

## Does the WTO Help Member States Clean Up?

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Georgia's foreign minister was adamant in his opinions, although his English was sketchy. In a 2010 interview he stressed, "Georgia's support to Russia's WTO membership is conditional...Unregulated illegal trade...is counter WTO rules. Russia should become member of this rules-based organization but only if it respects trade rules."<sup>1</sup>

Tiny Georgia's determination to use its WTO leverage to "clean up" mighty Russia is surprising, but it is not unusual.<sup>2</sup> Member states have used both the WTO and its predecessor agreement, the GATT, to prod other countries to make trade policy in an accountable, even-handed, and transparent manner since 1948.<sup>3</sup>

The GATT and the WTO comprise the international system of rules governing trade. Neither the GATT nor the WTO includes rules to address or reduce corruption per se.<sup>4</sup> Herein we argue that WTO membership alters how some member states govern.<sup>5</sup> Under WTO rules,

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<sup>1</sup> Josh Rogin, "Washington Won't Mediate between Russia and Georgia on the WTO," 10/06/2010, [http://thecable.foreignpolicy.com/posts/2010/10/29/washington\\_won\\_t\\_mediate\\_between\\_russia\\_and\\_georgia\\_on\\_wto](http://thecable.foreignpolicy.com/posts/2010/10/29/washington_won_t_mediate_between_russia_and_georgia_on_wto)

<sup>2</sup> Tiny Georgia has 4.6 million people and a GNP of \$22 billion. Russia has a population of 139 million and a GNP of 2 trillion. Corruption is not Georgia's only beef with Russia. Georgia was forcibly incorporated into the USSR until the Soviet Union dissolved in 1991. Georgia is angry that Russia has encouraged the independence of some Georgian provinces. The statistics come from the 2010 CIA factbook. GNP figures are per capita. <https://www.cia.gov/library/publications/the-world-factbook/>.

<sup>3</sup> During the Uruguay Round negotiations, the contracting parties of the GATT agreed to create a new formal international organization to supersede the GATT and include its agreements, as well as the new agreements negotiated during that round. In 1995, member states established and joined the WTO, agreed to abstain from practices that violate WTO law, and assigned the WTO functions to promote trade cooperation such as to facilitate trade barrier negotiations and to help mediate disputes among WTO members.

<sup>4</sup> Some countries and business groups wanted to include corruption provisions in the WTO, but members have not agreed that the WTO is the appropriate institution to address such issues despite corruption's relationship with trade. Kenneth W. Abbott, "Rule making in the WTO: Lessons from the Case of Bribery and Corruption," Journal of International Economic Law, 2001, 275-296.

<sup>5</sup> For the purposes of simplicity, we limit our discussion in this chapter to GATT 1994, Annex 2 (the Dispute Settlement Understanding), and Annex 3 (the Trade Policy Review Mechanism).

policymakers are obligated to act in an evenhanded and predictable manner, to facilitate transparent trade-related policymaking and to provide due process to such policymaking by allowing individuals to comment on and challenge trade related regulations before they are adopted. These obligations can be redefined as anticorruption counterweights<sup>6</sup> in that they bolster the ability of citizens to monitor their government and hold it accountable. (Kaufman: 2009, Skladany: 2009). In attempting to improve governance for foreign market actors (the direct intent of WTO rules), membership in the WTO improves governance for domestic actors too (Aronson and Abouharb: 2011). In so doing, the WTO helps member states counter corruption (a spillover effect).

Corruption (the abuse of entrusted authority for illicit gain)<sup>7</sup> is pervasive, hard to measure,<sup>8</sup> and damaging to economic growth<sup>9</sup> and human rights. Corruption undermines economic growth

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<sup>6</sup> Transparency International, “National Integrity Systems: Country Studies,”

[www.transparency.org/activities/nat\\_integ\\_systems/country\\_studies.html](http://www.transparency.org/activities/nat_integ_systems/country_studies.html); and Marianne Camerer “Measuring Public Integrity,” *Journal of Democracy* 17:1 (2006.) In a 2010 study Transparency International (the leading anticorruption NGO) and the International Council on Human Rights Policy (ICHRP) identified (1) participation, (2) transparency and access to information (3) accountability 4. Nondiscrimination, and (5) evenhandedness, due process and the rule of law as crucial anticorruption counterweights. International Council on Human Rights Policy and Transparency International, “Integrating Human rights in the Anti-Corruption Agenda: Challenges, Possibilities, Opportunities,” 2010, pp. 7-8. Also see Daniel Kaufmann, “Back to Basics: Ten Myths about Governance and Corruption,” *Finance and Development*, September 2005, 43, 3, <http://www.imf.org/external/Pubs/FT/fandd/2005/09/basics.htm>

<sup>7</sup> This definition from the Norwegian Agency for Development Cooperation (NORAD) incorporates private actors and actions that may not be illegal but forbidden by rules or custom. Norad “Anti-Corruption Approaches: A Literature Review, Study 2, 2008, 12, 40, <http://www.norad.no/en/Tools+and+publications/Publications/Publication+Page?key=119213>. Scholars and policymakers list civil society organizations, freedom of the press/media, access to information laws, budgetary disclosure and open meetings;

<sup>8</sup> Corruption is hard to measure directly because it is often hidden. Instead researchers rely on indices that measure expert or citizens’ perceptions of corruption.

<sup>9</sup> Corruption is negatively correlated with economic outcomes such as growth, development, foreign investment and the effectiveness of institutions. Daniel Lederman et al, “Accountability and corruption: Political Institutions Matter,” World Bank working Paper 2708, November 2001; and Paulo Mauro, “corruption and Growth,” *Quarterly Journal of Economics* v. 110, # 3 (August 1994), 681-712.

because when corruption is widespread, citizens have uneven access to justice, can't protect their livelihoods, distrust government, and don't feel secure. Corruption prevents the poor from obtaining access to the resources and opportunities they need to achieve their potential and it deprives vulnerable people of income. Corruption can also distort policies to provide public goods or basic needs, and divert public resources from infrastructure. In this way corruption undermines the legitimacy of the state (Mauro: 1995; Campos and Pradhan: 2007; International Council on Human Rights and Transparency International: 2009).

Corruption is intimately associated with trade. Countries open to trade tend to have less corruption, less protectionism, and stronger performance on rule of law metrics (Nichols: 1997, 69; Gatti: 2004; Lee and Azfar 2002; Bandyopadhyay and Roy: 2006). Trade affects growth investment, economic equality and democratic institutions—factors which have an important impact on the likelihood of corruption (Kommerskollegium: 2005). And corruption can act as a hidden tariff on goods and services.

Policymakers in both industrialized and developing countries struggle to reduce corruption. In recent years, activists, scholars and policymakers have realized that corruption is an outcome of inadequate governance. Thus, development practitioners increasingly focus their efforts on improving governance (World Bank: 2002; Kaufmann: 2005; and Global Monitoring Report: 2006). We rely on UNDP's definition of good governance: "mechanisms, processes and institutions through which citizens and groups articulate their interests, exercise their legal rights...and mediate their differences "(UNDP 1997). Good governance follows the rule of law and is transparent, responsive, effective, and efficient.<sup>10</sup> Anti-corruption counterweights such as due process, evenhandedness and transparency are key elements of good governance. They are also norms of the

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<sup>10</sup> UNESCAP (United Nations Economic and Social Commission for Asia and the Pacific, "What is good Governance?" <http://www.unescap.org/pdd/prs/ProjectActivities/Ongoing/gg/governance.asp>

GATT/WTO and illuminate how the WTO may change the behavior of member states (Schefer: 2008, 21; Ala'i 2009, 269- 270; Wolfe: 2010, 8).

Our analysis proceeds as follows. We begin by delineating the specific GATT/WTO norms of due process, evenhandedness and transparency. We next review the theoretical background that attempts to explain why nations join the WTO and change their behavior, focusing specifically on norms based and policy anchoring theories. We next present qualitative evidence of accessions to show that member states significantly alter their approaches to governance; to foster due process, even-handedness, and transparency. We also discuss how members weigh these issues during the trade policy reviews of fellow member states. We next present our hypotheses and empirical analysis.

We briefly review our results. The first set of results described negotiations to join the WTO. We found that countries which spent longer in negotiations and successfully joined the WTO over period 1995-2007 exhibited stronger performance on our metrics of due process and access to information. These findings indicated strong support for the literature about the importance of the negotiations phase of joining international organizations changing state behavior. We also examined countries in ongoing negotiations to join the WTO. Those countries trying to accede to the WTO showed few changes; our due process and access to information metrics were positive but insignificant. Intriguingly both the countries that successfully joined and those that are trying to join the WTO exhibited negative performance on metrics of evenhandedness during their negotiations. We believe these results deserve further investigations since they may reflect problems in the scope and duration of our dataset. We also recognize that it takes time for governments to translate legal changes into changes in policymaker behavior. Our second set of results examined the impact of membership in these organizations on good governance. In these analyses we controlled for the

selection effects that make some countries more likely to have joined these organizations before others, since many of these factors such as being a democracy are also associated with improved levels of governance. Our membership results indicated that longer membership in the GATT/WTO improved our metrics of access to information while countries that became members of the WTO since 1995 exhibited improved levels of on our metric of due process.

### **How does the WTO Improve Governance?**

The GATT and the WTO were built on the idea that policies that discriminate among market actors can distort trade. The WTO Secretariat has long embraced the idea that good governance is a spillover of its efforts to promote open trade. In a web-based brochure, the Secretariat notes “Particular types of trade barriers cause additional damage because they provide opportunities for corruption and other forms of bad government.” But the WTO rules “reduce opportunities for corruption,” by regulating how and when governments can protect and by requiring transparency in trade regulation.<sup>11</sup> The WTO also says that transparency is essential to the functioning of the global trading system, and a means of enhancing national and international legitimacy.<sup>12</sup> The section below delineates the specific WTO obligations that influence both the behavior of member states and market actors. Specifically,

1. ***Evenhandedness:*** Governments must not discriminate between foreign and domestic market actors (GATT’s MFN and national treatment obligations). Member states must ensure “effective equality of competitive opportunities” between foreign and domestic like (similar) products and

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<sup>11</sup> WTO, “Ten Benefits of the WTO,” 2008, [http://www.wto.org/english/res\\_e/doload\\_e/10b\\_e.pdf](http://www.wto.org/english/res_e/doload_e/10b_e.pdf)

<sup>12</sup> Trade Policy Reviews, Ensuring Transparency, [http://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/agrm11\\_e.htm](http://www.wto.org/english/thewto_e/whatis_e/tif_e/agrm11_e.htm); and “Lamy calls on global cooperation for the smooth flow of Trade,” [http://www.wto.org/english/news\\_e/sppl\\_e/sppl182\\_e.htm](http://www.wto.org/english/news_e/sppl_e/sppl182_e.htm)

services. Article III requires non-discrimination both in the letter of the law and in the manner in which laws are applied.<sup>13</sup> The WTO describes this as “treating other people equally.”<sup>14</sup>

2. **Transparency and access to information.** Transparency is one of the fundamental norms of the trading system and has been defined by the WTO as the ‘degree to which trade policies and practices, and the process by which they are established, are open and predictable.’” Transparency and access to information help make the WTO’s rules and processes accountable both to member states and their citizens. Governments must make trade related policies in a transparent manner and ensure market actors can be made aware of such provisions.<sup>15</sup> These norms act as a check on arbitrary or discriminatory policies or practices.

3. **Due Process:** Governments must accord due process rights to market actors. GATT Article X: 3(b) requires each party to maintain “judicial, arbitral or administrative tribunals or procedures for the purpose...of the prompt review and correction of administrative action relating to customs matters. These tribunals must be independent of administering agencies and allow importers to lodge appeals. Moreover, individuals with interests in investigations have a right to receive notice, to present written evidence to review the public docket, to challenge decisions and to seek judicial

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<sup>13</sup> OECD, “Potential Anticorruption Effects of WTO Disciplines,” TD/TC (2000)3 Final, 2000, p. 6. The OECD notes a recent WTO panel decision which suggests that any condition imposed on imported products unrelated to the products themselves or their end use may violate MFN Article I. Although no GATT articles directly discuss corruption, the OECD hypothesizes that if corrupt producers paid a bribe to get more favorable treatment in domestic taxation or regulation, another government could challenge such policies as a violation of WTO rules.

<sup>14</sup> [http://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/fact2\\_e.htm](http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact2_e.htm)

<sup>15</sup> Article X requires policymakers to promptly publish laws regulations, judicial decisions, and administrative rulings...”in such a manner as to enable governments and traders to become acquainted with them. Agreements affecting international trade policy...shall also be published.” Article X: 2 forbid governments to enforce such rules priori to or absent publication.

review. (Charnovitz: 2001, 20.) These provisions set limits on what bureaucrats can do and how they do it. (Ostry: 1998, 4).

If WTO members do not adhere to these norms, other members are likely to name and shame them at their trade policy reviews. But ultimately, naming and shaming may not change a member state's practices. Members of the WTO can challenge the behavior of another member state in a trade dispute if they can show that country is distorting trade.<sup>16</sup> However, trade disputes are costly, and thus they are rare. In general member states want to encourage and maintain trade by providing clear rules and incentives for good practice among member states.

### **Theoretical Background: Why Current members and Potential Members Accept The Good Governance Spillover Effects of the WTO**

Scholars have developed several models to explain why countries change their behavior in order to join organizations such as the WTO. Robert Keohane argues members states join to reduce information asymmetries and ensure that all members benefit from the broad based public good of rules oriented expanded trade (Keohane: 2005, xi). Some scholars term this theory neoliberal institutionalism (World Trade Report: 2007). Other scholars see membership as a means of formalizing commitments (Goldstein and Martin: 2001) and spreading key norms of good governance and open markets ((Simmons, Dobbin and Garrett: 2008). By adhering to WTO rules, some scholars have found governments may also advance democratic rights (Aaronson and Abouharb: 2011) or democracy (Keohane, Macedo and Moravcsik, 2007).

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<sup>16</sup> If a member state loses that dispute, under WTO rules, it has 3 options: it can change its policies, accept retaliation, or compensate the affected member(s) for lost trade.

Some academics have sought to answer if developing countries use the WTO to send a particular message to markets and policymakers. These scholars tend to view the WTO both as a signaling device and a policy anchor: a mechanism to lock in good governance practices. "One way for the government of a democratizing country to credibly signal economic actors that it will behave like a mature democracy—respecting property rights and the rule of law...is by entering an IO (international organization) that regulates economic policy." (Mansfield and Pevehouse:2008, 273; also Elkins, Guzman and Simmons, 2006; Dobbins, Simmons and Garrett, 2007; Buthe and Milner, 2008). Mansfield believes such signaling is particularly important for emerging democracies; they use membership in the WTO to signal their citizens that the government is accountable (Mansfield et. al, 2002, 478-481). If Mansfield et al. are correct, these governments will change some of their practices towards greater transparency, accountability, and even-handedness.

But it's not easy to join the WTO. First, as described above, new members must make significant changes to their governance processes and strategies. In so doing, policy makers may encounter resistance from once privileged groups. Organized and unorganized citizens may view the reform process as coercive and alienating (Michalopoulos 1998 and Langhammer and Lucke: 1999). In addition, some countries have trouble adopting these norms because their culture emphasizes the sovereignty of the bureaucracy over the right of individuals for access to information (Potter: 2003; Blukovic: 2008). These countries may resist greater access to information and transparency. Thirdly, WTO membership also strengthens the power of the central government vs. regional elites (Tang and Wei: 2006; Langhammer and Lucke, 1999). Finally, policymakers must accept increased scrutiny and foreign participation in the polity.

Despite these costs, almost every country outside of the organization wants to join the WTO. UNCTAD theorized that policymakers may see their commitments as "investments...

insofar as they are payments today in the expectation that they will produce rewards in the future.”(Basu: 2008, 5). Membership also signals foreign investors that the country will provide foreign and domestic actors with the information they need to assess market and political conditions (Honda: 2008, Tang and Wei: 2006; World Bank: 2006; Barton: 2006).

Some scholars have examined this policy anchoring process in depth. Bacchetta and Drabek of the WTO staff used WB indices of institutional quality and found that countries that joined the WTO between 1995 and 2000 had better institutional quality than nonmembers (Bacchetta and Drabek: 2002: 17, 41). However, their study did not examine change over time and did not control for other factors that might affect institutional quality such as foreign aid.

Tang and Wei hypothesize that WTO commitments made at accession have a stronger effect on countries with poorer governance. They checked their results on several different metrics of good governance and find that the policy changes required by accession benefit countries with inadequate governance (Tang and Wei: 2006, 18-21). Ferrantino compares the impact of free trade agreements and WTO accessions on governance and finds little significant impact. He argues that this finding reflects inadequacies in government indices rather than reality (Ferrantino: 2005). Basu delineates the specific changes required to join the WTO and compares newly acceded states to existing developing country members. He shows that obtaining WTO membership can lead to a positive improvement in domestic policies (Basu: 2008). In short, Basu finds the investment in joining the WTO pays off not only in expanded trade but in better governance.

In general, the scholars who have examined this policy anchoring process have relied upon broad metrics of governance from the World Bank, the Heritage Foundation, and Freedom House, among others to examine the WTO’s policy impact. Some of these metrics are perception based;

others are fact based. Some of these metrics are based on surveys of experts-others are based on surveys of public perceptions. We believe these metrics may be too broad to truly measure the WTO's influence on policymakers' behavior.<sup>17</sup> Hence, we take a different tack. We assert that the WTO fosters particular NORMS of good governance and seek to explain how these norms (which can also thwart corruption) are translated into changes in government behavior at the WTO and at home. Thus, our argument builds on both norms-based and policy anchoring models.

We argue that the diffusion of good governance norms through the WTO is both direct and indirect. First, during and after the accession process, new members of the WTO (some 23 countries from 1995-2007 in our sample) must make major changes to their governance strategies to gain the approval of existing members. Some 30 countries are seeking to accede as of March 2011. When countries accede, they are directly prodded to make changes. However, sometimes policymakers are also under domestic pressure to make changes--, we have no means of examining whether the reform was adopted due to domestic pressures or to due to WTO member state pressure (Ferrantino: 2006). Countries with better governance may find accession easier than those countries that must make major institutional and policy change (Bacchetta and Drabek: 2002, 16). Secondly, member states monitor performance regarding WTO rules and principles during trade policy reviews (Tang and Wei: 2006: 4, 32.) During these review, the diffusion of norms is indirect and gradual. The chart below delineates how WTO rules are gradually translated into reforms at the national level among WTO member states.

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<sup>17</sup> Kaufmann, D. and A. Kraay, 2008. Governance Indicators: Where are We, Where Should We Be going, world Bank Institute Policy Research Paper 4370, download at <http://mpra.ub.uni-muenchen.de/8212/>; OECD, "Uses and Abuses of Governance Indicators," 81-101, [http://www.governance.unimaas.nl/training\\_activities/aau/download/Papers/Usesofabusesofgovernanceindicators%5B1%5D.pdf](http://www.governance.unimaas.nl/training_activities/aau/download/Papers/Usesofabusesofgovernanceindicators%5B1%5D.pdf)

## The Direct and Spillover Effects of GATT's Anticorruption Provisions

<b>GATT WTO provision and its purpose</b>	Policymaker obligation	<b>Spillover Effects on policymakers</b>	<b>Examples of policies that must be established or improved</b>	<b>Spillover Effects on Market Actors and Citizens</b>
MFN and national treatment Articles I, III. <i>Designed to Prevent discrimination among market actors-domestic and foreign actors.</i>	Act in an evenhanded manner.	Policymakers learn to act in an even-handed manner related to trade. Policymakers should avoid bribes or favoritism.	Taxation Customs Agriculture Industrial policies Health, environment and safety regulations Investment regime State ownership and pricing policies. Authority of sub-governments Legal system	Market actors learn to expect nondiscrimination and evenhandedness. May lead to better market allocation. Citizens may perceive government as fairer, and more responsive.
Transparency and access to information Article X <i>Provide clarity and certainty to trade.</i>	Act in a transparent manner. Be responsive to public questions.	Policymakers learn to act in the sunshine. May create feedback loop and lead to better public policies.	Same as above	Citizens gain information to assess and influence government decisions and ensure greater responsiveness to public concerns. Citizens learn who to ask about decisions and how to seek redress. May lead to public questioning of policy directions.
Due process Article X. <i>Allows foreign and domestic market actors to comment on and trade related regulatory changes.</i>	Act in an accountable manner. Accept public challenge and questioning.	Policymakers learn to interact with and listen to constituents. Government learns to read "markets."	Same as above and administrative/judicial review	Citizens gradually learn how to challenge government. Market actors may be more willing to take risk if they can challenge policy decisions.

## WTO Direct Diffusion: Accessions

As the Russia/Georgia example illustrates, the members of the WTO are most able to influence the behavior of acceding states. However, only 41 of the world's countries are not members of the WTO; 30 of those countries are trying to accede.<sup>18</sup>

The accession process begins when a candidate country produces a memorandum describing all aspects of its trade policy. In a spirited give and take a working party of WTO members delineates a protocol of accession which will clearly spell out what changes are required as well as a timetable for such changes. Current members must agree on the terms of membership, which differ for each country.<sup>19</sup> These current members recognize that they have the most leverage during the accession process.<sup>20</sup>

The process of joining the WTO is the same as it was under the GATT. But the scope of the process is broader, reflecting both the number of members (153) and the large purview of the WTO. Moreover, if a new member fails to meet its accession commitments, it can be challenged in a trade dispute under its protocol of accession (WTO and Basu et al, 2008).

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<sup>18</sup> The US Department of State reports that there are 194 countries.

[http://geography.about.com/gi/o.htm?zi=1/XJ&zTi=1&sdn=geography&cdn=education&tm=15&f=21&su=p284.9.336.ip\\_&tt=2&bt=1&bts=1&zU=http%3A//www.state.gov/s/inr/rls/4250.htm](http://geography.about.com/gi/o.htm?zi=1/XJ&zTi=1&sdn=geography&cdn=education&tm=15&f=21&su=p284.9.336.ip_&tt=2&bt=1&bts=1&zU=http%3A//www.state.gov/s/inr/rls/4250.htm); on acceding countries, see [http://www.wto.org/english/thewto\\_e/acc\\_e/acc\\_e.htm](http://www.wto.org/english/thewto_e/acc_e/acc_e.htm)

<sup>19</sup> "How to Join the WTO: The Accession Process,"

[http://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/org3\\_e.htm](http://www.wto.org/english/thewto_e/whatis_e/tif_e/org3_e.htm), All accession working parties include the US, EU, Japan, Australia, and Switzerland.

<sup>20</sup> WTO, "Membership, Alliances and Bureaucracy," [www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/org3\\_e.htm](http://www.wto.org/english/thewto_e/whatis_e/tif_e/org3_e.htm); and Lanoszka, Anna. (2001) "WTO Accession Process: Negotiating Participation in a Globalizing Economy." *Journal of World Trade* 35 (4): 575-602.

Current members use the discussions over the protocol to prod the potential members to take steps to support capitalism, increase transparency, and advance the rule of law (Bacchetta and Drabek: 2002, 11). After the Working Party reviews the performance of the country seeking to accede, the members of the WTO vote to approve its candidacy. If two thirds of the members approve, the acceding country can ratify the agreement and then join the WTO.

We reviewed working party reports and accession protocols for 24 recent accessions from 1995-2009; we found countries promise significant changes.<sup>21</sup> Many of the countries that acceded in this period had significant problems with accountability, transparency and evenhandedness. Other member states wanted to ensure that these new members did not make empty promises. Thus, current member states made it quite clear that if these countries wanted to join the WTO the acceding country had to ensure that their legal system was evenhanded and effective; they governed in a transparent manner, and allowed traders to influence and challenge trade policies.

For example, Georgia admitted that its trade related regulatory system was opaque, so it promised to change its legal system to conform to WTO rules. The representative of Georgia also confirmed that from the date of accession Georgia's laws would provide for the right to appeal administrative rulings on matters subject to WTO provisions to an independent tribunal in conformity with WTO obligations.<sup>22</sup> Saudi Arabia and Nepal agreed to increase provisions for transparency and public comment.<sup>23</sup> Members spent hours asking questions about the rights of

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<sup>21</sup> [http://www.wto.org/english/thewto\\_e/acc\\_e/completeacc\\_e.htm#sau](http://www.wto.org/english/thewto_e/acc_e/completeacc_e.htm#sau).

<sup>22</sup> WTO/ACC/GEO31, p. 8 (on due process) and 34 on transparency.

<sup>23</sup> Working Party on the Accession of Nepal, WT/ACC/NPL16.DOC, And Working Party on the Accession of Saudi Arabia, WT/ACC/SA-U/61.

Saudis and non-Saudis to participate in the economy.<sup>24</sup> Saudi Arabia agreed to ‘provide a reasonable period...for members, individuals, associations and enterprises to provide comments to the appropriate authorities before such measures were adopted.’<sup>25</sup> Cambodia agreed to remake its judicial and administrative law systems. “Cambodia recognized the need to establish an appeals process, both administratively and to an independent tribunal to meet the requirements of Article X of the GATT 1994 and other such provisions in WTO Agreements.” Working party member governments also reminded Cambodia that it was obliged to develop “mechanisms for publication and dissemination of draft legislation and standards for public comment; {and} the establishment of a TBT (technical barriers to trade) Inquiry point, where foreign and domestic producers could learn how to meet Cambodian standards.”<sup>26</sup> The representative of Jordan said that from the date of accession all laws, regulations, decrees, judicial decisions and administrative rulings of general application related to trade would be published in a manner that fulfils the WTO requirements. Jordan was also questioned as to whether its court system provided rights for administrative appeal and the role of the king in ruling on such appeals.<sup>27</sup>

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<sup>24</sup> Working Party on the Accession of Saudi Arabi, WT/ACC/SAU/61, p. 94, # 296 and # 297; on transparency and public comment, see p. 96, #304.

<sup>25</sup> WT/ACC/SAU/61, 96, # 301-#304.

<sup>26</sup> Working Party on the Accession of Cambodia, WT/ACC/KHM/21, 15 August 2003, p 25, #124

<sup>27</sup> WT/ACC/JOR/33WT/MIN(99)/9, 3 December 1999, on transparency; p. 238-240 and 10,41 #40-41. “Natural or legal persons contesting administrative decisions could take the matter to the High Court of Justice, which was specialized in administrative jurisdiction. Customs and income tax matters were decided by specialized courts. Customs decisions could be appealed to the Customs Court of First Instance, whose judgements could be appealed to the Customs Court of Appeal and further to the Court of Cassation...the King had no power to overrule any court judgement, civil or criminal. Religious Courts ...had no jurisdiction in civil or criminal cases or issues related to domestic and foreign trade...A member asked Jordan to clarify the right of appeal to a separate judicial authority in matters covered by WTO Agreements. In reply, the representative of Jordan said that Jordan had adopted the system of two-tier litigation. This rule applied in the civil or administrative courts, thus every decision of a judicial character was subject to appeal in Jordan in one form or another.”

China was the only country required to improve the rule of law; these obligations were delineated in the Protocol as well as the Working Party report. The 2001 Protocol on the Accession of the People's Republic of China is an unusual document. It states that as a condition of accession, China must enforce 'uniform administration of Chinese law' throughout China (Aaronson: 2007). The Protocol calls on China to 'apply and administer in a uniform, impartial and reasonable manner all its laws, regulations and other measures of the central government as well as local regulations, rules and other measures pertaining to or affecting trade. China shall establish a mechanism under which individuals and enterprises can bring to the attention of the national authorities cases of non-uniform application.'<sup>28</sup> The agreement requires China to notify the WTO about 'all the relevant laws, regulations and other measures relating to its special economic areas'. Finally, it calls on China to ensure that 'those laws, regulations and other measures pertaining to and affecting trade shall be enforced.'<sup>29</sup>

Taken in sum, the accession process is forcing major changes not only in the laws of new member states, but to how nations govern. These changes include measures that enhance access to information, improve evenhandedness, and provide due process regarding trade related policymaking. Over time, these reforms may give citizens in weak democracies or authoritarian regimes more opportunities to influence trade related policymaking.

### **Indirect Diffusion: The Trade Policy Review Mechanism: TPRM**

Since 1989 (under GATT), and continuing under the WTO, member states have formally and publicly reviewed each other's trade policies in trade policy reviews. The US, EU, China, and

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<sup>28</sup> WTO, "Accession of the People's Republic of China, Decision of 10 November 2001," WT/L/432, (A), 1, 2,

<sup>29</sup> Wt/L/432, Sections (B), (C),3.

Japan are reviewed every 2 years, the next sixteen (in terms of their share of world trade) are reviewed every four years; and the remaining countries are reviewed every six years.<sup>30</sup>

No member state can use this process to force changes to another states policies, but they can use the review to name and shame countries that fail to meet their obligations for transparency, participatory governance and due process. The reviews address a wide range of governance issues. The review meetings are not open to the public but they are made public on the WTO's web site some six weeks after they occur. Therefore, citizens can use the review to gain broader insights into a country's policies and circumstances, and they provide feedback to the reviewed country on its performance in the system.<sup>31</sup> Zahrnt argues (2009, 6) that the TPR teaches the habits of good governance, because it "accustoms governments to tolerate reviews, stakeholders to contribute to the review process and the media to use the results." These reviews also enable interested parties to compare data and trade policies across countries. Trade policymakers from the country under review may use these reviews to encourage legislators to make policy changes. Some scholars also argue that the review process makes reforms more credible (Francois: 1999).

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<sup>30</sup> [http://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/agrm11\\_e.htm](http://www.wto.org/english/thewto_e/whatis_e/tif_e/agrm11_e.htm). The WTO secretariat also monitors the G-20 countries trade and investment measures to thwart covert protectionism (trade monitoring report).

[http://www.wto.org/english/news\\_e/archive\\_e/trdev\\_arc\\_e.htm](http://www.wto.org/english/news_e/archive_e/trdev_arc_e.htm)

<sup>31</sup> [http://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/agrm11\\_e.htm](http://www.wto.org/english/thewto_e/whatis_e/tif_e/agrm11_e.htm). The process works as follows: The Secretariat first sends one or two questionnaires to the country under review and collects information from various sources (the country's official web pages, reports by other international institutions, NGOs, academic work). Members of the Trade Policy Review Division of the Secretariat then travel to the country to discuss outstanding questions with the government and other stakeholders. The Secretariat drafts a report and sends it to the country under review for verification. The final report, together with a policy statement from the country under review, is circulated to the member states at least five weeks before the review meeting. Member states are summoned to submit their written questions two weeks before the meeting. The Secretariat identifies the main points contained in the questions and makes them available one week before the meeting. Countries under review often give written responses to the questions they have received in due time before the meeting. All documents, including the minutes of the meeting, are made public.

In 2010, WTO secretariat staff reviewed the impact of these TPRs in the Americas and concluded that trade policy reviews showed that these nations had become increasingly transparent and better governed. Some countries had simplified and updated their trade-related laws and regulations and established an outside consultative process (Valdes: 2010, 9, 32).

We examined all of the trade policy review documents for 22 countries. Our sample included developing and middle income countries that were relatively new members (China, Slovenia, and the Krgyz Republic) as well as original GATT members Brazil, Sri Lanka and Pakistan (see annex A). We also included the US in our sample to see how other countries discussed US governance problems.<sup>32</sup> Costa Rica was the only country in our sample where these issues never came up. For these other countries, corruption and good governance issues came up frequently. The questioning did not only come from the behemoths of global trade-the US, the EU and China. Countries such Colombia, Turkey and Chile were among the most vocal.

In general, countries were asked how they made regulations transparent, how they encouraged foreign understanding of relevant policies, and how they responded to public comment.<sup>33</sup> Some countries such as Krygystan were chided for unpredictable enforcement and

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<sup>32</sup> The sample of countries were the US, which joined in 1948 and is reviewed every two years (most recent 2010); Malaysia, which joined in 1947 and was reviewed in 2010; Jamaica, 1963, reviewed 2005; Turkey joined 1951, reviewed 2007; Slovenia, joined 1994, reviewed 2002; Costa Rica, joined 1990, reviewed 2007, Tanzania (1961), Kenya (1964), and Uganda (1962) reviewed in 2006; Brazil, joined 1948, reviewed 2007; China joined 2001, reviewed 2010; Bangladesh, joined 1972, reviewed 2006; Sri Lanka, joined 1948, reviewed 2010; Pakistan, joined 1948, reviewed 2008; Phillipines, joined 1979, reviewed 2005; Argenina

<sup>33</sup> See Trade Policy Review Malaysia, WT/TPR/M/225/Add.1, pp. 13, 108, 137; Trade Policy Review, Jamaica, WT/TPR/M/139, Minutes of Meeting, p. 12, #47, Trade Policy Review, Turkey, “Minutes of Meeting, WT/TPR/M/192, #31, #47, 48; Trade Policy Review, Brazil, WT/TPR/M/212, # 113, p. 19; #125 and #128, p. 21; and Trade Policy Review, Bangladesh, WT/TPR/M/168

unclear public policies.<sup>34</sup> Members often asked about policy transparency and evenhandedness, they less frequently mentioned the rule of law, and judiciary independence. Members sometimes disagreed on performance or the best strategy to discuss governance. Turkey a member since 1951 was lauded by some countries for its openness and improved governance, although China and Japan said that Turkey was not transparent enough.<sup>35</sup> Not surprisingly, China received the most criticism and questioning. In its 2008 and 2010 TPR, members acknowledged that China had become more transparent and better governed, but most countries made it clear that they thought China remained complex, opaque and inadequately governed.<sup>36</sup> Some countries challenged the US and the Philippines for supporting domestic industries in an opaque and uneven manner.<sup>37</sup> Member states directly mentioned problems of corruption and strengthening the rule of law during the trade policy reviews of Ghana, Bangladesh, Philippines, Pakistan,, Thailand, Kyrgyz Republic, Sri Lanka, and the joint review of Tanzania, Kenya and Uganda.<sup>38</sup>

Taken in sum, members use the trade policy reviews to praise countries that have made governance progress and to name and shame countries that continued to have problem. They often discussed issues of transparency and evenhandedness and less frequently discussed due process. Members also chided some member states for corruption. But short of trade disputes, members could not hold other nations to account for a failure to fully meet WTO commitments.

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<sup>34</sup> Kyrgyz Republic, WT/TPR/M/170, #28, 29, p. 9.

<sup>35</sup> WT/TPR/M/192, 32, 41, Japan, #47, China, #51; and Colombia, #285, p. 47.

<sup>36</sup> Trade Policy Review, China, Record of the Meeting, WT/TPR/M/230, quoting Secretariats's report #124, p. 21, #66, p. 12 remarks of Brazil; #92, 16, Remarks of Norway; 187, p. 33, remarks of U.S.; Japan, #213, p. 37.

<sup>37</sup> WT/TPR/M/235, #496, p. 73; and on the Philippines, “

Concluding Remarks by the Chairperson,” [http://www.wto.org/english/tratop\\_e/tpr\\_e/tp249\\_crc\\_e.htm](http://www.wto.org/english/tratop_e/tpr_e/tp249_crc_e.htm) .

<sup>38</sup> As example, Bangladesh WT/TPR/M/168, #44, p. 11; Sri Lanka, Trade Policy Review, WT/TPR/M/237, #79, p. 17; and #187 and 188, p. 36; and Pakistan, WT/TPR/M/193, #68, 17; and Philippines, Wt/TPR/M/149/Add.1, comments of Korea, Canada, #5, 6, pp. 6; and Ghana, Wt/TPR/M/194/Add.1., #19p. 30 .

## Research Design

This section delineates how we assess the influence of the three WTO norms upon country behavior--good governance. We used a variety of models to test our hypotheses. We begin by first examining the impact of WTO negotiations upon the 30 countries that seek to accede. Next we use two stage equations to examine the impact of WTO membership on the 128 members (minus the OECD nations, which we presume have strong levels of good governance.) Finally, we model the influence of the WTO upon the 23 countries that joined the WTO in the period 1995-2007. In these models our first stage equation builds on literature that describes other correlates of joining inter governmental organizations. Our second stage equation also includes the correlates of good governance. We begin by describing how we developed the models and controls.

### *Other Correlates of Joining International Organizations and Good Governance*

In designing our research, we were mindful that the factors that make countries more likely to become members of the WTO may also be related to issues of good governance. For example, countries which have better records on non-discrimination, higher levels of transparency and improved levels of accountability may be more likely to join the WTO. Thus any findings which link WTO membership to improved good governance may be a function of the types of countries that join this organization. By controlling for these endogeneity issues, we are then able to assess the effect of GATT/WTO membership on good governance.

Thus, our research design incorporates findings from scholars regarding how wealth, regime type, and location affect membership in international organizations. Several studies have found that wealthier countries and increasingly democratic countries are more likely to join international regimes. They also indicate that countries which join international governmental organizations are also likely to join other international organizations and agreements. Interestingly, countries whose

neighbors join a specific organization are likely to join that same agreement or organization (e.g. Hafner-Burton and Tsutsui 2005; Hathaway 2002; Keith 1999; Landman 2006; Neumeyer 2005). Our model controls for these factors. We also controlled for several quality of governance and type of regime. Scholars have shown that wealthier countries tend to be better governed (La Porta 1999) and better governed economies have less corruption (Lambsdorff: 2005, Wei: 1999). Other scholars have linked improved democratic rights to aspects of good governance like access to a free media (Huntington 1984). Some academics have demonstrated that countries which trade more and those with a British colonial experience tend to have governments which govern in ways that respect their rights of their citizens and are more even-handed (Blanton and Blanton 2007; Poe 2004; Poe, Tate, and Keith 1999). In contrast, countries with relatively large populations, high levels of civil conflict, and involvement in interstate war tend to have governments that do not respect human rights (Poe 2004; Poe, Tate, and Keith 1999). Olson theorized that rapid economic growth has a disruptive impact on social stability, which in turn can reduce government respect for citizen's rights (Olson: 1965). Finally we also control for the type of legal system, in recognition that it can influence quality of governance (La Porta 1999; Finnemore 2004).

### *Empirical Model*

The empirical model includes all independent countries using the Correlates of War framework (Correlates of War 2008). Our unit of analysis is the country year. The years covered by our analysis vary across the models used. Our models examining the determinants of GATT/WTO membership over the period 1950 through 2008. Our models examining negotiations to join the GATT/WTO and membership of these organizations on good governance cover much shorter periods of time. While we think that the datasets we use for these measures of good governance truly reflect the WTO norms of due process, evenhandedness and transparency, this data had

limitations. Our measures of due process and even handedness are cross-sectional, limited to one year each. Our indicator of due process is the level of civil rights protection for the year 2006 taken from the Bertlesmann Transformation Index 2010<sup>39</sup>. Our indicator of evenhandedness, the Property Rights and Rules-based Governance measure for 2005, comes from the IDA Resource Allocation Index (World Bank: 2005). Both of these measures do not allow us to model every country or to measure change over time. Finally, we use Global Integrity's measure of access to information to examine how the WTO influences transparency. This information was available for 2004, 2007, and 2008.<sup>40</sup>

We separate our analysis into first examining the effects of WTO accession upon good governance and secondly examining the effects of WTO membership on good governance. In the second set of analysis we undertook a two stage approach that controlled for the issues of endogeneity discussed earlier. In the first stage of these two stage models, we estimated factors that affect the numbers of years countries have been members of the GATT/WTO in the 1950 through 2007 period.<sup>41</sup> In the second stage, we assessed the progressive impact of participation in the GATT/WTO regime on good governance across our three different measures, controlling for these first stage issues either using three stage least squares regression or including the hazard ratios of WTO membership.<sup>42</sup>

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<sup>39</sup> While this measure is available over time the more recent editions of this measure are beyond the scope of our other variables.

<sup>40</sup> We interpolated our economic variables for the year 2008.

<sup>41</sup> For the models that examine the period 2004-2008 we extrapolate our control variables which otherwise finish in 2007.

<sup>42</sup> Since the disturbance term is correlated with the endogenous variables, this violates the assumptions of ordinary least squares. In addition because our key explanatory variable, the number of years a country has been a member of the GATT/WTO is also a dependent variable in the other equation the error terms among the equations are expected to be

We include the lagged dependent variable in the Access to Information models where had multiple years of data. Governance improvements are slow and often unperceivable year to year. Thus, these values are unlikely to change much from year to year. This strategy also allows us to ensure that our results are not driven by broader trends towards or away from good governance and allow us to avoid any distortions in our data stemming from such trends.

## **Dependent Variables**

We rely on three measures of good governance to examine if membership in the WTO affects country behavior.

### *Due Process*

This variable describes the extent to which civil rights are guaranteed and protected by the state and to what extent can citizens seek redress for violations of these liberties. Thus, it is a key metric of due process. The measure is scaled on a 1-10 indicator describing the extent to which civil rights guaranteed and protected. Higher values indicate greater civil rights protection. A '1' describes the situation where "Civil rights have no protection even in principle, or are systematically violated". A value of '10' indicates that "There are no restrictions on civil rights." (Bertelsman 2010: 21). The measure is taken from the Bertelsman Transformation Index.

### *Transparency*

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correlated. This is why we run three-stage least squares for the due process and access to information models, because it uses an instrumental variable approach to produce consistent estimates and generalized least squares to account for the correlation in the disturbances across the equations (Greene 2003; StataCorp 2005, 16-17). Finally use ordered logit for the evenhandedness model. We link the first longevity of GATT/WTO membership stage to the second evenhandedness model through the use of hazard ratios. Since we are linking these two models with hazard ratios it means that our standard errors in the models estimating the evenhandedness model are not efficient because it violates the maximum likelihood estimation assumption of fixed co-variates. We rectify this problem through the use of bootstrapped standard errors (Mooney and Duval 1993). We use 1000 replications to generate our second stage findings.

This variable describes whether or not the government provides information to its citizenry (Global Integrity Reports 2004, 2006, 2007, and 2008). The Global Integrity Reports use questionnaire responses from country specialists and events based reporting to generate a 0-100 scale measure. A value of “0” indicates that the public has great difficulty accessing government information. A value of “100” indicates that the public can easily access all aspects of government information. Ideally, we would estimate how participation in GATT/WTO regime affects access to government information annually for each country in the sample. Our dataset has limitations; it only covers 2004, 2006, 2007, and 2008 and it does not cover all WTO members. With this caveats, we assessed whether longer GATT/WTO participation is associated with higher levels of public access to government information. Our data set for this measure covers 26 countries in 2004, 43 countries in 2006, 52 countries in 2007, and 46 countries in 2008. The sample provides a good deal of variation in actual levels of access to government information. The values range from 0-98.33.

#### *Evenhandedness*

This measure comes from the IDA Resource Allocation Index (World Bank 2005). . The variable describes the extent to which the government respects property rights and contract rights and that these rights are reliably and consistently enforced. The variable ranges between 1 and 4. Higher values indicate greater government respect of these rights. In particular the measure focuses on the extent to which private economic activity is facilitated. The measures reflects (a) the legal basis for secure property and contract rights; (b) the predictability, transparency, and impartiality of laws and regulations affecting economic activity, and their enforcement by the legal and judicial system; and finally (c) crime and violence as an impediment to economic activity. We used this measure because it focused on reliability and impartiality.

#### **Key Independent Variables**

### *Number of years of negotiations to join the /WTO & Number of years of GATT/WTO membership*

This measure delineates the number of years a country spent negotiating to join the WTO and the number of years a country has been a member of the GATT/WTO. (GATT governed trade from 1948-1994; our study focuses on the impact of the WTO which begins in 1995. However, most nations joined GATT in the period 1948-1994). The measure ranges from 0 for those who were not involved in negotiations to 16 years for the countries that have negotiated the longest period to enter the WTO. The second measure indicating the number of year a country has been a member of the GATT/WTO ranges from 0 for those who never joined either organization to 59 for original GATT members (1948-2007). We used data both from the GATT documents library at Stanford University and the WTO website to ascertain when countries became members of either the GATT (1948-1995) or WTO (1995-2007).<sup>43</sup> This GATT/WTO membership measure is also the key dependent variable in the first stage of our equations delineating how long a country has been a member of this regime. We also produced a measure describing the number of years a country has been a member of the WTO. The measure ranges from 0 for those who never joined the organization to 12 for those countries who joined at the beginning of the WTO regime and were members in 2007 (1995-2007). Tables 1 and 2 summarize the independent, dependent, and control variables used in the first GATT/WTO membership equation and good governance stage equations.

(Insert Table 1 and 2 about Here)

## **Results<sup>44</sup>**

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<sup>43</sup> <http://gatt.stanford.edu/page/home> ; [http://www.wto.org/english/thewto\\_e/acc\\_e/members\\_brief\\_e.doc](http://www.wto.org/english/thewto_e/acc_e/members_brief_e.doc) ; [http://www.wto.org/english/thewto\\_e/acc\\_e/status\\_e.htm](http://www.wto.org/english/thewto_e/acc_e/status_e.htm);

<sup>44</sup> The year 2004 represents the limitations of most of our control variables. For the models examining the period 2004-2007 we extrapolated our control variables over this period.

### *Determinants of longer Membership in GATT/WTO*

Table 3 displays the results from our models that determine longevity of GATT/WTO membership during the 1950-2007 period. We discuss the ordinary least squares (OLS) model. In the alternate specifications section, we also discuss the negative binomial and feasible generalized least squares, generalized least squares with fixed effects and another with random effects models. We found longevity of participation in the GATT/WTO regime is affected by several factors. Countries that were members of the WTO for longer periods also tended to have higher levels of GDP per capita, were more democratic, and were also part of particular geographic regions with higher levels of WTO membership significant at the .05 level of confidence or higher. In addition, countries that participate in other international institutions were more likely to participate longer in the GATT/WTO regimes, significant at the .001 level of confidence. Interestingly, we also found that countries which had negative changes in GDP per capita and lower levels of trade as a proportion of GDP were also more likely to participate in these trade regimes, significant at the .10 and .01 level of confidence respectively. We believe that these findings reflect the diverse membership of the GATT/WTO.

### *Impact of longer GATT/WTO Negotiations on Good Governance*

The results in Tables 4 and 5 distinguish between what we describe as completed negotiations for new WTO members and on-going negotiations. Our sample size was relatively small. We include 23 countries that acceded to the WTO from 1995-2007 and then discuss the 30 countries attempting to accede. The sample of states that constitutes completed negotiations are all those states which have so far joined the WTO, the '0' category in this sample are all states which are non-members. We use this to test the policy anchoring thesis promoted by Basu, Ferrantino and others. We expected to see significant changes in the 23 new members as well as the 30 potential members.

The results in Table 4 provide quite strong support for our hypotheses that longer negotiation to join the WTO leads to improved performance on metrics of good governance for the 23 relatively new members of the WTO. Longer negotiations significantly improve due process and access to information as indicated with our metrics. However, we did not find that the WTO improved evenhandedness in these countries. These unanticipated results may reflect the limited duration of our metric (one year), and we hope other scholars will test these results. Interestingly, some of our control variables provided consistent results across our different measures of good governance. Higher levels of GDP per capita were associated improved with improved due process and evenhandedness. Faster rates of economic growth indicated by our change in GDP per capita were associated with worsened performance on our measures of good governance in particular due process and transparency. Recipients of more aid were associated with worsened due process. Countries involved in civil conflict were associated with worsened levels of due process and lower levels of transparency. We had to exclude a number of variables which we otherwise would have liked to include in our models because we would have not had enough cases to estimate any results. In particular we had to exclude Ethno-Linguistic fractionalisation, percent Catholic, percent Muslim, other Religions, latitude, legal birth heritage, and the lagged dependent variable which in other research had been associated with differing levels of good governance. Thus our results should be regarded as tentative both because of the very small number of cases with which we have to work with and the relative simplicity of our models.

The results in Table 5 provide preliminary findings regarding the ongoing accession process for the 30 countries seeking to join the WTO. Here too our sample size is small and thus our findings are incomplete. Surprisingly, we found that these negotiations have had little impact on these governments levels of due process or access to information. Moreover, our metrics show evenhandedness is worsening. However, we found improvements in governance were correlated

with several other factors. Higher levels of trade were associated with improved levels of transparency and evenhandedness. In contrast, civil conflict was associated with worsened levels of due process. Intriguingly higher levels of GDP per capita were associated with improved levels of transparency but lower levels of evenhandedness and higher levels of democracy were associated with improved levels of due process but worsened outcomes on transparency in our samples, both of which deserve further investigation.

#### *Impact of longer GATT/WTO membership on Good Governance*

The two-stage equation means that all the results presented in Tables 6 and 7, the second, good governance stage, control for the indirect effects of the first GATT/WTO stage. In these analyses we had sufficient cases to test the impact of membership on all countries and a sub-sample that removed OECD states from our test, what we describe as Developing and Middle Income Countries (DCMI). The results in Table 6 provide limited support for our hypotheses that membership in the GATT/WTO over time leads to stronger performance on metrics of good governance. Longer membership leads to improved performance on our metric for access to information. The result from column III indicates that longer participation in the GATT/WTO leads to greater public access to information, significant at the .05 level of confidence. The results provided no support for GATT/WTO membership improving any of our other metrics of good governance.

The control variables are quite sensitive to the differing numbers of cases that we have across our models. Wealthier countries had improved levels of evenhandedness but also showed lower levels of transparency. Increased levels of trade where significant were consistently associated with stronger levels of due process and transparency. There was also some evidence that aid recipients had worsened levels of transparency. Larger populations were associated with lower levels

of transparency and lower levels of evenhandedness. Civil wars consistently worsened levels of due process and transparency. Countries that had civil law background also had worsened levels of evenhandedness. A number of factors had inconsistent effects across our measures of good governance. British colonial heritage was associated with improved levels of evenhandedness but lower levels of transparency. Likewise Catholic and Muslim populations were associated with improved transparency in comparison to Protestant countries which were the comparative group. In contrast Catholic and Muslim populations were associated with worsened levels of evenhandedness in comparison to Protestant countries which were the comparative group. Finally the lagged dependent variables and AR1 processes were all significant predictors of our dependent variables highlighting the ‘sticky’ nature of these changes that took place. These results mixed results deserve further investigation.

Table 7 shows our findings about the impact of longer WTO membership on good governance from the period 1995-2008. In this model, we include only those countries which joined the WTO during 1995-2008. We then compare them to the few countries still outside the WTO during this period. Our surprising findings reflect the relatively small number of countries. Moreover, we were not able to estimate fully specified models because of our small N nor were we able to estimate any models of evenhandedness because of our small sample. The small number of cases meant that we had to exclude most of the contextual variables that were present in our core findings presented on Table 6. Thus, here too our results provide limited support for our argument that longer participation in the WTO improves good governance. Membership in WTO over time leads to stronger performance on due process, significant at the .01 level of confidence. However, longer membership of the WTO has no significant impact on our other two measures of good governance. The inclusion of the lagged dependent variable in our transparency models accounts for a good deal of the variation in our dependent variable, given the very small samples leaving only a

couple of weakly significant variables linking wealthier countries to lower levels of transparency and countries with larger populations with due process, something similar to the human rights studies which examined the correlates of civil and political rights (Abouharb and Cingranelli 2007).

### **Model Predictions**

The models presented in Tables 4-7 discussed whether there was a statistically significant relationship between negotiation to join the WTO as well as whether membership in the WTO is correlated with improved levels of good governance. In Table 8 we examined the substantive impact of completed negotiations to join the WTO which were found to significantly improve our measures of due process and transparency in the earlier results presented on Table 4. We also examined the impact of GATT/WTO membership on transparency since this was also found to be significant in the results presented on Table 6. Each of the predictions presented in Table 8 were calculated after running the models shown in Table 4 and 6 respectively. All the other variables were held at their mean or modal value. In column I, we examined the substantive effects of longer negotiations on due process rights. The dependent variable ranges from 1 to 10. Lower values indicated that a government restricted due process rights. Higher values, in comparison, indicated that a government had improved due process rights. We found that countries which were not in negotiations to join the WTO had lower levels of due process rights. Moreover, we found that government respect for these rights progressively improved the longer they had been negotiating to join the WTO. States which had been negotiating to join the WTO for the longest period were associated with larger increases in due process rights, an improvement of about 3/4 unit along our dependent variable, approximately a 12.5 percent improvement in these rights.

In column II, we examined the substantive effects of longer negotiations on transparency. The dependent variable ranged from 1 to 100. Lower values indicated that a government restricted

transparency. Higher values, in comparison, indicated that a government has improved transparency. We found that countries which were not in negotiations to join the WTO had lower levels of transparency. We found that government respect for these rights progressively improved the longer they have been negotiating to join the WTO. Governments which had been negotiating to join the WTO for the longest period have permitted the largest increases in transparency. The predicted value at the maximum number of years in negotiations goes beyond the bounds of our measure, however examination of the confidence intervals indicated that the spread includes values within the range of our dependent variable indicating a substantive improvement to a level between 91 and 100.

In Table 9 we examined how longer membership of the GATT/WTO changed the levels of transparency and due process. Longer membership was associated with large increases in the levels of transparency and due process. Countries that had been members of the GATT/WTO the longest increased their levels of transparency from a low of 11.22 for those not a member to a high of 74.96 for those who had been members for the longest period, an increase of 568%. Likewise WTO membership has significant improvements for due process from a low of 2.852 for non-members to a high of 11.95 (again beyond the bounds of our dependent variable, however examination of the confidence intervals indicated that the spread includes values within the range of our dependent variable indicating a substantive improvement to a level of between 9 and 10), an increase of about 90 percent.

## **Conclusion**

The WTO governs trade, and doesn't directly address corruption. Yet to some degree, it is helping member states clean up. The qualitative evidence showed countries are making major changes to their behavior to accede. And at trade policy reviews, members are attempting to

monitor these changes. But unless they challenge another country's behavior in a trade dispute, members can't hold another member to account at trade policy reviews.

Although our qualitative evidence was strong, it was not fully reflected in our statistical results. We expected to see small changes in due process, transparency and evenhandedness for longstanding GATT/WTO members, and dramatic changes for all three metrics for new members and those seeking to accede. That is not what we found. Longstanding GATT WTO members improved on access to information, but showed no significant changes in metrics of due process and evenhandedness. These findings may reflect their already relatively high level of governance, as well as greater demand for and new tools to facilitate transparency (the internet, social media).

We found that the 23 new members of the WTO saw significant improvement in due process and in access to information, but evenhandedness worsened. In contrast, countries seeking to join the WTO made small but statistically insignificant changes on due process and access to information. Moreover, evenhandedness worsened in these new member states.

How do we explain these surprising results? It could be a data problem: our metrics did not fully cover *all* WTO members *all the time*. We also believe that good governance takes time. New member governments are struggling to govern more effectively and in a more evenhanded manner. They have made changes to their laws, but it takes time to effectively *implement* these changes and then for these changes to filter into the polity as a whole. Policymakers may lack capacity or will and perhaps they don't fully understand their commitments. (Basu et al: 2008).

Rather than rely on broad metrics of governance, we sought to examine metrics that replicate WTO norms. Our findings show that the policy anchoring process is not as firm as scholars such as Basu, Wei, and Ferrnatio have asserted. New member states are anchoring to the WTO but they may at times be drifting. Change is gradual and incomplete. Moreover, our analysis

poses a challenge to scholars of governance who have identified transparency, voice, and accountability as essential to good governance (Kaufmann, 2005; Brunetti and Weder, 2003; Lindstedt and Naurin: 2005). Our findings illuminate that it is difficult to disseminate the norms of transparency, due process and evenhandedness in nations where governance is inadequate.

So the WTO may gradually and partially help member states clean up through a process of norm diffusion and policy anchoring. We hope other scholars will seek to examine how the WTO influences governance and in turn, how such choices affect the world's people.

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#### **Governance data sets**

[http://www.bertelsmann-transformation-index.de/fileadmin/pdf/Anlagen\\_BTI\\_2010/BTI\\_2010\\_Manual.pdf](http://www.bertelsmann-transformation-index.de/fileadmin/pdf/Anlagen_BTI_2010/BTI_2010_Manual.pdf)

**Table 1: Operationalization of GATT/WTO Membership Equation**

<b>Dependent Variables</b>	<b>Indicator</b>	<b>Source</b>
Number of Years under GATT/WTO Membership	Number of years has been a member of the GATT/WTO.	Constructed from GATT/WTO Sources
<b>Independent Variables</b>		
<b>Economic Variables</b>		
GDP Per Capita	Real GDP Per Capita (Chain Index)	Penn World Tables (PWT) 6.3
Change in GDP Per Capita	Change in Real GDP Per Capita (Chain Index)	PWT 6.3
Trade as a Proportion of GDP	Total Trade as a percentage of GDP	PWT 6.3
<b>International Political Variables</b>		
Regional Level of WTO Membership	Annual Number of WTO Members by UN Region	Constructed by Authors
<b>Domestic Political Variables</b>		
Level of Democracy	Democracy 0-10 Measure	POLITY IVd Dataset (Marshall & Jagers 2009)
Number of IGOs Joined	Annual count of IGOs joined by country	Pevehouse et al. (2003) & Wallace and Singer (1970)
Population Size	Annual population in thousands	PWT 6.3

**TABLE 2. Operationalization of GATT/WTO Negotiations & GAT WTO Membership Good Governance Equations Variables**

<b>Dependent Variable</b>	<b>Indicator</b>	<b>Source</b>
Civil Rights Protection	1-10 indicator describing the extent to which civil rights guaranteed and protected, and to what extent can citizens seek redress for violations of these liberties. Higher values indicate greater civil rights protection. A '1' describes the situation where "Civil rights have no protection even in principle, or are systematically violated". A value of '10' indicates that "There are no restrictions on civil rights." (Bertelsman 2010: 21).	Bertelsman Transformation Index (2010)
Access to Government Information	0-100 indicator indicating level of public access to government information through the use of specialized country reporting. Higher values indicate greater public access to government information.	Global Integrity Reports (2004, 2006, 2007, 2008)
Property Rights and Rule-based Governance	1-4 indicators indicating higher degree of government respect for property and contract rights where these rights are enforced reliably. In particular the extent to which private economic activity is facilitated. Each of three dimensions should be rated separately: (a) legal basis for secure property and contract rights; (b) predictability, transparency, and impartiality of laws and regulations affecting economic activity, and their enforcement by the legal and judicial system; and (c) crime and violence as an impediment to economic activity.	IDA Resource Allocation Index (World Bank 2005)
<b>Independent Variables</b>		
Number of Years under GATT/WTO	Number of years has been a member of the GATT/WTO.	Constructed from GATT/WTO Sources
<b>Control Variables</b>		
Economic Variables		
GDP Per Capita	Real GDP Per Capita (Chain Index)	Penn World Tables (PWT) 6.3
Change in GDP Per Capita	Change in Real GDP Per Capita (Chain Index)	PWT 6.3
Trade as a Proportion of GDP	Total Trade as a percentage of GDP	PWT 6.3
<b>Political Variables</b>		
Population Size	Annual population in thousands	PWT 6.3
Level of Interstate Conflict	Ordinal Level of International Conflict (0-3 measure)	Gleditsch et. al (2002)
Level of Domestic Conflict	<b>Ordinal Level of Civil Conflict (0-3 measure)</b>	Gleditsch et. al (2002)
UK Dependent/Colonial Experience	The decision rule of the most recent possessor is used to identify the relationships under examination.	Issues COW Colonial History Dataset Hensel (2006)
Level of Literacy	Percentage of population above age of 15 literate.	Abouharb and Cingranelli (2007)

**Table 3: Determinants of longer Membership in GATT/WTO 1950-2007, All Countries<sup>1</sup>**

	Column I Ordinary least Squares (Robust St. Errors)	Column II Negative Binomial Regression Model (Robust St. Errors)	Column III Feasible Generalized Least Squares Model <sup>2</sup>	Column IV Generalized Least Squares Model Fixed Effects (Robust St. Errors)	Column V Generalized Least Squares Model Random Effects (Robust St. Errors)	Column VI Cox Proportional Hazard Model
<b>Economic Variables</b>						
GDP Per Capita	.0003* (.0001)	.00001 (9.55e-06)	.0005*** (.00002)	.0006*** (.00004)	.0006*** (.00004)	1 (.00001)
Change in GDP Per Capita	-.057^ (.032)	-.006^ (.003)	-.067*** (.019)	-.016 (.011)	-.017 (.011)	.999 (.009)
Trade as a Proportion of GDP	-.06** (.021)	-.004* (.001)	-.067*** (.003)	-.007^ (.004)	-.01** (.003)	1.001 (.002)
<b>Political Variables</b>						
Regional Level of WTO Membership	.218* (.107)	.015^ (.008)	.397*** (.018)	.435*** (.024)	.424*** (.024)	1.032^ (.017)
Level of Democracy	.121*** (.207)	.089*** (.02)	1.225*** (.033)	-.04 (.041)	.005 (.04)	1.121*** (.029)
Number of IGOs Joined	.075*** (.014)	.008*** (.001)	.064*** (.003)	.086*** (.003)	.086*** (.003)	.971 (.019)
Population Size	8.23e-06 (.00001)	4.19e-07 (1.15e-06)	.00002*** (1.48e-06)	3.10e-07 (4.36e-06)	2.47e-06 (4.27e-06)	1 (3.52e-07)
Constant	-13.919*** (1.749)	-.211 (.218)	-17.538*** (.512)	-22.438*** (.479)	-25.485*** (.953)	--
N	6392	6392	6392	6392	6392	2269
R-Squared	.35	--	--	--	--	--

P > |z| .1^, .05\*, .01\*\*, .001\*\*\* Two Tailed Test. <sup>1</sup>Analyses clustered on country. <sup>2</sup>Feasible Generalized Least Squares Model estimated with heteroskedastic panels. Results generated with STATA 9.2.

**Table 4: Completed WTO Negotiations and its effect on Good Governance**

	Generalised Least Squares		Ordered Logit
Good Governance	Due Process	Transparency and Access to Information	Evenhandedness
	Civil Rights Protection 2006 <sup>1</sup>	Public Access to Information 2004-2008 <sup>1</sup>	Property Rights and Rule-based Governance
	All Countries	All Countries	All Countries
Number of Years Negotiating to Enter WTO	.207** (.074)	2.839** (.953)	-.692*** (.051)
<b>Economic Variables</b>			
GDP Per Capita	.0001*** (.00001)	-.001 (.004)	.00007*** (.00002)
Change in GDP Per Capita	-.025* (.013)	-.094 (.292)	.002 (.007)
Trade as a Proportion of GDP	-.003* (.001)	1.34*** (.36)	-.002^ (.001)
Number of Years Under an IMF SAP	.054*** (.006)	4.005^ (2.395)	-.013^ (.008)
Net Aid Receipt	-.028*** (.007)	--	-.0007 (.006)
<b>Political Variables</b>	.444***		-1.542***
Democracy	(.088)	-.222 (.115)^	(.134)
Population Size	-3.63e-07 (7.72e-07)	.0004 (.0008)	-6.39e-07 (4.16e-07)
Level of Interstate Conflict	-- <sup>2</sup>	-- <sup>2</sup>	-.088 (.265)
Level of Domestic Conflict	-1.148*** (.096)	-20.49** (7.581)	.063 (.098)
UK Dept/Colonial Experience	-.281** (.092)	26.045 (151.832)	.353 (.225)
Level of Literacy	--	.174 (.258)	--
Constant	5.264*** (.409)	1535.724*** (382.292)	--
Pseudo R2	N		
	19	29	18

P > |z| .1^, .05\*, .01\*\*, .001\*\*\* Two Tailed Test. <sup>1</sup>Includes models estimated with heteroskedastic panels. Results generated with STATA 9.2. <sup>2</sup>Dropped by STATA.

**Table 5: Ongoing WTO Negotiations and its effect on Good Governance**

Good Governance	Generalised Least Squares		Ordered Logit
	Due Process	Transparency and Access to Information	Evenhandedness
	Civil Rights Protection 2006 <sup>1</sup>	Public Access to Information 2004-2008 <sup>1</sup>	Property Rights and Rule-based Governance
	All Countries	All Countries	All Countries
Number of Years Negotiating to Enter WTO	.034 (.081)	.164 (.654)	-147*** (.035)
<b>Economic Variables</b>			
GDP Per Capita	.00003 (.00003)	.007*** (.001)	.007*** (.001)
Change in GDP Per Capita	.026 (.03)	1.133*** (.248)	1.133*** (.248)
Trade as a Proportion of GDP	.009 (.008)	.923*** (.034)	.923*** (.034)
Number of Years Under an IMF SAP	--	--	--
Net Aid Receipt	--	--	--
<b>Political Variables</b>			
Democracy	.32*** (.07)	-.633*** (.061)	-.633*** (.061)
Population Size	7.68e-06 (4.97e-06)	.0004 (.0003)	.0004 (.0003)
Level of Interstate Conflict	-- <sup>2</sup>	-- <sup>2</sup>	-- <sup>2</sup>
Level of Domestic Conflict	-.721*** (.277)	-5.217 (27.505)	-5.217 (27.505)
UK Dept/Colonial Experience	-- <sup>2</sup>	-- <sup>2</sup>	-- <sup>2</sup>
Level of Literacy	--	-.974*** (.03)	-.974*** (.03)
Lagged Dependent Variable	--	--	--
Constant	1.032* (.492)	37.619 <sup>^</sup> (21.938)	37.619 <sup>^</sup> (21.938)
Pseudo R2	N	18	18

P>|z|.1<sup>^</sup>, .05\*, .01\*\*, .001\*\*\* Two Tailed Test. <sup>1</sup>Includes models estimated with heteroskedastic panels. Results generated with STATA 9.2. <sup>2</sup>Dropped by STATA.

**Table 6: GATT /WTO Membership and its effect on Good Governance**

Good Governance	3 Stage Least Squares				Ordered Logit <sup>3</sup>
	Due Process		Transparency and Access to Information		Evenhandedness
	Civil Rights Protection 2006 <sup>1</sup>	DCMI	Public Access to Information 2004-2008 <sup>1</sup>	DCMI	Property Rights and Rule-based Governance All Countries
Number of Years Member GATT/WTO	.031 (.032)	.019 (.03)	1.04* (.435)	.253 (.5003)	.035 (.03)
<b>Economic Variables</b>					
GDP Per Capita	-.00003 (.00007)	5.92e-06 (.00007)	-.004 (.001)	-.004* (.002)	.0001*** (.00002)
Change in GDP Per Capita	-.058 (.057)	-.047 (.056)	-.722 (.552)	-.785 (.529)	.002 (.008)
Trade as a Proportion of GDP	.021* (.008)	.017* (.008)	.657** (.208)	.636** (.217)	-.002 (.001)
Number of Years Under an IMF SAP	-.003 (.035)	.016 (.034)	-.322 (.399)	-.288 (.416)	-.01 (.007)
Net Aid Receipt	-.035^ (.021)	-.032 (.021)	-1.515*** (.409)	-1.465*** (.403)	.0001 (.006)
<b>Political Variables</b>					
Democracy					
Population Size	-1.24e-06 (1.21e-06)	-1.07e-06 (1.15e-06)	-.0001*** (.00002)	-.0001*** (.00002)	-5.91e-07^ (3.09e-07)
Level of Interstate Conflict	-- <sup>3</sup>	-- <sup>3</sup>	-- <sup>2</sup>	-- <sup>2</sup>	-.07 (.24)
Level of Domestic Conflict	-1.334*** (.414)	1.201** (.432)	-28.13*** (7.692)	-30.097*** (7.73)	.049 (.092)
UK Dept/Colonial Experience	-1.842^ (.999)	-1.425 (1.027)	-27.479*** (7.422)	-23.384*** (7.99)	.572*** (.154)
Level of Literacy	--	--	-.703*** (.151)	-.719*** (.147)	--
Ethno-Linguistic Fractionalisation	-.696 (.712)	-.55 (.707)	-22.044 (16.509)	-14.905 (18.949)	-.107 (.211)
Percent Catholic	.014 (.02)	.008 (.019)	3.815*** (.84)	3.821*** (.809)	-.015** (.005)
Percent Muslim	.011 (.017)	.005 (.017)	3.136*** (.792)	3.159*** (.77)	-.022*** (.004)
Other Religions	.019 (.02)	.014 (.017)	3.762*** (.846)	3.68*** (.803)	-.014** (.005)
Latitude	4.496* (2.171)	4.971* (2.264)	48.668 (35.887)	-14.905 (18.949)	2.239*** (.574)
Legal Birth Origin	-- <sup>2</sup>	-- <sup>2</sup>	-- <sup>2</sup>	-- <sup>2</sup>	-1.27** (.437)
GATT/WTO Inverse Mills Ratio	--	--	--	--	-.062 (.794)
Lagged Dependent Variable	--	--	.88*** (.116)	--	-2.496*** (.112)
Constant	.828 (2.073)	1.581 (2.06)	318.187*** (77.741)	311.745*** (73.633)	--
Pseudo R <sup>2</sup> N	-- 76	-- 74	-- 32	-- 30	52

P > |z| .1^, .05\*, .01\*\*, .001\*\*\* Two Tailed Test. <sup>1</sup>Only Second stage equations are displayed. Results generated with STATA 9.2. <sup>2</sup>Dropped by STATA. <sup>3</sup>Estimated with bootstrapped standard errors 1000 replications.

**Table 7: Years under WTO and its effect on Good Governance, Only New WTO Members & Non Member Countries**

3 Stage Least Squares				
Good Governance	Due Process		Transparency and Access to Information	
	Civil Rights Protection 2006 <sup>1</sup>		Public Access to Information 2004-2008 <sup>1</sup>	
	All Countries	DCMI	All Countries	DCMI
Number of Years Member WTO	.909** (.29)	.909** (.29)	1.025 (1.085)	1.025 (1.085)
<b>Economic Variables</b>				
GDP Per Capita	.00004 (.00007)	.00004 (.00007)	-.002^ (.001)	-.002^ (.001)
Change in GDP Per Capita	.046 (.058)	.046 (.058)	.653 (.265)	.653 (.265)
Trade as a Proportion of GDP	-.016 (.012)	-.016 (.012)	.079 (.08)	.079 (.08)
Number of Years Under an IMF SAP	-.021 (.092)	-.021 (.092)	.078 (.733)	.078 (.733)
Net Aid Receipt	-.031 (.045)	-.031 (.045)	-- <sup>2</sup>	-- <sup>2</sup>
<b>Political Variables</b>				
Population Size	-3.35e-06^ (1.78e-06)	-3.35e-06^ (1.78e-06)	.00001 (.00001)	.00001 (.00001)
Level of Interstate Conflict	-- <sup>3</sup>	-- <sup>3</sup>	-- <sup>3</sup>	-- <sup>3</sup>
Level of Domestic Conflict	-.331 (.823)	-.331 (.823)	2.531 (7.517)	2.531 (7.517)
UK Dept/Colonial Experience	-- <sup>3</sup>	-- <sup>3</sup>	-- <sup>3</sup>	-- <sup>3</sup>
Level of Literacy	--	--	-.284 (.203)	-.284 (.203)
GATT/WTO Inverse Mills Ratio	--	--	--	--
Lagged Dependent Variable	--	--	.893*** (.187)	.893*** (.187)
Constant	4.402*** (1.352)	4.402*** (1.352)	28.713*** (15.669)	28.713*** (15.669)
Pseudo R <sup>2</sup> N	-- 34	-- 34	-- 20	-- 20

P > |z|.1^, .05\*, .01\*\*, .001\*\*\* Two Tailed Test. <sup>1</sup>Only Second stage equations are displayed. Results generated with STATA 9.2. <sup>2</sup>Insufficient observations to estimate with these contextual factors.

<sup>3</sup>Dropped by STATA. <sup>3</sup>Estimated with bootstrapped standard errors 1000 replications.

**Table 8: Predictions: Completed WTO Negotiations and its effect on Good Governance**

Independent Variable	Completed Negotiations	
	Due Process	Transparency and Access to Information
Not in Negotiations (0 Years)	5.79	35.17
Mean number of years in Negotiations to join WTO (about 3.04 years)	5.85	43.65
One standard deviation above mean number of years in Negotiations to join WTO (About 8.67 years)	5.97	59.33
Highest number of number of years in Negotiations to join WTO (16 years)	6.52	132.76
Overall change in dependent variable from never negotiating to join WTO to highest number of years in negotiations	+12.64%	--

<sup>1</sup> We do not present predicted values for public access to information because at the highest numbers of years negotiations the model predicts values beyond the value of our dependent variable.

**Table 9: Predictions: GATT' /WTO Membership and its effect on Good Governance**

Independent Variable	GATT/WTO Membership	WTO Membership
	Transparency and Access to Information	Due Process
Not a Member (0 Years)	11.22	2.852
Mean number of years a Member of GATT/WTO, WTO (about 12.55 years/about .56 year)	24.34	3.359
One standard deviation above Mean number of years a Member of GATT/WTO, WTO (About 28.51 years/ About 2.19 years)	41.02	4.842
Highest number of number of years a Member of GATT/WTO, WTO (61 years <sup>1</sup> /About 10 years)	74.95	11.95
Overall change in dependent variable from never being a member of the GATT/WTO to being a member for the longest period	+568%	+94.46%