interview with the author, July 2015

in response to the EU disputing Russian barriers on pork and automobiles [3], and the EU and China battling over steel and iron fasteners and footwear. In a very recent example, Ukraine initiated a WTO dispute against environmental charges applied by Moldova on the beverages sector; within a month, Moldova followed with a WTO dispute against taxes charged by Ukraine on foreign spirits, a dispute that was highly connected to the original one.[4]. Ukraine has yet to bring the original dispute to a panel.[5]

The use of countersuits "appears to be part of a disturbing trend in which countries engaged in actions that are inconsistent with their WTO obligations retaliate with counter complaints rather than fix the underlying problem raised in the complaint."[6]. Beshkar and Bond (2008) argue that the large number of tit-for-tat WTO disputes function like frivolous lawsuits, used as a strategy countries use to raise the costs on the complainant, in an effort to bog them down. Indeed, some treat countersuits as a normal response to a WTO dispute. After the EU initiated a dispute against South Korean ship building subsidies, Hong Kee-doo, a Director General in South Korea's Ministry of Commerce stated that "it is convention that when a country files a complaint to the WTO for trade dispute settlement with another nation, the defendant customarily files a countersuit."[7]

Tit-for-tat strategy serves two main purposes: it allows for retaliation in the short-term, and enforces cooperative behavior in the long-term. The strategy becomes a disciplining tool to encourage cooperation by threatening a loss of future benefits from non-cooperation (Axelrod and Hamilton 1981). This type of discipline works well at an institution like the WTO, where the DSM's limits on retaliation helps reduce the possibility of tit-for-tat strategies leading to destructive outcomes like a trade war (Schwartz and Sykes 2002; Bown and Ruta 2010).

[3]See: http://www.borderlex.eu/russia-tests-waters-wto-dispute-settlement-eu-complaints/

[4]See: http://www.ictsd.org/bridges-news/biores/news/tit-for-tat-in-ukraine-moldova-wto-row

[5]This series of disputes occured well before Ukraine's conflict with Russia, which would obviously have been a more important national concern than a trade dispute; they had a substantial amount of time before that conflict began to pursue the dispute further, but did not.

[6]See: http://www.ictsd.org/bridges-news/bridges/news/argentina-trade-tensions-escalate-with-six-new-wto-cases

[7]See:http://www.marinelog.com/DOCS/NEWSMMIII/MMIIIJun12.html

5 Theory

Given the costs associated with dispute initiation, as well as the likelihood of winning a WTO case, countries have little incentive to initiate a dispute to only abandon it in the consultation phase. However, this is precisely what happens to a large share of WTO disputes. I theorize that this pattern is due to tit-for-tat behavior from respondents. These countries essentially initiate countersuits at the WTO, in an effort to influence the complainant country to drop the initial dispute, but use the WTO as a way to minimize the negative fallout from such an action. Countries can always put up their own trade barriers, but this risks a potentially destructive trade war, something a WTO countersuit is unlikely to result in, given the restraints of the WTO DSM.

The data suggests that these countersuits are tit-for-tat in nature. The average time between a trade barrier being imposed and a dispute initiated for disputes that are not categorized as tit-for-tat is 45 months, whereas the same time gap is 97 months for a tit-for-tat dispute. This is a large difference and suggests that countries are not randomly initiating disputes soon after being targeted by another country. Countries interested in challenging trade barriers shouldn't need over 4 years to determine whether they want to take a case to the WTO.

The key actors are government leaders, particularly chief executives, and key figures in industries, mostly likely upper-level management. Chief executives tend to have a large influence over trade policy, so they are more important than the legislature in this scenario. These leaders can use trade policy to signal industries that they support them. Leaders could use the WTO DSM to signal the general voting public, but voters struggle to vote for their own trade interests or understand overall trade policy, let alone something as specific as trade barriers, so it seems unlikely that they would understand the signal (Hainmueller and Hiscox 2006; Guisinger 2009; Mansfield and Mutz 2009). However, industry leaders understand trade policy affecting them and have the financial and political capabilities to help or harm government leaders, so it seems likely that they are the key audience.

Industries also put pressure on leaders, and there are competing interests at play. On the one hand, industries impacted by questionable trade barriers should favor leaders challenging those barriers and not abandoning those challenges. On the other hand, industries not impacted by those barriers (and even those who are) might be concerned about retaliation from the other country in response to any action taken (Blonigen and Bown 2003). As such, leaders are undoubtedly balancing industry voices, some who should favor dispute resolution, and others who should support abandoning a dispute for fear of retaliation.

Beshkar and Bond (2008) note that countersuits are comparable to frivolous lawsuits, aimed to impose additional costs on the complainant to encourage an end to the dispute. Thus, a countersuit becomes a way for countries to send a costly signal that conveys their disappointment in the initial dispute, as dispute initiation involves legal, political, and diplomatic costs (Davis 2012). Unlike other policy choices, including trade barriers, which risk the possibility of a trade war or even more dangerous outcomes, a WTO dispute has the benefit of the DSM's limits on retaliation, making a countersuit a costly signal, but a constrained one (Schwartz and Sykes 2002; Bown and Ruta 2010). As Kho notes, countersuits are used by countries "to play defense. They could either use them as a threat to bury their opponents in additional paperwork, or more likely to remind the original complainant that nobody has clean hands when it comes to international trade barriers. In both cases their main motivation is to encourage the complainant to back off from the original case."[8] Brazil may have employed this strategy in the Canada-Brazil aircraft disputes, according to Rambod Behboodi, Canada's former Senior Legal Advisor to the WTO. Brazil, knowing it was likely to lose the case over its export financing program called PROEX, and in need of a political win at home, crammed their countersuit with "many claims in the hope that some of them would win, or that the weight of the overall evidence would suggest to the panel that there was something unsavory going on that they should do something about it."[9] The hope was that, over concerns that any one of the claims would hold, Canada would abandon

[8]Interview with the author, July 2015.
[9]Interview with the author, November 2015.

the case.

While there are multiple reasons behind dispute abandonment, facing a countersuit is one "very plausible" explanation, according Behboodi. It "forces the original complainant to think carefully about the position it takes" and also "drags other stakeholders so as to stop the dispute from moving forward"[10], including other companies or industries not impacted by the first case. In the Canada-Brazil aircraft cases, this was critical in the countersuit, particularly the involvement of Pratt and Whitney, a Canadian aircraft engine manufacturer not affected by the initial dispute. "Pratt was interested in one of the programs under attack by Brazil, and so suddenly we (Canada) had to deal with not only Bombardier but another major player in the aerospace sector."[11]

Table 1: Number of Countersuits Countries Intiate or are Targeted By

Country Name	**Countersuits Initiated**	**Countersuits Targeted By**
Argentina	0	2
Australia	1	1
Brazil	7	2
Canada	10	7
Chile	1	1
China	7	7
Czech Republic	1	0
EU	34	34
Hungary	0	1
India	6	8
Japan	1	2
Mexico	2	5
Moldova	1	0
Philippines	0	1
South Korea	5	0
Ukraine	0	1
United States	31	40

Kho adds that, for the original complainant, countersuits are a "drag on resources, such as manpower, budgets, and time." Accordingly, a country will "chose its battles wisely." [12]

[10]Interview with author, November 2015
[11]Interview with the author, December 2015.
[12]Interview with the author, November 2015.

Abandoning an initiated dispute is a key way countries can walk away from such a battle and limit its costs. These costs, according to Behboodi, are primarily about litigation strategy, as countersuits raise "the political and policy cost, rather than the costs of lawyers, of Canada bringing the initial case. The countersuit made us particularly careful in the formulation of our argument. The more the claims, the more comprehensive we had to be in our due diligence. It is not the dollars and cents that matter at that point, but rather the extra policy care we had to take."[13] In order to avoid these costs, a leader assumes that if they abandon the initial dispute, the countersuit will also be abandoned, thus avoiding any potential issues. The data backs this up, as the vast majority of countersuits are abandoned if the original dispute is abandoned as well.

H1: *A WTO dispute is more likely to be abandoned if targeted by a countersuit.*

It is important to note that countersuits serve as a deterrent to follow through with the initial dispute, but should not be a deterrent for countries to initiate disputes in the first place for several reasons. Countersuits are not pursued in every instance, and while countries might have some uncertainty whether initiating a WTO dispute will lead to a countersuit, they are certain about the positive benefits of initiating a dispute. Behboodi points out that countries certainly do account for the possibility of countersuits when deciding whether to intiate a dispute in the first place[14], but, as Kho notes, these concerns will likely be overridden by the merits of the case and the demand of "powerful domestic constituents."[15]

As noted above, leaders also have to account for industry voices. As the amount of trade impacted by a dispute rises, this suggests a stronger, or at least more motivated, domestic

[13]Interview with the author, November 2015. Legal capacity asymmetry is, thus, not a major factor. A closer look at countersuit patterns suggests this, too: while there is variation, countries who both initiated and were targeted by countersuits were either major developed countries, like the United States and European Union, or rising market powers, like Brazil, China, Mexico, and India, as seen in Table 1. While poorer countries, more vulnerable to legal asymmetry disadvantages, do initiate disputes at the WTO, countersuits tend to be pursued by, and targeted towards, more legally capable countries.

[14]Interview with the author November 2015

[15]Interview with the author, November 2015.

industry that should attempt to lobby the government to resolve, and not abandon, the dispute. In contrast, the more important a respondent is as an export market for a complainant, the more likely it is that exporters will mobilize and lobby for negotiation and conciliation, and not a continuation, of a WTO trade dispute, for fear of potential retaliation from the respondent.

H2: *The more trade is affected by the dispute, the less likely it is to be abandoned.*
H3: *The more important the respondent's export market is, the more likely it is that the dispute will be abandoned.*

6 Data and Model

To test my theory, I employ a logit model examining all WTO disputes from 1995-2011; this covers 427 disputes. My dependent variable is whether a WTO dispute is abandoned or not. The average time between dispute initiation and panel constitution is approximately five months, with a six month standard deviation, so I keep that in mind in order to allow enough time for a dispute to actually reasonably go to a panel before coding it as abandoned. This does not pose a problem for my data, as the last dispute I have was initiated in September 2011. Following Reynolds (2009), I examine data from the year the dispute was initiated. For my covariates, since I am examining domestic political variables, the European Union presents an issue since its domestic politics obviously differ from a normal country As such, I use German domestic political variables for the EU, since Germany is the dominant EU power. I use EU trade data, however, including product level data. I gathered data from the WTO website[16], as well as data from Horn, Johannesson and Mavroidis (2011) and Bown (N.d.), and coded every dispute as either being abandoned or not. Disputes not abandoned have either gone to a panel, or have been settled early. Behboodi notes that the cases listed

[16]See: https://www.wto.org/english/tratop_e/dispu_e/dispu_status_e.htm

as not having gone to panel, but not denoted as having a mutually agreed solution, are likely abandoned, as "countries don't necessarily want to admit they have climbed down." They often prefer to privately back away from some of their initial stances to diffuse the situation and quietly "abandon the case than publicly admit that the complainant was right, that the threats were empty, or that the complainant did not get everything they wanted."[17] For disputes involving more than one complainant, I followed Busch and Reinhardt (2002) and created a separate observation for each dyad. As a result, from 427 disputes, I have 450 observations.

My main explanatory variable is whether a dispute was subject to retaliation or not. Using the data generated above, I coded a dispute as being retaliated against if the respondent in the initial dispute filed a WTO dispute against the complainant within 12 months of the original dispute, as others have done (Reinhardt 2000; Busch and Reinhardt 2002; Hartigan 2009). I matched the countersuits to the corresponding initial disputes. I was careful to eliminate duplicates, as well as ensure the disputes matched up correctly.[18] I expect this variable will be significant and positively signed. I also include a variable that measures whether a dispute was retaliatory or not, based on the findings in Reynolds (2009). I do not expect this variable to be significant, as initiating weak countersuits would defeat the purpose of using them for tit-for-tat purposes, but if these are, indeed, weak disputes, the variable should be significant and positively signed.

There are several alternative reasons why a country might abandon a dispute, and it is critical to account for these to ensure that the presence of a countersuit, and not these other explainations, is doing the explanatory work. Behboodi points out that there are several reasons why countries may abandon WTO disputes: "countries don't have good cases; countries find a dispute to be too damaging and fear a trade war; and countries determine that the costs of retaliatory policies outweigh the costs of winning a dispute."[19]

[17]Interview with author, December 2015.

[18]I also coded retaliatory disputes as those happening within 2 years of the initial dispute, but this did not alter the results.

[19]Interview with author, August 2015

To account for countries initiating weak cases, I measure legal capacity and inexperience at the WTO. Given the strong WTO case law, countries should have a reasonable idea of what is and isn't a good case to initiate. That being said, countries with weak legal capacity might have a harder time determining whether they have a strong case or not. To address this, I use the log of the complainant's GDP/capita, a common measure for a country's legal capacity. This happens to be the main explanatory finding in Reynolds (2009). However, that work did not include product-level data for each dispute, which is something I include. I expect this variable will be insignificant, or at the very least, will not have an impact on my main variable of interest, the retaliation variable. If it is significant, it should be negatively signed. I also include a variable that accounts for whether a dispute is a complainant's first one. Based on Davis and Bermeo (2009), the argument is that there is a learning curve at the WTO, and that first time complainants might be more likely to abandon disputes because they are unprepared for it. Again, I do not suspect this variable will be significant, but if it is, it should be positively signed. Inexperienced countries with low legal capacity may very well not know they don't have a good case, but it seems likely that this would be a good reason for them to not initiate a dispute in the first place.

To account for disputes causing great damage, I include trade data. This is a way to measure industry incentives to lobby a leader to either abandon or continue with a trade dispute. I use data from Bown and Reynolds (2014) that measures the amount of trade affected by each dispute. I expect this variable will be negatively signed, as more products impacted should signal a domestic industry that has more to lose from a dispute being abandoned, and I expect those industries will lobby the government to continue with the dispute. To measure the respondent's export market, I construct a variable from the World Integrated Trade Systems (WITS) data from the World Bank[20] that measures the complainant country's total exports to the respondent as a percent of their total global exports. I expect this variable to be positively signed; the larger the export share becomes, the more important the

[20]See:http://wits.worldbank.org/WITS/WITS/Default-A.aspx?Page=Default

complainant's market is to exporters, who I expect will lobby the government to abandon the dispute to avoid possible retaliation.

To account for disputes being more costly than expected, the trade data could be useful. However, these costs should be somewhat predictable. In contrast, a respondent increasing trade barriers following a WTO dispute is somewhat unexpected, and could be a better measure for this dynamic. As such, I include tariff data, also generated from the WITS database. I calculate the difference in the weighted average tariff rate of the respondent for all imports from the complainant from the year before the dispute to the year after the dispute. If the respondent raises tariffs overall against the complainant, this unexpected cost would certainly make the dispute more damaging, and might incentivize dispute abandonment, as domestic pressure in the complainant country might mount in response to higher tariffs. However, the opposite could easily occur, as new trade barriers could encourage leaders to remain steadfast to ensure the respondent is punished. I am ambivalent about the effect of this variable, and suspect it will actually be insignificant, but I want to include it in case it leans in one particular direction. If significant, this variable should be negatively signed if leaders become more steadfast in the face of increased trade barriers after dispute initiation, and positively signed if leaders retreat from disputes when confronted with increased tariffs.

I also include a variety of control variables. Research suggests that electoral politics play a role in WTO dispute timing (Chaudoin 2014; Pervez 2015), so it may play a role in abandoned disputes. Namely, it may be that election-year disputes, which are more political, may be weaker and more likely to be abandoned after an election. However, I do not expect this variable to be significant, since leaders partaking in this kind of activity would likely be punished by industries. I create a variable that measures whether a dispute is initiated between 2-12 months before an election of the executive. For EU data, I use Germany as a proxy for this variable. I also include a measure for the complainant's democracy status using the dichotomous measure of democracy (Cheibub, Gandhi and Vreeland 2010). Leaders in democracies are held accountable in different ways than autocracies, particularly to special

interests, and although most of the countries in the data are democracies, some are not, so I want to be sure to control for it.

Since they comprise a large share of WTO disputes and constitute the two strongest economic powers in the world, I include a variable that codes whether a dispute has either the US or EU as the respondent. While the export share variable should capture the concern of exporters over retaliation from their key markets, the EU and US are much stronger than most, so I want to ensure that they don't have a unique effect. This variable could have either a positive (countries value these markets so highly that they are unwilling to abandon a dispute, no matter the consequences) or negative (countries fear retaliation from the strongest economic actors in the WTO). However, given their important role in ensuring the economic system remains open, it is possible both the EU and US don't partake in many countersuits for fear of undermining the WTO system, something they value highly (Garrett and Smith 2002). If this is true, than this variable should be negatively signed.

I also include several dispute characteristics in the data. I include a variable that measures the number of third parties in a dispute. Based on Busch and Reinhardt (2006), third parties make negotiating difficult, meaning cases are more likely to go to a panel. As such, I expect this variable will be negatively signed, as more third parties should make it very difficult to agree to anything except to go to a panel. In the analysis, I drop any disputes that are linked with other ones. There aren't many, but I want to make sure I don't increase my sample size inappropriately by using data for two or more disputes that really only pertain to a single dispute. Finally, per Reynolds (2009), I include a variable that measures whether a case involves either an antidumping or countervailing duty. These duties involve periodic reviews, meaning that these disputes might be more likely to be abandoned, since complainants could just wait for the review process.

Table 2: Summary Statistics

Variable	Mean	Std. Dev.	Min.	Max.	N
Abandoned Dispute	0.32	0.467	0	1	450
Election w/in 2-12 months of Dispute Initiation (Ger as EU)	0.204	0.404	0	1	450
Complainant Years until Election (Ger as EU)	1.658	1.293	0	5	445
Election within 2-12 months of Dispute Initiation	0.169	0.375	0	1	450
Complainant Years until Election (No EU)	1.717	1.332	0	5	360
Complainant Democracy Status (Ger as EU)	0.953	0.211	0	1	408
Complainant Democracy Status (No EU)	0.942	0.234	0	1	329
Complainant Democracy Status (Polity)	8.720	2.956	-7	10	429
Complainant Legal Capacity	9.297	1.283	5.949	11.27	446
Complainant is OECD Member	0.66	0.474	0	1	450
(Log) Complainant Affected Trade Value to Respondent in Dispute Year	17.772	3.12	6.496	23.879	289
Percent of Complainant Global Exports going Respondent in Dispute Year	0.161	0.227	0	0.877	348
First Time Country is a WTO Dispute Complainant	0.096	0.294	0	1	450
Number of Third Parties in WTO Dispute	2.752	3.875	0	18	315
Dispute Retaliated Against	0.249	0.433	0	1	450
Retaliatory Dispute	0.238	0.426	0	1	450
Share of Respondent Global Exports to Complainant	0.125	0.172	0	0.848	349
US or EU is the Respondent	0.451	0.498	0	1	450
(Log) Respondent GDP	28.134	2.093	22.354	30.576	450
Change in Respondent Weighted Overall Tariff Rate vs. Complainant after Dispute	-0.371	4.043	-16.6	27.58	278
Antidumping or Countervailing Duty Dispute	0.224	0.418	0	1	450

7 Results

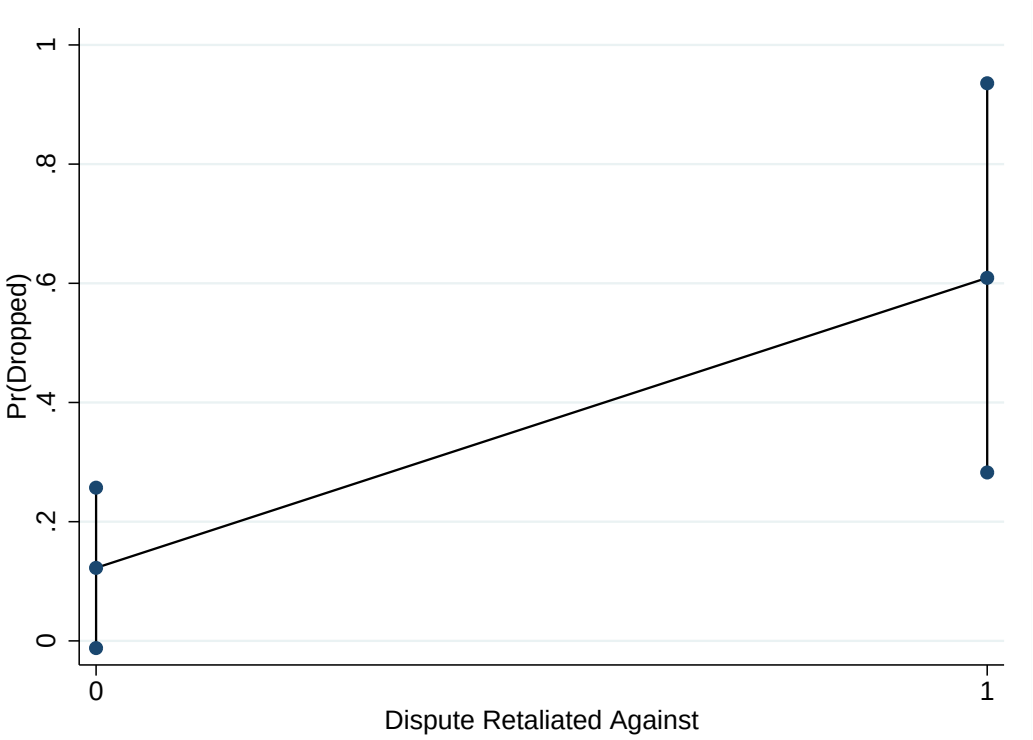
The results in Table 3 support my hypothesis that countersuits may explain WTO dispute abandonment. The retaliation variable is significant and correctly signed in each model, and the effect is substantively large, too. This illustrates that, controlling for a variety of key variables, the presence of a tit-for-tat WTO countersuit has an impact on whether countries decide to abandon disputes they have initiated, with the expectation that the countersuit will then be abandoned as well. The control variables also tend to work as expected. Third parties have a negative effect on dispute abandonment, since they tend to push disputes towards panels. The amount of products affected by a dispute have a negative effect on abandonment, as these industries push for resolution, although this variable is not consistently significant. The percentage of complainant total exports going to the respondent has a positive effect as expected, since a larger export share means more exporters should be wary of retaliation and could pressure the government to abandon the dispute. Like affected product trade flows, this variable is not consistently significant, but it is always correctly signed. Legal capacity is significant and negative in some models, suggesting that countries with little legal expertise may initiate disputes without fully knowing what they are getting into, and then need to abandon the dispute. However, this variable is not consistently significant, and is insignificant in the two best-fitting models, 3 and 4, which suggests that countersuits are costly beyond legal capacity.[21] Finally, there does seem to be some effect of filing a case against the EU or US. Countries seem unwilling to abandon these disputes, suggesting the potential market access is too valuable for them to forego.

To better illustrate the main finding, Figure 1 plots the predicted probability of a dispute being abandoned. The graph shows that the effect of a countersuit is quite substantial. Holding all other variables constant, the predicted probability of a dispute being abandoned jumps over 40 percentage points if that dispute is targeted by a coutersuit. This is a very

[21] I also tested whether legal asymmetry was significant, not shown here. Not surprisingly, it was insignificant, both as a stand-alone variable and a conditional variable interacted with the main independent variable. I detail this more in a footnote in the Robustness section.

large finding, particularly given the fact that I account for a variety of other variables. The overal picture is very easy to see in that figure: countersuits play a critical role in the progress of WTO disputes, and seem to be closely linked to abandoned disputes.

Figure 1: Predicted Probability (with 95% CIs) of a WTO Dispute Being Abandoned



This graph illustrates cases where the complainant is a democracy, the dispute is not a countersuit nor the complainant's first dispute and is initiated in an election year, the export share is almost one standard deviation above average, the respondent is either the US or the EU, there are two third parties, and the dispute does not involve antidumping or countervailing duties. All other values (legal capacity, the log of the amount of affected trade, and share of the respondent's exports to the complainant, and the change in the respondent's average weighted tariff rate to the complainant following the dispute, are set at their means. I use model 4 from Table 2 in this graph, as it is the best fitting model, based on the Akaike information criterion (AIC).

8 Robustness

In order to test whether my main finding, that tit-for-tat WTO countersuits played an important role in explaining why countries abandon WTO disputes, I tried alternative measures for some of my key variables. Tables 4-6 illustrate the results. Overall, the variable

Table 3: Predictors of WTO Dispute Abandonment

	(1)	(2)	(3)	(4)
Election w/in 2-12 months of Dispute Initiation (Ger as EU)	0.130	0.159	-0.0728	0.108
	(0.409)	(0.415)	(0.507)	(0.512)
Complainant Democracy Status (Ger as EU)	0.00911	0.000646	-0.485	-0.0605
	(0.623)	(0.619)	(0.820)	(0.772)
Complainant Legal Capacity	-0.342*	-0.348*	-0.286	-0.327
	(0.164)	(0.167)	(0.201)	(0.202)
(Log) Complainant Affected Trade Value to Respondent in Dispute Year	-0.0819	-0.0538	-0.167+	-0.0976
	(0.0649)	(0.0678)	(0.0909)	(0.0900)
Percent of Complainant Global Exports going to Respondent in Dispute Year	0.851		1.519	3.179*
	(0.859)		(1.034)	(1.281)
First Time Country is a WTO Dispute Complainant	-0.599	-0.561	-0.408	0.287
	(0.574)	(0.583)	(0.720)	(0.780)
Number of Third Parties in WTO Dispute	-0.589*	-0.580*	-0.728*	-0.720*
	(0.136)	(0.134)	(0.225)	(0.219)
Dispute Retaliated Against	1.342*	1.464*	2.322*	2.737*
	(0.544)	(0.554)	(0.865)	(0.934)
Retaliatory Dispute	0.381	0.440	-0.0506	0.225
	(0.492)	(0.496)	(0.582)	(0.606)
Share of Respondent Global Exports to Complainant	1.647	1.438	-0.0375	-1.808
	(1.185)	(1.248)	(1.165)	(1.429)
Antidumping or Countervailing Duty Dispute	0.483	0.581	0.0593	0.0565
	(0.375)	(0.381)	(0.539)	(0.542)
US or EU is the Respondent		-0.177		-1.632*
		(0.432)		(0.759)
Change in Respondent Weighted Overall Tariff Rate vs. Complainant after Dispute			-0.0716	-0.0707
			(0.0565)	(0.0613)
Constant	4.045*	3.752*	5.766*	4.987*
	(1.533)	(1.536)	(2.122)	(2.061)
Observations	202	202	129	129
Pseudo R^2	0.256	0.253	0.362	0.387

Standard errors in parentheses
$^{+}$ $p < 0.10$, * $p < 0.05$

measuring if the dispute was retaliated against was significant and correctly signed in every single model specification. This suggests that my finding is particularly robust.

In Table 4, I first use a linear election variable in place of the dummy variable I use in the main models. If elections impact the pattern of abandoned disputes, a linear version of the variable makes little theoretical sense, as there is no conceivable reason why leaders would care more if they were 3 or 4 years out from an election. However, to be certain, I test this anyway, and find it is not significant. As an alternative to the US/EU respondent variable, I use the log of the respondent's GDP. This gets at respondent market size like the US/EU variable does, albeit not focusing solely on the extremely large markets. This variable is significant and correctly signed, but more importantly, the retaliation variable is still significant.

In Table 5, I substitute OECD membership for the log of a country's GDP/capita. Legal capacity uses wealth as a proxy for legal prowess, and OECD membership gets at a similar concept, as the OECD comprises most of the wealthy nations in the world. That variable was consistently significant and correctly signed, suggesting that countries with poor legal capability might initiate a dispute before they are truly ready and then need to abandon it. I also use the Polity IV democracy score (Polity 2012) as a substitute for the dichotomous democracy variable. The variable is insignificant, just like the democracy variable. In this table, again, none of the changes made impacted the countersuit variable.[22]

Finally, in Table 6, I dropped all EU data from the analysis. While I have EU data for trade flows, there is no comparable data for some political variables, such as election year and democracy. For those, I used German data for the EU. However, in Table 6, I run the main models, but without any EU entries. The results seem fairly similar to the original ones, and the countersuit variable still holds.

[22]Even though legal capacity asymmetry should not play a role, per Behboodi's comments and the development level of countries both pursuing, and targeted by, countersuits, I ran models testing whether legal capacity asymmetry, measured by whether the initial dispute respondent was an OECD country and the complainant not, had a conditional effect on the retaliation variable through in interaction effect. It did not, nor did a version of this variable measuring the difference in the log of each country's GDP/capita, suggesting that legal capacity does not have a conditional effect on retaliation via a countersuit.

Table 4: Predictors of WTO Dispute Abandonment, Robustness

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Complainant Years until Election (Ger as EU)	-0.132	-0.172	0.0587	-0.0578				
	(0.140)	(0.141)	(0.195)	(0.187)				
Complainant Democracy Status (Ger as EU)	-0.143	-0.0360	-0.444	-0.124	-0.0533	0.271	-0.504	0.416
	(0.652)	(0.633)	(0.796)	(0.753)	(0.638)	(0.592)	(0.790)	(0.778)
Complainant Legal Capacity	-0.388*	-0.417*	-0.286	-0.330	-0.380*	-0.380*	-0.288	-0.316
	(0.162)	(0.169)	(0.199)	(0.204)	(0.160)	(0.163)	(0.201)	(0.199)
(Log) Complainant Affected Trade Value to Respondent in Dispute Year	-0.0884	-0.0657	-0.165+	-0.0989	-0.0812	-0.0316	-0.167+	-0.0623
	(0.0638)	(0.0683)	(0.0900)	(0.0901)	(0.0644)	(0.0743)	(0.0905)	(0.0975)
Percent of Complainant Global Exports going to Respondent in Dispute Year	1.174	2.351*	1.498	3.281*	1.066	2.471*	1.546	3.028*
	(0.846)	(1.152)	(1.077)	(1.280)	(0.847)	(0.995)	(1.077)	(1.179)
First Time Country is a WTO Dispute Complainant	-0.686	-0.591	-0.427	0.284	-0.693	-0.560	-0.420	0.385
	(0.560)	(0.563)	(0.727)	(0.782)	(0.559)	(0.557)	(0.723)	(0.796)
Number of Third Parties in WTO Dispute	-0.578*	-0.567*	-0.731*	-0.716*	-0.583*	-0.558*	-0.726*	-0.706*
	(0.133)	(0.133)	(0.223)	(0.216)	(0.132)	(0.131)	(0.217)	(0.203)
Dispute Retaliated Against	1.363*	1.464*	2.326*	2.744*	1.337*	1.465*	2.321*	2.638*
	(0.535)	(0.548)	(0.855)	(0.914)	(0.543)	(0.542)	(0.862)	(0.890)
Retaliatory Dispute	0.437	0.607	-0.0573	0.244	0.411	0.655	-0.0437	0.265
	(0.495)	(0.516)	(0.576)	(0.608)	(0.483)	(0.469)	(0.579)	(0.581)
Share of Respondent Global Exports to Complainant	1.831	1.149	-0.0158	-1.820	1.849	1.267	-0.0186	-1.082
	(1.181)	(1.308)	(1.146)	(1.398)	(1.162)	(1.129)	(1.155)	(1.225)
US or EU is the Respondent		-0.831		-1.662*				
		(0.595)		(0.751)				
Change in Respondent Weighted Overall Tariff Rate vs. Complainant after Dispute			-0.0699	-0.0702			-0.0707	-0.0348
			(0.0537)	(0.0587)			(0.0546)	(0.0575)
Election w/in 2-12 months of Dispute Initiation (Germ as EU)					0.133	0.235	-0.0772	0.0441
					(0.409)	(0.409)	(0.504)	(0.513)
(Log) Respondent GDP						-0.279*		-0.441*
						(0.116)		(0.179)
Constant	5.023*	4.996*	5.608*	5.228*	4.522*	10.78*	5.815*	15.47*
	(1.611)	(1.583)	(2.127)	(2.105)	(1.503)	(2.993)	(2.137)	(4.489)
Observations	202	202	129	129	202	202	129	129
Pseudo R^2	0.253	0.260	0.363	0.388	0.250	0.271	0.362	0.400

Standard errors in parentheses
$^{+}$ $p < 0.10$, * $p < 0.05$

Table 5: Predictors of WTO Dispute Abandonment, Additional Robustness

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Election w/in 2-12 months of Dispute Initiation (Ger as EU)	0.128 (0.398)	0.160 (0.401)	-0.0779 (0.507)	0.142 (0.523)	0.194 (0.405)	0.209 (0.407)	0.0470 (0.518)	0.150 (0.521)
Complainant Democracy Status (Ger as EU)	-0.188 (0.677)	-0.203 (0.679)	-0.941 (0.892)	-0.536 (0.856)				
Complainant is OECD Member	-0.789* (0.386)	-0.810* (0.383)	-1.101* (0.524)	-1.389* (0.538)				
(Log) Complainant Affected Trade Value to Respondent in Dispute Year	-0.102+ (0.0619)	-0.0702 (0.0629)	-0.172+ (0.0922)	-0.0868 (0.0891)	-0.0798 (0.0585)	-0.0705 (0.0622)	-0.182* (0.0908)	-0.131 (0.0951)
Percent of Complainant Global Exports going to Respondent in Dispute Year	0.885 (0.853)		1.710 (1.059)	3.764* (1.319)	1.440+ (0.750)	1.885+ (1.059)	1.656+ (0.891)	2.960* (1.276)
First Time Country is a WTO Dispute Complainant	-0.577 (0.586)	-0.531 (0.586)	-0.540 (0.730)	0.216 (0.772)	-0.266 (0.510)	-0.254 (0.507)	0.775 (0.954)	1.018 (0.800)
Number of Third Parties	-0.571* (0.133)	-0.563* (0.132)	-0.717* (0.224)	-0.711* (0.220)	-0.500* (0.115)	-0.497* (0.114)	-0.583* (0.180)	-0.583* (0.190)
Dispute Retaliated Against	1.417* (0.545)	1.550* (0.559)	2.434* (0.869)	2.952* (0.942)	1.007* (0.490)	1.045* (0.508)	1.844* (0.745)	2.092* (0.842)
Retaliatory Dispute	0.438 (0.499)	0.511 (0.505)	0.00774 (0.604)	0.345 (0.645)	0.654 (0.482)	0.689 (0.489)	0.138 (0.559)	0.258 (0.570)
Share of Respondent Global Exports to Complainant	1.270 (1.106)	1.012 (1.183)	0.114 (1.063)	-1.903 (1.368)	1.325 (1.094)	1.087 (1.184)	-0.450 (1.083)	-1.653 (1.356)
Antidumping or Countervailing Duty Dispute	0.595 (0.372)	0.706+ (0.381)	0.135 (0.548)	0.130 (0.548)				
US or EU is the Respondent		-0.219 (0.419)		-1.946* (0.779)		-0.320 (0.573)		-1.211 (0.812)
Change in Respondent Weighted Overall Tariff Rate vs. Complainant after Dispute			-0.0674 (0.0550)	-0.0676 (0.0607)			-0.0625 (0.0544)	-0.0580 (0.0564)
Complainant Democracy Status (Polity)					0.0381 (0.0481)	0.0369 (0.0472)	0.0374 (0.0678)	0.0417 (0.0630)
Complainant Legal Capacity					-0.284+ (0.160)	-0.292+ (0.162)	-0.172 (0.213)	-0.209 (0.215)
Constant	1.914 (1.224)	1.545 (1.231)	4.219* (1.756)	3.028+ (1.709)	3.231* (1.356)	3.207* (1.340)	4.221* (1.986)	3.986* (1.841)
Observations	202	202	129	129	216	216	131	131
Pseudo R^2	0.254	0.251	0.375	0.407	0.223	0.224	0.328	0.345

Standard errors in parentheses
+ $p < 0.10$, * $p < 0.05$

Table 6: Predictors of WTO Dispute Abandonmen, Additional Robustness (No EU)

	(1)	(2)	(3)	(4)
Election within 2-12 months of Dispute Initiation	0.237	0.262	-0.0728	0.108
	(0.444)	(0.450)	(0.507)	(0.512)
Complainant Democracy Status (No EU)	-0.0114	-0.0355	-0.485	-0.0605
	(0.630)	(0.631)	(0.820)	(0.772)
Complainant Legal Capacity	-0.373*	-0.363*	-0.286	-0.327
	(0.174)	(0.177)	(0.201)	(0.202)
(Log) Complainant Affected Trade Value to Respondent in Dispute Year	-0.123+	-0.0832	-0.167+	-0.0976
	(0.0709)	(0.0740)	(0.0909)	(0.0900)
Percent of Complainant Global Exports going to Respondent in Dispute Year	1.256		1.519	3.179*
	(0.935)		(1.034)	(1.281)
First Time Country is a WTO Dispute Complainant	-0.556	-0.510	-0.408	0.287
	(0.595)	(0.605)	(0.720)	(0.780)
Number of Third Parties in WTO Dispute	-0.636*	-0.619*	-0.728*	-0.720*
	(0.173)	(0.167)	(0.225)	(0.219)
Dispute Retaliated Against	1.342*	1.608*	2.322*	2.737*
	(0.623)	(0.662)	(0.865)	(0.934)
Retaliatory Dispute	0.110	0.179	-0.0506	0.225
	(0.552)	(0.553)	(0.582)	(0.606)
Share of Respondent Global Exports to Complainant	1.628	1.328	-0.0375	-1.808
	(1.244)	(1.317)	(1.165)	(1.429)
Antidumping or Countervailing Duty Dispute	0.509	0.658	0.0593	0.0565
	(0.413)	(0.422)	(0.539)	(0.542)
US or EU is the Respondent		-0.175		-1.632*
		(0.468)		(0.759)
Change in Respondent Weighted Overall Tariff Rate vs. Complainant after Dispute			-0.0716	-0.0707
			(0.0565)	(0.0613)
Constant	4.927*	4.355*	5.766*	4.987*
	(1.676)	(1.668)	(2.122)	(2.061)
Observations	178	178	129	129
Pseudo R^2	0.269	0.263	0.362	0.387

Standard errors in parentheses
$^{+}$ $p < 0.10$, * $p < 0.05$

9 Conclusion

In this paper, I believe I have taken an important step in explaining a particularly puzzling phenomena regarding WTO trade disputes. Overall, I argue that countries are using an international institution, here, the WTO DSM, to engage in tit-for-tat gamesmanship with fellow WTO members when they are dissatisfied with the action those members take against them. I examined the variation in dispute progress and found that countries are more likely to abandon these disputes, even after paying the high costs of dispute initiation, if they are hit with a countersuit at the WTO. These countersuits serve as a signal to the nation's leaders that they may have overstepped their bounds and that if the dispute isn't abandoned, the respondent will try to increase the costs they must pay by forcing them to defend themselves over a retaliatory dispute.

Other factors also play a role, particularly the size of the industry impacted by the original duty, or the number of exporters who may be wary of possible retaliation. However, the main variable of interest always stays significant, suggesting the results are very robust.

One of the main challenges with this type of research is uncovering stories. Media outlets don't regularly cover these topics, and leaders and WTO lawyers have incentives to not discuss the politics behind cases, and may be legally restricted from discussing inner-workings of cases. As such, it is difficult to find details on the specifics of WTO disputes, particularly over tit-for-tat disputes. However, I conducted interviews with international trade lawyers who confirmed the logic behind the mechanism, arguing that countersuits are intended to raise policy costs on the initial complainant in an effort to create incentives for them to abandon the original dispute.

As research has advanced beyond questions of whether institutions work to how they work, my findings suggest that countries can strategically use international institutions as a tool to signal their displeasure at a dispute being initiated without it turning into a trade war. In some ways, the WTO has worked well in this case, as almost every countersuit was dropped if the original dispute was abandoned. As such, countries upset with a dispute

can address their concerns through the WTO without ending up in a beggar-thy-neighbor world of increased trade barriers. However, the WTO was not supposed to be a venue where tit-for-tat political gamesmanship was played. In an effort to make the WTO particularly legalistic, its creators may have instead provided a good cover for politics-as-usual.

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