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**The GATT/ WTO Dispute Settlement: Performance of Developing and Developed
States in Initiated Disputes, 1948 – 2011**

MASTER'S THESIS

Leiden, 11.06.2012

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ACKNOWLEDGMENTS

I am highly indebted to Dr. Adam William Chalmers for his guidance and constant supervision as well as for his support in completing the thesis.

Also, I would like to express my gratitude towards Amer Sami for his kind encouragement and understanding which help me in completion of this challenging project.

LIST OF ABBREVIATIONS

DS Dispute Settlement

DSS Dispute Settlement System

DSU Understanding of Rules and Procedures Governing the Settlement of Disputes,
referred here as to Dispute Settlement Understanding

GATT General Agreement on Tariffs and Trade

WTO World Trade Organization

GATT/WTO DS abbreviation written with a slash sign is used to generalize about the
dispute settlement system of the two regimes

GATT and WTO DS abbreviation used separately is used to differentiate between
dispute settlement systems over two regimes

I. INTRODUCTION

Many scholars and experts have long argued that developing countries used to underperform developed countries in realizing disputed agreements under the GATT and early WTO regimes due to existing bias of both regimes against weaker states. Criticism of both regimes has arose (Guzman & Simmons, 2004; Busch & Reindhardt, 2003 et al.), which in turn has led to protests against the Organization – in last two decades there have been four major anti-WTO demonstrations¹ in different parts of the globe. Moreover, each time on the day and in the place where WTO Ministerial Conference is due, a demonstration is held. The active responses of the protests groups and criticism regarding the Organization make the issue of developed and developing countries of special importance to investigate it further.

The study aims at answering the research question: *To what extent does institutional change in GATT and WTO affect dispute outcomes between developing and developed states?* In this study I wish to check whether the transition from GATT Dispute Settlement System (DSS) to the WTO Dispute Settlement Understanding (DSU) has corrected the bias against developing countries, thus making them capable of eliciting as many trade related outcomes as developed countries. I argue that there should be an improvement in the position of developing states under the WTO Dispute Settlement Understanding (DSU). My view is motivated by the promising nature of institutional reforms that have taken place under the WTO and which were not present under the GATT. In short, the reforms in question eliminate the right of defendants to block panel's establishment or adoption of final reports; introduce formal stages of a resolution process and specific time frames; and finally, introduce appellate review of panel reports and a formal examination regarding implementation of panel's findings (A WTO Secretariat Publication, 2004: 15 – 16).

Firstly, I insist that trade concessions in favour of developing countries should be more frequent under the WTO than under the GATT. However, as the results show, this is not the case – the WTO regime does not seem to correct for the differences in obtaining trade concessions between developing and developed countries.

¹ I have used CNN online archives to find the demonstrations. I count anti-WTO protests in: Seattle in 1999, Cancun in 2003, Hong Kong 2005 and Geneva in 2009.

Moreover, I confirm that under the current WTO, reaching early settlement, e.g. panel stage, should have a positive effect on realizing the most favourable dispute outcomes by developing countries. As estimates prove, the shift from GATT to WTO makes developing countries more likely to elicit trade concessions once the dispute process includes a panel establishment. The finding is of special importance as it confirms the theory by Busch and Reindhardt (2003) that disputes which are solved in early settlement (including panel) make developing states more likely to elicit trade concessions from their developed counterparts.

Furthermore, I argue that third party presence in a dispute should be related to winning trade concessions by developing countries. Yet, the results show that third party presence is not related to the trade concessions with regard to the GATT and WTO regimes, which is of none support to my hypothesis.

In addition, I hypothesize that the shift from GATT to WTO makes developing countries more likely to elicit trade concessions once the dispute, in which the complainant participates, is of multi-complainant nature. The findings appear to be striking as they prove that it is developed states which benefit most from participating in multi-complainant disputes under the WTO.

Last but not least, I try to explain the variance in obtained outcomes, namely, (1) why developing countries lose trade concessions more often than developed states; (2) why panel establishment makes developing countries more likely to win trade concessions; (3) why multi-complainant disputes are in favour to developed states; and finally, (4) why the third party disputes do not have a causal effect on winning trade concessions by developing countries. I insist that this should be the legal capacity variable that explains the variance of winning or losing trade concessions between developed and developing states. However, it becomes apparent that not only the legal capacity but all remaining control variables in this study (aid, geographic endowment, and export shares) are not statistically significant in models for developed and developing countries. This means that these control variables are not the most reliable explanation to the obtained results, thus, none of these variables could give a clear answer to the above questions.

What new does this study offer to the existing literature? To begin with, this is the first research since the study by Bausch and Reindhardt (2003) that focuses on complainant's trade concessions as an outcome variable.

Secondly, this thesis focuses exclusively on disputes that are filed by developed and developing complainants against each other. Unlike other studies (Busch and Reindhardt et al.), this study does not take into consideration disputes which are filed between countries from the same country group, i.e. developed vs. developed. Looking at complainants exclusively from a perspective of different development levels is supposed to bring more accurate results than studies that do not distinguish between those levels.

This is also the first study which does not differentiate between levels of concessions. This study considers concessions as won or lost only. The won concessions are those which offer the winner a substantial liberalization of trade policy practices, whereas lost concessions are those which only partially fulfill (or do not fulfill at all) the winner's trade expectations.

This study uses the most up to date data and carefully checks for changes in the outcomes in regard to disputes from the first official dispute under the GATT to the last resolved dispute under the WTO, i.e. more than 60 years of disputes outcomes to analyze. The time frames for the analysis regard disputes between 1948 and 2011. The previous studies on disputes outcomes have not gone further than till 2000 and do not involve analysis that compares the GATT and WTO in so broad time perspective.

Moreover, this thesis uses a very broad country classification which highlights heterogeneity within the groups of developed and developing countries. The former studies have not considered country differentiation but segregated countries into two groups only: the developed (Canada, US, Japan, Australia, New Zealand, Switzerland, Norway and the EU-15 countries) and developing states (all remaining countries that are or used to be beneficiaries of the non-reciprocal Enabling Clause e.g. under the Generalized System of Preference). This classification, though easy to work with, misses the heterogeneity in the world of developed and developing countries, and thus, provides relatively less accurate data for statistical analysis.

Last but not least, several explanatory variables have been incorporated to this study in order to check their effect on trade concessions (experience in a trade regime, aid, geographic endowment and legal capacity). These variables are of experimental nature which means that these have been never studied in previous papers in regard to dispute outcome. Although legal capacity has been studied in a research by Busch and Reindhardt (2003), in

here it is studied too but operationalized in a different manner than commonly accepted – the GDP measure is replaced here with the Worldwide Governance Indicators.

This study contributes also to previous studies, especially to the study by Busch and Reindhardt (2003). This thesis highlights strength of the hypotheses made by the scholars that (1) these are the developing countries which suffer from the GATT and the WTO bias and that (2) panel establishment is an important factor in realizing trade concessions by developing states under the WTO.

The remainder of this paper is structured as follows. Chapter II includes literature review of what has been written on the issue of performance of developing and developed states under the GATT and WTO dispute settlement. More specifically, this chapter will elaborate on existing explanations regarding the dependent variable, i.e. the most favourable dispute outcomes, understood here as won trade concessions.

In order to assure understanding of the dispute settlement processes, a brief introduction to the GATT and WTO dispute settlement system is offered in Chapter III. Next chapter, chapter IV, is a theoretical part of this thesis. This is the part where theory and hypotheses are made, and variables are presented. Chapter V is a guideline to answer the research question. It includes data with sources, and specifies the case selection and methods. Also, operationalization of variables is performed in this chapter. The empirical tests analysis and main findings are presented in Chapter VI. The final chapter concludes this thesis, offers recommendations for future research, and summarizes contributions. It also lists problems and limitations that have been encountered during the research process.

II. LITERATURE REVIEW

This chapter will elaborate on crucial variables and hypotheses from existing studies with regard to developing and developed countries' performance in GATT and WTO dispute settlement.

It is argued in the literature that GATT was biased against developing countries, thus, these countries were less active in dispute initiation and less capable to realize most favourable dispute outcomes than developed countries (Busch and Reinhardt, 2003; Hudec 1987; Hudec 1993; Francois, Horn and Kaunitz, 2006).

How does the literature explain the meaning of the GATT bias against developing countries in terms of achieving the most favourable outcomes? In short, this is the "power politics" of the GATT bargaining structure of dispute resolution that is blamed for supporting stronger states at the cost of poorer ones (Braithwaite and Drahos, 2000: 196 – 200). In other words, the structure of dispute settlement processes enabled the stronger countries to have a full control over the dispute, therefore directing the resolution process to their own advantage.

A dispute blocking and positive consensus were examples of instances when a stronger country controlled the dispute in accordance to its wishes. Quite simply, if a developing country filed a dispute against a developed state, the defendant had the power to block the whole resolution process once did not agree with the developing country's complaint. By the same token, if a developing country wished to complain against a developed state about a certain issue, there needed to be a positive consensus from the defendant (developed country) to process the dispute for further consideration. What about if the developed defendant does not agree with claims of developing complainant? There is a likelihood that the positive consensus will be not granted, and thus, the issue will be never resolved. In the face of such a bias, these developing states lost the chance to obtain the most favourable outcomes from disputes under the GATT dispute settlement (Busch and Reinhardt, 2003).

Regarding the most favourable outcomes variable, literature is rather conservative and provides hardly two interpretations. The first one explains the most favourable dispute outcomes as the favourable final ruling (Hudec 1987), whereas the second one concerns trade

concessions (Busch and Reindhardt, 2003). In the early GATT era, a final ruling determined the success or failure of parties to a dispute, since it is the alpha and omega of the resolution and a guarantor of claims fulfillment. Busch and Reindhardt studying all disputes between 1980 and 1995 realized that final ruling could not be considered as the most favourable dispute outcome as it was not always the most satisfactory one. Seeing that it is more important to have policy practices liberalized than obtaining only a positive ruling, thus, the scholars have chosen trade concessions as the most favourable dispute outcome.

The GATT regime is believed to have been biased against weaker members (Hudec 1987 et al.), but opinions regarding the WTO regime are rather divided. On the one hand it is argued that WTO decreases position of developing states due to its “transaction costs”, namely, developing countries suffer from constraints that the more bureaucratic nature of the regime brings so they cannot make the best use out of the new system, which consequently makes them lose the dispute (Busch and Reindhardt, 2003; Smith, 2011: 547). On the other hand, the same authors notice a definite improvement in realizing a positive final ruling and trade concessions by stronger developing countries due to the institutional changes that have taken place.

Replaced in 1995 by the WTO, a power- and diplomacy-oriented GATT, “the veritable nightmare for developing countries” does not exist anymore (Oloka-Onyango & Udagama, 2000 [in:] Smith, 2011: 547). With its introduction, the WTO has brought along institutional changes that were expected to improve the efficiency of the resolution mechanism. It introduces (1) more detailed procedures regarding the various dispute stages; (2) time frames for each stage of a dispute settlement process. In addition, (3) the WTO Dispute Settlement Understanding (DSU) removes the right to block the panel proceedings or adoption of a report by the party that is being challenged. And finally, the WTO rules introduce appellate review of panel reports and a formal examination regarding implementation of panel’s findings (A WTO Secretariat Publication 2004, 15 – 16). As argued (Busch and Reindhardt, 2003; Smith, 2011: 547) these few reforms should improve position of developing countries in the WTO dispute settlement by lowering the bias for developed states.

In the literature, the theme why certain states win or lose trade concessions is not so expanded. There are only few explanatory variables that are used to test their effect on

realizing trade concessions. Studies draw attention to the stage on which the dispute is solved. For example, Busch and Reindhardt (2003) argue that disputes resolved on earlier stages have effect on whether involved parties win or lose trade concessions. Both scholars agree that the later the stage that the disputed agreement reaches in the dispute resolution procedure, the lower the chance of winning the dispute and securing the most favourable final outcomes. The scholars motivate their argument by claiming that stages of later resolution process, i.e. Appellate Body or Arbitration, produce “dispute dragging” which extends the time of the resolution but also brings financial expenses. As their study shows, disputes which are handled at stages of early settlement, like consultations or panel proceedings, are more likely to bring trade concessions.²

Subjects to the dispute, i.e. participation of third parties, and their effect on realizing trade concessions are not a popular theme of investigation. There is a general belief that the presence of third parties in a dispute is likely to prolong the dispute process and make the dispute end up with no resolution (Ortino and Petersmann, 2004). Ortino and Petersmann insist that the presence of third parties brings nothing more to the dispute but a disorder as the third parties express views that are not always related to the disputed issue. However, the assumption is rather theoretical and has been never statistically tested.

Another variable that could have a significant effect on trade concessions is the character of a dispute (i.e. whether it is a multi-complainant dispute or a dispute between one complainant and one defendant only). However, the variable and its effect on realizing trade concessions, has not been studied so extensively. Only Busch and Reindhardt (2003) incorporate the dummy variable to their study but it appears not to be statistically significant, thus, the researchers do not elaborate on the possible link between presence of the multi-complainant dispute and trade concessions.

Researchers try to investigate what could explain such a variance in performance between developing and developed countries by controlling for other variables. These studies include statistical analyses that involve various predictors, e.g. economic development (e.g. Bausch & Reindhardt, 2003), power (e.g. Bown, 2004a) and legal capacity (e.g. Guzman &

² Bausch and Reindhardt’s study focuses on analyzing final outcomes that result from disputes held between 1980 and 2000, where only first five years of WTO are analyzed. In order to test the hypothesis that panel establishment casually relates to realizing trade concessions under the WTO regime also, the variable of panel presence or absence will be taken into consideration in this thesis.

Simmons, 2004; Busch & Reindhardt, 2003) that could have a relation to or a causal effect to why developing countries lose more often than developed states.

Legal capacity, measured with help of the country's GDP as a proxy, proves to have a causal relationship to the trade concessions (Busch and Reindhardt, 2003). Legal capacity expressed by GDP highlights economic power of a certain country, and this specific kind of power is necessary to elicit the most favourable dispute outcomes. Busch and Reindhardt confirm that countries which are economically stronger are more likely to win higher number of concessions than weaker states..

As can be noted, control variables that may explain the variance in trade concessions between countries are very limited in number. This study will be not only limited to variables proposed by the literature but it will check for other possibilities to explain the variance. For example, in a literature, the experience in a trade regime (expressed by export share, i.e. the export flows from a certain country to the World) is a variable used by Francois, Horn and Kaunitz (2008) to analyze a frequency of disputes initiation. The study shows that higher export shares of certain countries make these countries file disputes more frequently. This means that states that are leading exporters, file more disputes. This thesis will experiment if export shares have any effect on trade concessions.

Another variable never mentioned by researchers in terms of trade concessions is the aid variable. Francois, Horn and Kaunitz (2008) use the variable to check for a causal effect between the aid flows and frequency of dispute initiation. The scholars believe that the higher aid flows, the lower frequency of dispute initiation as countries that receive aid from other states are afraid to lose these funds, thus, are less likely to initiate disputes against stronger states. As observed, the aid appears to be statistically significant with regard to filing disputes. Naturally, it is not easy to prove that the aid variable will generate similar effect on trade concessions; however, there is a chance that it could be the case, thus, the aid will be a component of statistical tests concerning trade concessions.

Geographic endowment is another variable that has been not mentioned in a literature to have an effect on trade concessions. Despite the fact that the variable is absent from studies on GATT and WTO dispute settlement, it will be not excluded from this analysis as there may be a chance it is causally related to trade concessions. The basic assumption here is that countries that do not represent higher level of geographic endowment are likely to lose more

trade concessions than countries that are better off. In other words, countries that are less developed with regard to geographic endowment are less likely to elicit trade concessions from more developed defendants.

Summary

To sum up, this chapter includes existing in the literature elaborations which concern performance of developed and developing states under the GATT and the WTO. In particular, it introduces possible explanations to the dependent variable (the most favourable outcomes from a dispute, i.e. trade concessions). The most common explanatory variables mentioned by the literature are following: early settlement of a dispute, third party participants and presence of multi-complainant disputes. The literature proposes also several non-dispute related variables that are likely to explain the variance in realized trade concessions, e.g. legal capacity, power.

III. INTRODUCTION TO THE GATT/WTO DISPUTE SETTLEMENT SYSTEM

This chapter provides a brief overview of the dispute settlement process under both the GATT and the WTO.

The functions and objectives of the dispute settlement system are common for both the WTO and GATT regime. However, the procedures as well as the bodies in charge of the resolution process do differ across the GATT and WTO. Formally, the GATT dispute settlement system was built on and adhered to the rules and principles specified in Articles XXII and XXIII of GATT 1947 (A WTO Secretariat, 2004: 12) but over decades it has gone through several institutional changes. GATT's procedural dispute settlement practices were codified and modified by GATT contracting countries which resulted in a number of binding legal documents.³

It is argued that the early GATT dispute settlement system (DSS) was lacking efficient and effective procedures of disputes resolution due to its institutional incompleteness and disorganization. Firstly, there are facts⁴ indicating that there used to be no formal dispute stages at the very first years of GATT, thus, the arguing parties were mostly discussing their concerns during "loose" sessions (A WTO Secretariat, 2004: 12 – 16).

Secondly, even the dispute was submitted under consideration, with authorities responsible for final ruling often incapable of finalizing the resolution process. Until the Uruguay Round, the dispute resolution bodies were either constrained by the omnipresent positive consensus and blocking of panels or by their own limited judiciary capacity to influence the resolution and were thus, incapable to provide a final ruling on the dispute or processing the dispute for further consideration. For example, in the very first year of the GATT, it was the Chairman of the GATT Council who made decisions on disputes. However, before the Chairman could issue the final decision on a resolution, no contracting party should have any objection to the content of the decision alone (A WTO Secretariat, 2004: 12 – 16).

³ The Decision of 5 April 1966 on Procedures under Article XXIII; The Understanding on Notification, Consultation, Dispute Settlement and Surveillance, adopted on 28 November 1979; The Decision on Dispute Settlement, contained in the Ministerial Declaration of 29 November 1982; The Decision on Dispute settlement of 30 November 1984 (A WTO Secretariat, 2004: 13).

⁴ As far as the GATT DSS is concerned in this section, my analysis is based on WTO Handbook and archives of pre-WTO disputes reports from http://www.wto.org/english/tratop_e/dispu_e/gt47ds_e.htm, dated on 08.05.2012.

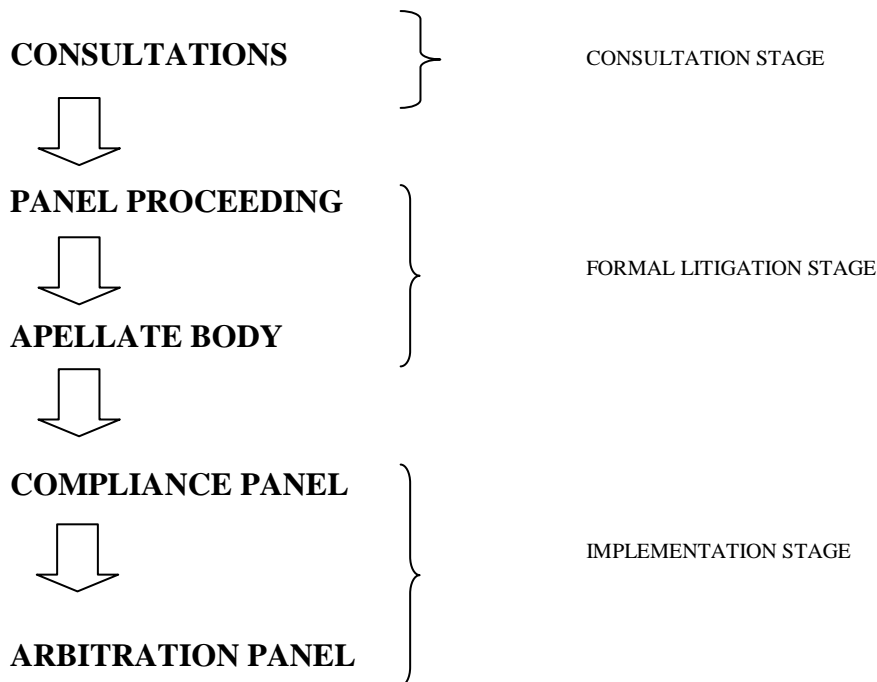
With time, Working Parties (all interested in the dispute contracting parties along with parties to the dispute) were introduced to be in charge of the processes of dispute resolution and who, by the means of consensus, were adopting dispute reports (A WTO Secretariat, 2004: 12 – 16). Again, once the positive consensus was missing, the dispute would never reach its finalization. It is thus highly reminiscent of the above example.

Next, were panels that became the body responsible for making decisions on dispute resolution. Similarly to the GATT Chairman and Working Parties, the panels were also bound by limitations. The panel (consisting of members who were unrelated to the arguing parties), were writing reports and recommendations on how to resolve a certain dispute but it was the GATT Council that made the final decision whether to approve or reject the suggestions (A WTO Secretariat, 2004: 12 – 16).

The current WTO does differ from the GATT regime. In the light of the Article 3.2 of WTO Dispute Settlement Understanding (DSU), the key objective of the dispute resolution process is to ensure efficient and rule-oriented dispute settlement between disputing market participants. In particular, the new WTO rules try to redress the systematic disadvantages that developing countries used to have under the old GATT rules.

The most important changes involve a formal organization of dispute stages (schematic 1), introduction of specific time frames to each dispute stage. Also, the blocking of panels and final reports is removed (A WTO Secretariat, 2004: 12 – 16). Moreover, the WTO introduces the appellate review of panel reports and a formal examination regarding implementation of panel's findings. These changes should make developing countries more likely to initiate disputes and realize the most desired dispute outcomes, even from stronger defendants. For example, the removal of a panel (or reports) blocking should encourage developing countries to file disputes against states that threaten their trade interests. In addition, the organization of dispute stages should make developing countries more confident in entering the process of dispute resolution and make them feel more at ease during the bargaining process. Most importantly, in case of a ruling that is in favour to the developing complainant, the introduction of appellate review of panel reports and a formal examination regarding implementation of panel's findings assures that the defendant fulfills expectations of the developing state, and thus makes the developing complainant more likely to succeed in obtaining trade concessions.

Schematic diagram 1 The WTO Dispute Settlement Process



Source: Sida Publication 2004: 8

Summary

To sum up, this chapter has compared dispute settlement process under the GATT and the WTO. As presented, the WTO dispute settlement understanding (DSU) introduces several substantial reforms that are supposed to guarantee effective and time-efficient dispute resolution. The reforms in question are the removal of blocking of a panel or final reports, and introduction of detailed dispute procedures for each stage of a dispute resolution with specific time frames, and introduction of the appellate review of panel reports and a formal examination regarding implementation of panel's findings. These few systemic improvements are believed to correct for the bias between developed and developing countries, and thus, making the latter ones more likely to win trade concessions.

IV. THEORY, VARIABLES AND HYPOTHESES

This is a theoretical part of this thesis. In this part all constructs and variables that are relevant to this study are introduced.

THEORY

The studies by Hudec (1987) and Busch and Reindhardt (2003) indicate that under GATT, developing countries were reaching early settlement 25 per cent more often than their richer counterparts and the first five years of WTO did not bring expected improvement in winning trade concessions by weaker states. However, as only disputes from first five years of WTO were analysed, it should be investigated whether these patterns have since changed.

In this study I argue that the WTO regime better the position of developing countries in dispute settlement so they can realize most favourable disputes outcomes more often than their developed counterparts. More specifically, I insist that developing countries, acting as complainants, should elicit trade concessions more often than developed countries do. The most favourable disputes outcomes are understood in this study as trade concessions, which are nothing more but liberalized trade policy measures.

The WTO Dispute System Understanding (DSU) with its several institutional reforms is supposed to support developing countries in their aim to achieve trade concessions. In particular, developing countries under the WTO dispute settlement should be more likely to elicit trade concessions from developed defendants due to the reforms that have taken place. More specifically, these are the reforms (the removal of panel blocking, introduction of detailed procedures regarding dispute process and specifying time frames for each stage of dispute resolution process, also introduction of appellate review of panel reports and a formal examination regarding implementation of panel's findings) that should make developing countries win trade concessions more frequently.

Why would the reforms have such an effect on realizing trade concessions by developing states? Firstly, under the WTO dispute settlement developing countries can file a dispute which will be not blocked by a defendant, even in case the defendant does not agree with the complaint. This should make developing complainants more active in filing complaints against stronger defendants, and thus more likely to elicit favourable outcomes from filed disputes.

Secondly, the most recent study by Francois, Horn and Kaunitz (2008) proves that under the WTO, developing parties indeed more often file disputes against developed states. If indeed these are the institutional changes regarding dispute settlement that encourage developing states to be more active in dispute initiation, it may be also the case that third parties or complainants to the same issue participate more often in disputes. More specifically, this means that third party participants should participate more often in disputes under the WTO. By the same token, multi-complainant disputes (disputes with more than one complainant to the same issue) should be more frequent under the WTO. Moreover, participation of third parties as well as presence of multi-complainant disputes should affect the bargaining process and later obtaining the most favourable outcomes. Simply, disputes with third parties and of multi-complainant nature are believed here to have a stronger bargaining capacity to elicit the most favourable outcomes than a sole complainant does.

Thirdly, during the bargaining process, developing countries can fight for the most desired results and be sure that whatever the outcome – it will be announced in a timely and organized manner. The introduction of more detailed procedures regarding resolution stages helps disputing parties to follow the settlement order and make the best use out of it. In a nutshell, clearly specified procedures allow disputing parties to find themselves in a complex resolution process, thus, make these parties more likely to realize the most favourable outcomes in a time-efficient manner since disputes which are solved “quicker” (i.e. on early stages of the resolution process) are likely to bring trade concessions, keep transaction costs and time investment to a minimum. In contrast, disputes which are solved during latter stages of dispute resolution make disputants prone to higher transaction costs and lose the disputed agreements. I assume here that disputes that are solved at the early settlement stage are more likely to be finalized with won concessions to the advantage of developing countries. The logic here is that developing parties, who solve their dispute at consultation or panel stages, can hope for most favourable outcomes because solving disputes at initial stages of a resolution process is for these parties more time-efficient than solving disputes at latter stages. This concept is presented by Busch and Reindhard (2003) and will be tested here how far it holds true under current WTO.

VARIABLES AND HYPOTHESES

Variables

The concept ‘most favourable dispute outcome’⁵ is a binary variable with two values: won and lost concessions. The most favourable dispute outcome leads to two indicators: a final ruling (which party was favoured and which was not) and trade concessions (leading to trade liberalization through the change of policy practices). A final ruling, as an indicator of trade concessions, is considered in this study as an independent variable.

Among explanatory variables there can also be found: the establishment of a panel, participation of third parties in a dispute, presence of multi-complainant disputes and regime type (GATT or WTO). I wish to check what effect these variables have on my dependent variable, and thus, I include also several covariates: experience in a trade regime, aid, geographic endowment and legal capacity.

The relationship between trade concessions and proposed independent variables may be influenced by variables which are non-dispute related, thus, there is a need to test for other variables that could explain the variance between won or lost trade concessions and the explanatory variables. In order to explain the variance I introduce several covariates: legal capacity, aid, experience in a trade regime and geographic endowment.

Firstly, I use legal capacity to search for significant explanations of the relationship between trade concessions and the three explanatory variables. I assume that under the WTO, this could be the legal capacity that should make developing countries more likely to win trade concessions. Previous studies on late GATT era (Busch and Reindhardt, 2003) show that legal capacity has its effect on winning trade concessions, this study will test if it holds true under the current WTO as well.

Moreover, I involve in the study two other covariates that will test the effect of explanatory variables on the trade concessions: the aid and experience in a trade regime. Since these were explaining the variance between frequency of disputes initiation and

⁵ The idea about the most favourable outcomes comes from Bausch and Reindhardt (2003) who focus on the trade concessions as the main outcome.

variables related to the level of economic development (Francois, Horn and Kaunitz, 2008), they will be tested if they may explain the variance in realizing trade concessions by developed and developing states. Under WTO, these could be the aid and experience in a trade regime that should make developing countries more likely to win trade concessions.

The least variable, the geographic endowment, is present in this research because of a simple experiment. Under the WTO, this could be the geographic endowment (HDI) that should make developing countries more likely to win trade concessions. The logic behind it is that states that represent higher level of geographic endowment are more likely to realize the most favourable dispute outcomes. There are states, which being in a group of developed countries, represent relatively low level of geographic endowment. Also, there are developing states that represent higher level of geographic endowment despite being classified as developing countries.

Hypotheses

With respect to the above mentioned variables I hypothesize:

H1

The WTO institutional changes should make developing states more likely to win more trade concessions than they used to do under GATT.

H2

The WTO institutional change should make developing states more likely to win trade concessions once the dispute resolution reaches the panel stage.

H3

The WTO institutional change should make developing states more likely to win trade concessions once the dispute in which they participate is of multi-complainant nature.

H4

The WTO institutional change should make developing states more likely to win trade concessions once there are third parties involved in the dispute.

H5

The greater a state's legal capacity, the more likely that state is to win trade concessions.

Summary

This chapter has provided a theoretical overview regarding the central issue of this study, presented hypotheses, and listed all relevant variables. In here, it is hypothesized that the shift from the GATT to the WTO should make developing countries more likely to win more trade concessions, when compared to developed states. Moreover, the WTO dispute settlement understanding (DSU) and its institutional improvements should make developing countries more likely to win trade concessions once the dispute reaches a panel stage in the dispute resolution process. Furthermore, shift from the dispute settlement under GATT to the dispute settlement under the WTO should make developing countries more likely to win trade

concessions once the dispute in which they participate is of multi-complainant nature. Next, the WTO dispute settlement understanding (DSU) should make developing countries more likely to win trade concessions once there are third parties involved in the dispute. And finally, legal capacity should explain the variance in winning trade concessions more than any other, presented in this study, control variable.

V. RESEARCH METHODS, DATA AND CASE SELECTION

This section will focus on cases selection, operationalization of variables, data collection with sources, and method of analysis of the given data. The explanatory variables that will be manipulated in this study are following: ruling, regime, panel establishment, third party presence, presence of multi-complainant disputes, and experience in a trade regime, legal capacity, aid and geographic endowment. The trade concessions, which is a response variable, will be discussed next.

This study investigates the outcomes realized by complainants (belonging to developed or developing group of countries, who initiate disputes against the group that they do not belong to). This is the complainant who is a reference point to the dispute analysis in this research. I decide on the complainant to be my reference point because this is the complainant who is the subject that is able to detect illegalities committed by other WTO members (Francois, Horn and Kaunitz, 2006: 7). Moreover, as I am interested in developing and developed countries that fight for their rights, thus, complainant seems to be more reliable as a reference point than a defendant.

Developed and developing states are classified here on the grounds of industrial development and overall economic prosperity. This study considers trade concessions as the most favourable outcomes from a dispute.

Country classification

Before this study moves to more detailed explanations, this is of extreme importance at this point to introduce country classification used in this study and make a few remarks regarding the classification alone.

To begin with, as we read on the WTO website, “there are no WTO definitions of developed and developing countries.” This means that signatory states have to announce for themselves whether they are developed or developing countries, and their choice has to be accepted by other signatory states (WTO, dated 14.03.2012). In the literature, the list of information concerning the classification of countries is almost endless. For example, countries are classified on the grounds of GDP/ GNP (Lochner, 2005), HDI (Nagel, 2004), being accepted for the Generalized System of Preference (Busch and Reindhard, 2003) and even on their access to natural resources (Auty [in:] Barbier 2005). For this study I propose a

recently made classification that originally comes from a work by Francois, Horn and Kaunitz (2008: 9 – 10) but is modified by me at points that I mention hereunder. I decide on this classification because it highlights heterogeneity in the group of developing countries. Regarding the heterogeneity, developing countries seem to vary more than developed countries in both level of development (e.g. countries newly industrialized [NI] vs. least developed countries [LDC]) and number of won and lost concessions (e.g. middle income countries [MID] which are more active in initiating disputes and eliciting trade concessions from their defendants than the least developed countries [LDC] which have not initiated even one dispute against developed states, do not mention winning trade concessions).

Table 1 Country groups

1.	Developed group	G2: EC, US
2.		Earlier industrialized (EI): non-G2 countries traditionally considered as industrialized
3.	Developing group	Newly industrialized (NI)
4.		High Income Developing (HID): countries other than NIs with GDP per capita > \$4 000
5.		Medium Income Developing (MID): countries with \$800 < GDP per capita < \$4000
6.		Low Income Developing (LID): countries other than LDC with GDP per capita < \$800
7.		Centrally Planned or in Transition (CT)
8.		Least Developed Countries (LDC): 50 countries according to classification

Source: Francois, Horn and Kaunitz (2008: 9 – 10)

Table 2 Country classification

G2	EI	NI	HID	CT	LDC	MID	LID
EC	Australia	Argentina	Antigua and Barbuda	Albania	Angola	Belize	Armenia
US	Canada	Hong Kong – China	Bahrain	Bulgaria	Bangladesh	Bolivia	Burkina Faso
	France***	Israel	Barbados	China	Benin	Botswana	Cameroon
	Greece*	Korea	Brazil	Croatia	Burundi	Cape Verde	Côte d'Ivoire
	Hong Kong** (British colony)	Malaysia	Brunei Darussalam	Czech Republic	Cambodia	Colombia	Ghana
	Iceland	Mexico	Chile	Czechoslovakia**	Central African Rep	Congo	Guyana
	Japan	Philippines	Cyprus	Estonia	Chad	Costa Rica	Honduras
	Malta	Singapore	Gabon	Georgia	Dem.Rep. Congo	Cuba	India
			Kuwait	Hungary		Dominican	

New Zealand	South Africa	Macao – China	Kyrgyz Rep.	Djibouti	Republic	Kenya
Norway	Thailand	Oman	Latvia	Gambia	Ecuador	Nicaragua
Spain*	Turkey	Qatar	Lithuania	Guinea	Egypt	Nigeria
Switzerland		Saint Kitts and Nevis	Moldova	Guinea-Bissau	El Salvador	Pakistan
UK*		Saudi Arabia	Mongolia	Haiti	Fiji	Sri Lanka
		Trinidad and Tobago	Poland	Lesotho	FYROM-Macedonia	Tanzania
		United Arab Emirates	Romania	Madagascar	Grenada	Zimbabwe
		Uruguay	Slovak Republic	Malawi	Guatemala	
			Slovenia	Maldives	Indonesia	
			Ukraine	Mali	Jamaica	
			USSR**	Mauritania	Jordan	
			Viet Nam	Mozambique	Mauritius	
				Myanmar	Morocco	
				Nepal	Namibia	
				Niger	Panama	
				Rwanda	Papua New Guinea	
				Senegal	Paraguay	
				Sierra Leone	Peru	
				Solomon Islands	Saint Lucia	
				Togo	Saint Vincent & the Grenadines	
				Uganda	Suriname	
				Zambia	Swaziland	
					Tonga	
					Tunisia	
					Venezuela	

* Countries that become EC members
** Countries subject to administrative and power shifts
*** Countries acting as sole disputants

Source: Francois, Horn and Kaunitz (2008: 9 – 10)

Overall, I present 141 countries that are involved in GATT and WTO disputes. The countries are divided into two groups (developed or developing) and corresponding to them subgroups (tables 1 and 2). With regard to disputes, all the countries are studied from two

perspectives: (1) how active the countries are to initiate a dispute (how often these act as complainants) and (2) how many trade concessions out of the filed disputes are won by the countries.

As can be observed, the EC denotes here the EU-15 and the EU-27. The priority of this study is to present the most accurate data and in order to keep this objective I have had to analyse disputes, where the EC was involved, bearing in mind the accessions of new members over time. What do I mean by this? For example, during analysis of the pre-GATT dispute where the EC was involved, I was calculating and applying the economic aggregate (of all control variables mentioned earlier) for only the countries that were formally involved in the EC at the time of the dispute and for that particular dispute. By the same token, during analysis of WTO dispute from 2010 for example, where an EU-27 label would be most appropriate, I was calculating the economic aggregate of all countries that were members of the EU-27 in the year of filing the dispute and applying it to this specific case. Although complex and time consuming, this procedure seems more accurate than calculating the economic aggregate for only the EC or whole EU-27 and applying it to all cases.

Providing a reference at this point is impossible as the longitudinal studies over GATT and WTO that I have seen so far, did not include any elaboration on how to approach the EC vs. EU organizations in a country classification (e.g. Bausch and Reindhard, 2003; Francois, Horn and Kaunitz, 2008). Yet what is of support to my technique is the labelling countries by the WTO Secretariat. For instance, as presented in dispute archives, the EC labels have been applied to different countries in accordance with their formal membership in the EC or EU.

Interestingly, despite evident membership in the EC, there were single instances when the EC member states acted as individual complainants, e.g. France. In such circumstances, I have calculated values of each economic indicator only for this specific country. Especially among GATT disputes, occasional are instances when countries (today members of the EU) act as individual actors in disputes initiation. These instances have concerned Spain and Greece that initiated disputes or acted as respondents to disputes against them, long before their accession to the EC. Regarding the year of these specific disputes, each of these countries had their economic indicators calculated individually.

There are more obstacles that prevent this study from being a smooth analysis. Firstly, there are few countries in my classification which used to be a part of a union that does not exist anymore. These are Georgia, Ukraine, Moldova, Armenia, Kyrgyzstan, Estonia, Latvia and Lithuania which used to be a part of the USSR. The USSR was once involved in a dispute in a character of a respondent. I have calculated all relevant economic aggregates for all these eight countries. Despite the fact that the most important economy of the former USSR, the current Russian Federation, is not a member of the WTO, I have not excluded the USSR from my analysis. Secondly, other countries split into separate republics. The former Czechoslovakia, which was an active complainant under the GATT, today is split into two different states: Czech Republic and Slovak Republic, thus, for the disputes from before the split, Czechoslovakia has its economic aggregated calculated for Czech Republic and Slovak Republic. And finally, Hong Kong, a contracting country of the GATT era, is considered as a part of the United Kingdom (UK) in terms of its development aggregates. This is due to the fact that it used to be a British colony until July 1997 and because the UK is a developed state under the proposed country classification. However, all disputes after the transfer of sovereignty over Hong Kong to China are analysed here with respect to China.

Furthermore, as data from certain countries is lacking, I have been forced to exclude the countries from this study. These countries are Chinese Taipei and Liechtenstein. Seeing by the data, Liechtenstein has never initiated disputes against developing countries nor has it had disputes initiated against it. Chinese Taipei has acted as a complainant against developed countries two times but has never had to respond to disputes filed by developed countries.

Last but not least, I have to extend the list of countries prepared by Francois, Horn and Kaunitz (2008: 9 – 10) of four more which became members of WTO after 2007 but are missing in country classification made by the researchers. These countries are: Cape Verde (MID subgroup), Tonga (MID subgroup), Ukraine (CT subgroup) and Viet Nam (CT subgroup). Their grouping and classification have been made on the grounds of the presented classification pattern with help of statistical data obtained from the UN website.

Operationalization of variables and data collection with sources

This study introduces following independent variables: ruling, panel establishment, third parties presence, the presence of multi-complainant disputes and regime type. All these are dispute related variables which are considered here as dummy variables. These take values 0 (for instances that do not occur: ruling and panel do not take place, there is a lack of third parties or joint disputes, and for the GATT regime also) and 1 (for instances that take place, e.g. ruling, panel establishment, third parties and joint disputes are present, and for the WTO regime too).

The motivation of this study is to find out the bias in the extent to which disputing parties make use out of the system. In particular, I want to explore the extent to which institutional change can explain the number of trade concessions that are won by developing states, controlling for factors associated with economic development. Thus, a few control variables are introduced in this study. These variables are following: experience in a trade regime, legal capacity, aid and geographic endowment. All these are continuous variables that will be used as an input to the control system. The four covariates will be held constant and observed in terms of their effects on the dependent variable, the regime, and dispute-related variables.

Experience in international trade

Despite the fact that researchers do not formally agree on causality between export and economic development, results from empirical studies prove that openness to trade is an element that explains economic performance of a country “and has been a central feature of successful economic development” (OECD2009b; Commission on Growth and Development 2008 [in:] World Bank Publication, 2010: 346). Export not only helps to facilitate macroeconomics of a country but also does generate the foreign exchange that is needed to “finance critical imports and increase country’s revenue” (World Bank Publication, 2010: 346). Moreover, well-performing export has unquestionable effect on country prosperity and manner how this country will be perceived by other countries on the international arena.

In this research, experience of a country in international trade is interpreted as the size of bilateral trade flows between WTO members and the World. The variable, size of trade flows (import-oriented) has been used to measure the relationship between intensity of

dispute initiation by a complainant and the import flows in a work by Francois, Horn and Kaunitz (2008). This study however, will focus on trade flows regarding exports only. It has been proved that the nature of bilateral relationships between complainant and respondent does support the Power hypothesis on high export shares and likelihood of disputes initiation (Bown, 2004a [in:] Guzmán & Sykes, 2007). Motivated by the Power hypothesis, I wish to measure whether export flows have their impact on realizing trade concession by developing states under the WTO.

Trade data on export flows come from UN COMTRADE⁶ which contains data on bilateral trade flows between members of WTO and the World.⁷ The data is analysed here in terms of constant 2010 (\$US).

Legal capacity

Legal capacity is a very difficult variable to measure as it has no direct indicator which will facilitate the operationalization process. There is a need to use proxy variables to measure it. The scope of measures regarding legal capacity is very broad and does depend on the study objective. Some scholars use the national per capita income (e.g. Bausch and Reindhard, 2003) others decide on the size of countries' delegations to the WTO in Geneva (e.g. Horn et al, 1999). Others involve the number of countries' embassies abroad, countries' non-military government expenditures or the index for the quality of government bureaucracies (Guzman & Simmons, 2004 [in:] Guzman & Sykes, 2007).

Due to the unreliability of proposed above measures, in this study I decide on the governance indicators to operationalize legal capacity variable. The idea to do so comes from a study by Francois, Horn and Kaunitz, 2008 who operationalize legal capacity with few such indicators multiplied by a country GDP.

The worldwide governance indicators report on six different dimensions of governance: voice and accountability, political stability and absence of violence, government

⁶ <http://comtrade.un.org/>

⁷ A caveat should be made at this point; UN COMTRADE has its shortages as it consists of non-zero values which could mean that if a data is missing there is no trade – however, a number of countries do have a trade despite the lack of report in the database. In circumstances when the trade data was not provided for a country, I used supporting statistics from <http://stats.oecd.org/Index.aspx?DataSetCode=PARTNER#> (dated on 18.03.2012). Countries that had missing values on UN COMTRADE were: Uruguay, Cuba, Moldova, Honduras and Vietnam.

effectiveness and regulatory quality, rule of law and control of corruption. From this list I chose three: government effectiveness, regulatory quality and rule of law and calculate an aggregate for each country. I do not multiple these three indicators with country GDP in order to avoid multicollinearity, since my countries classification is based on GDP already. The aggregate is presented in percentile, as the overall data, for 2010.

The choice of the measure is based on research but not on accident. As defined by Busch, Reinhardt and Shaffer (2008:8) legal capacity is “the institutional resource required to prepare, prosecute and monitor a case, including legal, economic and diplomatic staff”. As they elaborate further, the institutional resource is an “in-house expertise (...) required for tailoring and monitoring the litigation strategy to fulfil broader goals, including domestic and foreign policy objectives” (Busch, Reinhardt and Shaffer, 2008: 8). This means that the aggregated home qualities of a certain country are believed to be a relevant factor in managing a dispute, and also in realizing objectives of this country on the domestic and international arena.

Aid

Similarly to Francois, Horn and Kaunitz (2008), in my study, aid is considered as aid flows received by a country from the World. Data for aid flows comes from OECD data base DAC (Development Assistance Committee) Online⁸ and is here analysed in terms of constant 2010 (\$US).

Geographic endowment

Measuring geographic endowment is not an easy task, especially when the measure should involve economic or socio-economic indices to meet the objective of this study. As I cannot find any appropriate proxy, I risk choosing for this study an aggregate of socio-economic measure, namely, the Human Development Index (HDI). I decide on the HDI as it focuses more on the socio-economic than purely economic dimension of development. Including the HDI in my study brings to my analysis a new perspective from which to

⁸ http://www.oecd.org/document/33/0,2340,en_2649_34447_36661793_1_1_1_1,00.html, dated on 21.03.2012

investigate dispute outcomes. Data for this variable come from the UN Human Development Report⁹ and is here analysed with regard to 2010.

The most favourable outcomes from disputed agreements

As mentioned before, literature on the GATT – WTO dispute settlement contains only two suggestions on how to define the most favourable outcomes from disputed agreements. And these involve trade concessions (won and lost) and ruling to a favour one or the other disputing party. This study considers won trade concessions as the most favourable dispute outcome.

The dispute data for 1948 – 2011 I collect by two means. Firstly, I use the archives¹⁰ of the GATT and WTO disputes where comprehensive and detailed descriptions of all filed disputes are included. The archives present disputes in a chronological order; provide information on the parties involved, the process of dispute resolution and the final outcomes. I pay attention only to disputes filed by developed countries against developing ones and vice versa, as according to the proposed countries' classification. I draw attention to the stage reached by each dispute, the direction of final ruling and parties involved.

Secondly, in case a dispute description has missing information, I refer to a dataset by Horn and Mavroidis on the WTO Dispute Settlement.¹¹ The data set contains all 427 WTO disputes, presents all stages of dispute settlement proceedings (from consultations to the ruling implementation), and lists parties to the dispute and name of the commodity over which a dispute is held. There are hundreds of variables in the data that give information on different aspects of litigation. From this data set I take information on the parties involved and stages reached by disputants (developed and developing ones). However, the data is difficult to follow, also, does not involve all variables that I use in this study, e.g. does not present all third parties nor joint complainants, thus, I use it only when information in the GATT/ WTO archives is missing.

⁹ http://hdr.undp.org/en/media/HDR_2011_EN_Tables.pdf

¹⁰ http://www.wto.org/english/tratop_e/dispu_e/dispu_status_e.htm

¹¹

<http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTRESEARCH/0,,contentMDK:20804376~pagePK:64214825~piPK:64214943~theSitePK:469382,00.html>

Case selection and method of analysis

At the point of deciding on dispute choice and coding of dispute stages and direction of dispute decisions, I partly follow Hudec (1993) and Busch and Reinhardt (2003). Alike the researchers, I chose only disputes with a formal Request for Consultations and disputes that have their resolution procedure evoked. This means that I exclude from this study all disputes which have not been officially submitted or their process is pending on the consultation stage. Thanks to this attempt I avoid missing data on subsequent dispute stages and ruling direction, which regard my independent variables. All together I have 184 disputes for GATT/ WTO, where 34 disputes take place under GATT and 150 under the WTO. There are only 34 GATT disputes all together where developed and developing countries have been involved as the complainants. The WTO includes approximately 150 disputes for developing and developed complainants.

As far as the direction of the ruling is concerned I compare the legal dispositions of disputed cases by specifying the stage reached in the settlement (consultations, panel or appellation at the appellate body [AB]) and direction of the final rulings (which party it favours most). Unlike Busch and Reinhardt (2003) I decide on exclusively two values for trade concessions: won concessions and lost concessions.

As far as the research methods are concerned, these include empirical analysis and statistical tests. Firstly I will analyse the disputes outcomes under each regime. Secondly, as I am interested in the heterogeneity present in the groups of developed and developing countries, I will pay special attention to the performance within each subgroup.

Regarding the statistical tests, during regression analyses I will test for the effect of explanatory variables on trade concessions and I control for other factors that may be related to the dispute outcomes.

Summary

To sum up, this chapter focuses exclusively on operationalization of variables, explaining case selection and methods of data analysis.

As far as variables in this research are concerned, the dependent variable is explained as the most favourable dispute outcomes, namely, won trade concessions. Explanatory variables in this study including: ruling, panel establishment, presence of third parties and multi-complainant disputants are explained in detail. Other explanatory variables in this study

(experience in a trade regime, aid, legal capacity and geographic endowment) are also explained in this part.

Since this research investigates the outcomes realized by complainants under both regimes, the GATT and the WTO, thus, all disputes held between 1948 and 2011, which regard developed and developing countries exclusively, are observed. This means that disputes which take place between developed vs. developed or developing vs. developing countries are not analysed here. The countries in question are classified in accordance with countries' classification by Francois, Horn and Kaunitz (2008). The research methods used in this study involve regression analyses which help to check for the effect of the explanatory variables on the trade concessions. Moreover, the regressions facilitate control for other factors that could explain the variance in realizing trade concessions by developed and developing countries.

VI. EMPIRICAL TESTS

This chapter contains two sections. The first section involves descriptive statistics of disputes' outcomes for developed and developing states. The second section focuses on analysis of statistical tests. In this section it is explained what kind of effect explanatory variables (panel establishment, presence of third parties, presence of multi-complainant disputes, aid, the experience in a trade regime, geographic endowment, and legal capacity) have on dependent variable, i.e. trade concessions. Moreover, the effect of covariates on the overall dispute outcome for developed and developing states is explained.

Disputes' Outcomes Realized by Developing and Developed Complainants under GATT and WTO

GATT Disputes' Outcomes

Table 3 Complaints Filed by Developed and Developing Countries under GATT Dispute Settlement

Group	N (%)	Subgroup	N (%)
Developing countries	(26/ 76%)	NI	5 (15%)
		HID	10 (29%)
		CT	3 (9%)
		MID	6 (18%)
		LID	3 (9%)
		LDC	-
		G2	4 (11%)
Developed countries	(7/ 24%)	EI	3 (9%)

N = 34 (100%) GATT disputes with approximate marginal percentage in parentheses.

Table 4 GATT Disputes' Outcomes by Complainant's Development Status

Complainant's development status		Concessions	
		Lost	Won
Developing countries	NI	3 (9%)	2 (6%)
	HID	2 (6%)	8 (23%)
	CT	1 (3%)	2 (6%)
	MID	3 (9%)	3 (9%)
	LID	3 (9%)	-
	LDC	-	-
	TOTAL	12 (36%)	15 (44%)
Developed countries	G2	2 (6%)	2 (6%)
	EI	1 (3%)	2 (6%)
	TOTAL	3 (9%)	4 (12%)

N = concessions from 34 GATT disputes with approximate marginal percentage in parentheses.

To begin with, under GATT there are all together 34 disputes filed by developed and developing complainants (Table 3). Out of the overall number of GATT disputes, developing and developed countries initiate 76 and 24 per cent of disputes, respectively. Surprisingly and contrary to what has been expected, when choosing a complainant as a reference point for the dispute analysis, it becomes apparent that developed countries are less active in a dispute initiation when compared to developing countries.

Empirical analysis shows that concessions won by developing and developed countries constitute approximately 44 and 12 per cent for all 34 GATT disputes, respectively (table 4). This means that developing states, when acting as complainants under the GATT regime, are not disadvantaged because these states win more trade concessions than developed states. More specifically, this may mean that the GATT regime is not biased against developing states how it is believed in the literature. In this study we cannot make such a generalization because of two reasons. Firstly, there is a deep heterogeneity in the group of developing countries where the number of won concessions is not equally distributed between the subgroups. This means that only one or two subgroups win a significant number of trade concessions, whereas other subgroups do not win as much or win nothing. Secondly, when we look at the number of lost concessions between developing and

developed states, we clearly see that developing countries lose more. As noted, more than 30 per cent of lost concessions are scored by the developing countries, when compared to only 9 per cent of lost concessions by developed group. The highest loss of concessions among the developing group is reported among NI, MID and LID subgroups which lose together around 27 per cent of all concessions.

One may argue that such a low number of GATT observations make the analysis on which states win and lose less reliable and deprived of concrete arguments. This is true that more numerous sample size may bring more concrete suggestions. However, when we look at sample size for the GATT regime and analyse the wins and losses for developed and developing countries then it becomes apparent that theories on developing states being disadvantaged under the GATT regime still hold true. In order to make such a statement more numerous sample size is not a prerequisite but rather more detailed investigation.

WTO Disputes' Outcomes

Table 5 Complaints Filed by Developed and Developing Countries under WTO Dispute Settlement

Group	N (%)	Subgroup	N (%)
Developing countries	(77/ 51%)	NI	30 (20%)
		HID	16 (10%)
		CT	6 (4%)
		MID	12 (8%)
		LID	13 (9%)
		LDC	-
		G2	60 (40%)
Developed countries	(73/ 49%)	EI	13 (9%)

N = 150 (100%) WTO disputes with approximate marginal percentage in parentheses.

Table 6 WTO Disputes' Outcomes by Complainant's Development Status

	Complainant's development status	Concessions	
		Lost	Won
Developing countries	NI	19 (13%)	11 (7%)
	HID	11 (7%)	5 (3%)
	CT	6 (4%)	-
	MID	9 (6%)	3 (2%)
	LID	8 (5%)	5 (3%)
	LDC	-	-
	TOTAL	53 (35%)	24 (15%)
Developed countries	G2	36 (24%)	25 (16%)
	EI	9 (6%)	3 (2%)
	TOTAL	45 (30%)	28 (18%)

N = concessions from 150 WTO disputes with approximate marginal percentage in parentheses.

Under the WTO regime there are 150 disputes filed by developed and developing complainants (Table 5). The number of filed disputed between developing and developed countries is relatively similar and constitutes 51 and 49 per cent for the first and the latter

one, respectively. When compared to GATT, there is a slight increase in dispute initiation by developed countries. Moreover, this is the G2 group which performance increases the score of developed countries, since it files 40 per cent of all WTO disputes. Among the developing states, these are NI, HID and LID subgroups that are most active in filing disputes against developed states. These three file together around 39 per cent of all WTO disputes.

Regarding the dispute outcomes, this is the developed group that realizes the highest percentage of the WTO most favourable dispute outcomes (table 6). Developed countries score 18 per cent of won concessions and this is the G2 group that outperforms all disputing countries. Developing countries lose to the developing ones around 3 per cent points. These are the developing states that lose the highest number of concessions – 35 per cent all together. The NI, HID, MID and LID produce the highest loss of trade concessions in the group of developing countries.

The above analyses show that developing countries perform less effectively under the WTO regime. Developing countries are not only less active but also lose more trade concessions than it used to have place under the GATT. Thus, the findings do not support my hypothesis that WTO regime facilitates performance of developing states. It becomes apparent that these are the developed countries that manage to realize higher number of concessions and increase their dispute initiation activity against developing states. The tests outcomes presented hereunder are to answer the question what factors influence the final disputes' outcomes.

Analysis of outcomes from statistical tests

Table 7 and table 8 report the estimates from two regressions. Table 7 includes a model 1 with estimates related to concessions' determinants for both developed and developing countries. The estimates of concessions' determinants for developed and developing states treated separately are included in model 2 and 3 (table 8). The model with both developed and developing states is taken into consideration as it provides an insight into the general factors explaining dispute outcomes. Thanks to this model we can see which other factors, besides these which are present only for developed or developing states, could explain the variance in realizing disputes outcomes by complainants.

Table 7 Concessions Determinants from a Dispute

Independent Variables	Model 1 Developed and Developing States
Regime	-.65 (.48)
Third parties presence	.55 (.43)
Multi-complainant dispute	.28 (.51)
Panel establishment	2.28 (.75)**
Complainant's export	3.47 (1.49)*
Defendant's export	-2.33 (1.45)
Complainant's legal capacity	3.24 (2.56)
Defendant's legal capacity	-5.90 (3.89)
Complainant's aid	-.00 (.00)
Defendant's aid	-.00 (.00)
Complainant's HDI	-2.74 (3.02)
Defendant's HDI	6.63 (4.52)
Log likelihood	-100.2
LR chi ² (12)	52.92
Pseudo R ²	2.01
Prob > chi ²	0.00
N	184

Note: (1) Entries are ordered logistic coefficients with standard errors in parentheses

(2) Variables: ruling for a complainant and ruling for a defendant appear to be redundant, thus, are removed from the model.

All three models are statistically significant (Prob > chi² at 0.00) which means that presented estimates are reliable. The estimates in model 1 are telling. Export and panel establishment are positive and statistically significant with one-tailed *p* values of 0.020 and 0.003, respectively for both variables.

The positive coefficient of the complainant's export (3.47) and the negative coefficient on the regime type (-.65) prove that shift from GATT to WTO deepens the gap between disputing countries which means that complainants who are weaker in terms of trade flows lose their ability to achieve trade concessions from stronger defendants under the WTO. In other words, countries with relatively bigger export flows have become significantly more likely to secure trade concessions under the WTO but countries with relatively weaker export flows have not. Export flows determine position of a country on the international arena. Countries which are active exporters are economically strong and as the results prove, the WTO regime extends the effect of high export rates to achieve most desired disputes outcomes which lead to liberalization of trade policy practices by a defendant. There are therefore reasons to believe that the difference between complainant and defendant in trade flows can explain at least part of the difference in realized trade concessions. However, the results hold true but only for complainants analysed without distinction to levels of development (developed or developing). As presented hereunder, export flows do not reveal statistical significance for developed nor developing countries when these two groups are treated separately.

Interestingly, the transition from GATT to WTO also makes a complainant significantly more likely to secure trade concessions under the WTO regime once a dispute reaches a panel stage. As presented, a positive coefficient of panel establishment (2.28) and negative of the regime (-.65) indicate that complaining parties, by finalizing their dispute on a panel stage, have become significantly more likely to realize trade concessions under the WTO from defendants. The WTO regime highlights how important panel could be to reach trade concessions by a complainant – whether the dispute is finalized with trade concessions it may depend on the presence or absence of a panel. If for example more relevant in realizing trade concessions by a complainant are post-panel stages, the WTO regime will not exaggerate the effect of panel establishment to achieve trade concessions. As described hereunder, the panel establishment remains statistically significant also in model 3 where estimates for developing countries are presented.

To sum up estimates' outcomes for all 184 disputes, the panel establishment is the only relevant determinant of trade concessions among dispute-related variables. And among control variables this is the export flow which is the most important factor of trade concessions of a complainant. Surprisingly, the geographic endowment (expressed by HDI) and legal capacity (expressed by aggregates of government bureaucratic quality) are not exaggerated by the WTO regime as to have a significant effect on winning trade concessions. One of most possible reasons why it could be the case is that measures used to operationalize these two variables are not adequate – both legal capacity and geographic endowment are operationalized with help of proxies.

Table 8 Concessions Determinants from a Dispute

Independent Variables	Model 2	Model 3
	Developed States	Developing States
Regime	-.41 (.64)	-2.06 (1.46)
Third parties presence	.75 (.67)	.84 (.87)
Multi-complainant dispute	1.97 (.88)*	-2.92 (1.67)
Panel establishment	1.49 (1.14)	3.92 (1.44)**
Complainant's export	4.90 (7.73)	4.52 (2.76)
Defendant's export	3 (2.57)	-7.34 (7.65)
Complainant's legal capacity	1.72 (3.42)	10.84 (12.85)
Defendant's legal capacity	9.99 (14.93)	-6.03 (7.04)
Defendant's aid	40.44 (34.27)	-.00 (.00)
Complainant's HDI	-5.02 (4.49)	5.28 (13.04)
Defendant's HDI	30.90 (16.50)	8.87 (7.74)
Log likelihood	-53.43	-29.65
LR chi ² (11)	34.43	44.16
Pseudo R ²	0.24	0.43
Prob > chi ²	0.00	0.00
N	108	76

Note: (1) Entries are ordered logistic coefficients with standard errors in parentheses

(2) *p<0.05; **p>0.01

(3) Variables: ruling for a complainant, ruling for a defendant and complainant's aid appear to be redundant, thus, are removed from the model

Estimates for models 2 and 3 are telling. Estimates from model 1 do not hold true for models 2 and 3. As noted, the complainant's export lacks its statistical significance for both developed and developing complainants.¹² What has been foreseen by model 1, the panel establishment with its coefficient at 3.92 and p value of 0.007 is statistically significant but only for developing countries. The only concessions' determinant of developed group that falls under statistical significance is the presence of multi-complainant disputes. Presence of multi-complainant disputes is characterized by coefficient of 1.97 and p value of 0.025. What do the values indicate?

As far as panel establishment is concerned, the positive coefficient on panel establishment variable and the negative coefficient on the regime mean that developing countries, by reaching panel stage, have become more likely to secure trade concessions under the WTO than they used to do under the pre-WTO era. The finding does support the second hypothesis that panel establishment should determine winning more trade concessions by developing states. The panel establishment variable in a model for developed countries lacks statistical significance. In short, this means that moving from GATT to WTO regime and reaching the panel stage does not make developed countries win more trade concessions. The developed countries incapability to elicit trade concessions under the WTO once the panel is reached is also in support to the second hypothesis.

Surprisingly, presence of multi-complainant dispute is statistically significant for developed countries. As observed, the multi-complainant dispute is positive and statistically significant with a one-tailed p value of 0.025. The result proves that shift from GATT to WTO does enlarge the gap between disputing developed and developing countries in a way that developed complainants increase their ability to achieve trade concessions from developing defendants under the WTO once the countries are involved in a multi-complainant dispute. The finding contradicts my hypothesis that these are the developing countries that benefit most from multi-complainant disputes as these determine more trade concessions. The estimates show that under the WTO developed countries have become significantly more likely to realize trade concessions once the dispute that they participate in is of multi-complainant character.

¹² Export seems to be a promising explanatory variable, thus worthy further analysis. The reason why export flows becomes significantly insignificant could be related to the relatively limited number of cases (the distinction on developed and developing countries may be the reason why export flows variable is deprived of its statistical significance).

Why could it be the case that developed countries by participating in a multi-complainant dispute win more trade concessions under the WTO? Moreover, if multi-complainant dispute is a factor to win trade concessions by developed countries why is it not the case of third parties participation too?

We may easily neglect the second question by claiming that multi-complainant dispute and dispute with third parties are two relatively different things, thus, these should not be similarly related to the trade concessions. By a simple logic, multi-complainant dispute is an instance when two or more unrelated parties, feeling aggrieved, file a dispute regarding the same issue. But the third party presence in a dispute is an instance when unrelated to the dispute parties express their opinions regarding the specific issue but formally do not participate throughout the process of dispute resolution nor receive the report with a final ruling. In other words, the third party participants are limited in their formal capacity to influence the dispute proceeding, thus, may not be related to winning or losing trade concessions.

This may be striking why developed countries win more trade concessions while participating in a multi-complainant disputes, especially when we look at the overall number of developed and developing members to the WTO. The results prove that the multi-complainant disputes should be studied in-depth to provide the most satisfactory answer why these are the developed countries, but not the developing ones, that under the WTO elicit more trade concessions while participating in a joint dispute. We may risk hypothesizing that developed countries' multi-complainant disputes represent higher level of legal and political capacity which together enable them to elicit from the defendant (developing states) what they aim at. Put it simple, this may be not the case of complainants' number in a dispute but rather the joint capacity of involved complainants to realize higher number of concessions.

Last but not least, legal capacity estimates do not support my hypothesis that legal capacity should determine winning trade concessions most of all covariates included in models. The complainant's legal capacity variable is not statistically significant in any of the proposed models. In the model for developing countries, the complainant's legal capacity is not statistically significant with a one-tailed p value of 0.399. What could explain outcome related to legal capacity? In a first place, legal capacity is measured with a help of a proxy variable that may be not the most adequate measure for the purpose of the analysis. Secondly,

“the failure of an analysis to yield results consistent with a theoretical proposition may be a data problem rather than a problem with the theory” (Kritzer, 1996: 8). I do risk Kritzer’s statement for one reason only. While performing regressions for each model, I have encountered a selectivity bias which forced me to exclude from my regressions a number of variables that appeared to be redundant or had too many missing values while in combination with the dependent variable. Selection of one variable for the benefit of the other has not helped at all, especially in case of legal capacity variable. Dropping various variables from my models has not change the outcome for legal capacity either. The conclusion regarding legal capacity, based on the observation, is telling us that legal capacity does not explain the variety in realizing trade concessions under the WTO.

Conclusion

In the end, by taking all results into consideration, we may be able to answer the research question: *To what extent does institutional change in GATT and WTO affect dispute outcomes between developing and developed states?*

To begin with, the shift from GATT to the WTO does not strengthen developing countries position so as to realize most favourable dispute outcomes. The results prove that, on the contrary to proposed assumptions, developing countries are not only less capable of eliciting from developed defendants a higher number of trade concessions but now they also lose the trade concessions more frequently.

The presence of developing countries in a multi-complainant dispute also does not support the view that the WTO could strengthen position of developing countries in realizing most desired outcomes. The finding appears to contradict the hypothesis by proving that developed complainants engaged in multi-complainant disputes win the most trade concessions.

The determinant that makes developing countries win trade concessions is the settling of disputes during panel proceedings. As proven, developing countries are capable more often of winning trade concessions once a dispute is solved at the panel stage. This is of support to my hypothesis that panel establishment should affect winning trade concessions by developing states.

To my amusement, the answer which factors most of all explains the variety in disputes outcomes cannot be found, as the covariates do not appear to be statistically significant. Legal capacity which had been believed to be the most important control variable does not have a statistically significant meaning. Following earlier explanations, the reason why legal capacity lacks its significance could be related either to the data in the proposed tests or the measure of the variable (legal capacity operationalized as a bureaucratic quality of governance). The experience in the trade regime, expressed by the export flows, which appears to be statistically significant in model for all complainants, lacks its significance in models for developing or developed countries.

Summary

This section has provided an extensive analysis of disputes' outcomes for GATT and the WTO. As can be noted, developing states appear to be disadvantaged under both regimes since they lose a vast majority of trade concessions when compared to developed states. Moreover, the observations prove that the WTO regime has not corrected the bias against developing states since these continue to lose more often than developed states.

In this section the effect of explanatory variables on the dependent variable has been explained too. It appears apparent that panel establishment is a determinant of winning trade concessions by developing states. Moreover, the multi-complainant disputes seem to make developed states more likely to elicit trade concessions from developing states. Possibly due to the limited number of observations, none of presented covariates explains the variety in realizing trade concessions by neither developed or developing states.

VII. CONCLUSIONS

Summary

This research answers the research question: *To what extent does institutional change in GATT and WTO affect dispute outcomes between developing and developed states?*

Empirical tests prove that the shift from GATT to WTO does not make developing countries significantly likely to secure higher number of trade concessions. This finding does not support the first hypothesis, namely, that developing countries are due to benefit from the higher number of trade concessions under the WTO regime. However, the finding is partly true when we analyse performance of individual developed and developing subgroups. Simply, results indicate a slight increase in realizing trade concessions in the NI subgroup. When we compare the score for the NI subgroup (developing countries group) with the score of EI subgroup (developed countries group) it becomes apparent that the first subgroup wins more trade concessions under the WTO than it used to do under the GATT, whereas the early industrialized subgroup loses more often under the WTO but is better off under the GATT.

Several independent variables have been checked for their alleged effect on realizing trade concessions by developed and developing countries. The results show that panel establishment appears to be statistically significant in the group of developing states. The finding supports the second hypothesis that earlier dispute settlement helps developing countries achieve the trade concessions. Furthermore, multi-complainant disputes make developed countries significantly more likely to achieve trade concessions under the WTO and this makes us reject the third hypothesis. Last but not least, legal capacity has no significant relationship to trade concessions under both regimes for developing and developed countries. Other covariates in the models of developed and developing countries are not statistically significant either. The experience in trade (export flows) variable has made a promising contribution by being statistically significant in the model for all complainants but, most possibly, due to limited number of cases for developed and developing groups, loses the statistical significance.

Encountered problems

As far as problems and limitations to the research are concerned, limited number of cases for complainants in developed and developing groups of countries seems to be of highest importance. Most likely, due to the limited number in the cases data set, the results become inconsistent. A few important variables that presented statistical significance lost their characteristics due to a limited number of cases. For example, the export variable being statistically significant for all complainants becomes statistically insignificant for individual groups of countries.

Secondly, few variables in this research are operationalized with a help of proxies, i.e. legal capacity and geographic endowment. Possibly, due to these measures, these two variables are completely “inactive” in all performed regressions. In short, these two variables, while they are hold constant, do not explain the effect of explanatory variables on the dependent variable.

Last but not least, this has been a challenging task to organize countries characteristics in accordance with the proposed country classification system. To make it clear, as the research analyses dispute from 1948 to 2011, a period in which many countries underwent major political changes. Thus, it was difficult to refer to these countries in regard to economic and socio-economic quantities such as the value of export flows, HDI or ratios for the bureaucratic quality of governance. In the regard to the EC specifically, several calculations regarding these economic and socio-economic quantities have to be performed to make them adequate for the specific period of time when the dispute was held. A detailed description of how the calculations have been made, are included in Chapter V.

Summary of Contributions

This thesis does incorporate the newest ideas and the most up to date data in order to make advancements in the already existing knowledge regarding developing and developed countries' performance in dispute settlement.

To begin with, this is the first study that focuses on won and lost trade concessions of the complaining party which belongs to either the developed or the developing group of states. The disputes analysis omits disputes between countries from the same group of development, i.e. developed vs. developed or developing vs. developing. The time frames for the analysis regard disputes between 1948 and 2011. The former studies on disputes outcomes have not gone further than 1995.

This is also the first study that for dispute's outcomes analysis uses so expansive country classification. The former studies based their classification on the Generalized System of Preference (Busch and Reindhardt, 2003) which segregated countries into two groups: the QUAD countries and developing states. This classification, though easy to work with, misses the heterogeneity in the world of developed and, most importantly, developing countries.

This study supports earlier assumptions that these are the developing countries which suffer from the GATT and WTO bias against them. Moreover, it finds support for a belief that panel establishment is indeed an important factor in winning trade concessions by developing states under the WTO. However, the thesis contradicts claims that legal capacity could explain the variance in trade concessions between the countries. The legal capacity, measured here as the bureaucratic quality of governance, does not explain the variances as its lacks statistical significance.

Future Research

For the future research there are a few recommendations proposed. Firstly, variables like legal capacity and geographic endowment should have their permanent measure found. Having a reliable measure to test a phenomenon is extremely important for any research. It is difficult to find an adequate for the research proxy and also disappointing once the proxy agreed on does not reveal any effects on the dependent variable.

Secondly, multi-complainant disputes appear to be an important variable in the research. It would be worthy incorporating the variable into research regarding trade concessions once again to check if it still remains statistically significant. However, the criteria to incorporate it should be more detailed. Among others, the multi-complainant analysis could include characteristics of specific countries like the subgroup to which they belong, what they claim and how it is related to claims by other complainants.

Thirdly, it may be fascinating to analyze trade concessions in more detailed manner by looking at full, partial and substantial concessions. Moreover, it may be interesting to see how the concession's levels relate to certain explanatory variables. Naturally, for this kind of research an expanded version of data set is necessary which will not have missing values that distract the statistical tests.

And finally, it would be worthy to check if situation of developing countries improves in terms of winning trade concessions, thus, after several years from now another study could be conducted. Also, other explanatory variables could be involved to test how these could explain the variance in the dispute outcomes.

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