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**TRADE NEGOTIATIONS AND GLOBAL RELATIONS: EMERGING PLAYERS  
AND ACTORS**

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## Abstract

The financial markets appeared to have weathered recent storms which dominated the financial landscapes in 2019 – namely trade wars, which spanned from retaliatory tariffs to currency devaluations – as well as impending imposition of digital sales taxes which even threatened to escalate retaliatory tariff wars even further. Reductions in interest and federal funds rates – unprecedented and surprising moves by the Federal Reserve, as first instigated in August 2019 to address anticipated global uncertainties – the first federal rate cuts since 2008, had left investors in a divided state of opinions. Partly because the rate adjustments had been considered unjustified.

However as 2020 has revealed and demonstrated, the financial markets are yet to experience greater levels of uncertainty and volatility in the light of the corona virus (COVID-19) outbreak – as it increasingly becomes evident that the real impact – and even the true extent of the cases remains, to a larger extent, unknown. A clearer picture of the real costs and possible impending consequences of the outbreak (as well as failures to disclose real figures of underlying cases) will be revealed, it appears, in the second half of 2020.

By then, the progress made in respect of addressing the outbreak – particularly in those strategic economic sectors which have impacted global trade and growth could be more reasonably evaluated. Even though it is fair to say that an effective cure cannot be diagnosed for a problem – about which little or limited information is known, it is also fair to say that serious problems of disclosure and transparency about the real figures, potential threats have also contributed to the levels of uncertainty which have destabilized global financial markets. Thus it is also fair to say that a reason why financial markets are particularly sensitive to news about the corona virus, relates to the current levels of uncertainty, data, knowledge and information about the potential spread and effects of the virus.

Whether the outbreak has reached its peak – or more importantly, when and how it will do so, remains an unanswered question. From recent reports, the COVID 19 has generated far reaching economic repercussions in the least unexpected areas – in terms of geographical location from the outbreak sources. With the exception of the Antarctica, every other continent now has a confirmed case – the most recent being Brazil (South America).

Hence the impending challenges become even clearer. Not only is this a global problem – but also an issue of how respective regions and countries will be able to address and contain the risks

emanating from contagion – as well as the availability of resources and facilities to address such risks. Whilst it may be selfish to hope that less disadvantaged countries and jurisdictions are not severely impacted by the outbreak, the reality is that it is nevertheless a global problem. And if more advanced economies are better equipped to address the problem, it should be hoped that the issue does not escalate further to the extent of severely impacting impoverished nations – as this would make the issue of addressing the overall problem even more difficult.

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**CONFLICT FRAMING, MULTILATERAL LEADERSHIP, AND COALITION  
FORMATION IN INTERNATIONAL TRADE DISPUTES, 1995-2011**

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**CONFLICT FRAMING, MULTILATERAL LEADERSHIP, AND COALITION  
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**ABSTRACT**

We examine how conflict framing and multilateral leadership influence coalition formation among World Trade Organization (WTO) member nations. We hypothesize that complainants' framing of alleged violations and leadership in global governance affects WTO members' propensity to form coalitions by joining disputes as third parties. After introducing new measures for quantifying framing and leadership, we analyze 308 product-related trade disputes (1995-2011). We find economically significant effects for framing and leadership on the likelihood that trading partners join disputes and on the chances of reaching negotiated or litigated settlements. We discuss scholarly, managerial, and policy implications for forming coalitions and resolving disputes.

**Keywords:** dispute resolution; trade flows; governance; framing; coalitions

## INTRODUCTION

The production of goods in the global economy is increasingly characterized by the geographic dispersion of business activities within and across multinational enterprises (MNEs) (Buckley & Hashai, 2004; Luo, 2007; Rugman & Verbeke, 2004). While the geographic distribution of research and development (R&D) units and manufacturing operations enables MNEs to utilize unique local resources, it also heightens MNEs' exposure to country-specific risks (Czinkota & Ronkainen, 2005; Miller, 1993). Thus, for MNE managers, understanding the external factors that influence strategic risk management is paramount for sustaining competitive advantage and improving firm performance (Miller, 1992). Recent unexpected events such as the impending "Brexit" withdrawal of the UK from the European Union (EU), the collapse of the proposed Trans-Pacific Partnership (TPP), and the rapid escalation of US tariffs on products from China, reflect a growing public backlash and a major shift in government policies against the forces of globalization (Akhter, 2004). In particular, there appears to be rising economic uncertainty about the possible expansion of free trade agreements and polarizing political tensions over the appropriate role of national and supranational institutions in resolving trade disputes (Kandogan & Hiller, 2018). In this context, MNEs face a remarkably unpredictable and unsettling environment for making strategic decisions. Amidst this environmental turbulence, the functioning of the World Trade Organization (WTO) as a global multilateral institution faces greater questioning and scrutiny by its member nations (Doh, McGuire, & Ozaki, 2015). Our study is based on the premise that countries' participation in the WTO as disputants or third parties provides MNEs with critical information for potentially reducing uncertainty and mitigating risks.

Resolving trade disputes is a core activity of the WTO, and the organization manages one of the most active dispute settlement mechanisms in the world. Since 1995, WTO members initiated over 500 disputes, with over 350 rulings issued.<sup>1</sup> The administration of disputes is entrusted to the Dispute Settlement Body (DSB), whose representatives span all 164 WTO member nations. The WTO DSB

<sup>1</sup> See [https://www.wto.org/english/tratop\\_e/dispu\\_e/dispu\\_e.htm](https://www.wto.org/english/tratop_e/dispu_e/dispu_e.htm)

operates under two distinct foundational principles.<sup>2</sup> First, although international trade is conducted mainly at the firm level, trade dispute resolution is performed only at the country level between complainant and respondent countries. Second, although disputes typically involve bilateral trade relationships, *third parties* (countries other than the complainant and respondent), may also join disputes to offer their own input on economic impacts and interests. Thus, for MNEs, whether it affects inter-firm exports or imports, or the intra-firm flow of goods, an unresolved trade dispute may be problematic and disruptive. We argue that, in these situations, the WTO may be a source of meaningful predictive data about which member countries beyond the complainant and the respondent are likely to become involved in a given dispute. Transparent public disclosure of this information by the WTO may enable MNEs to anticipate, plan, and adapt to the occurrence of trade disputes by making decisions and taking actions that mitigate the perceived risks of these disputes (Melin, 1992).

Unlike prior research on the WTO DSB, which examines member nations' propensity for initiating or settling disputes as complainants or respondents (Bown, 2005; A. Guzman & Simmons, 2002; Horn, Mavroidis, & Nordström, 1999; Reinhardt, 2000), our study explores members' propensity to join these disputes as third parties. Given the increasing geographic dispersion of inter- and intra-firm production networks, it is essential for MNE managers to evaluate the full range of countries and coalitions that may be involved in and affected by a dispute (Boddewyn, 2016). For example, as explained in the excerpt below, conflict framing is an essential part of trade dispute negotiations and may help disputants form useful temporary coalitions with interested third parties (Odell & Sell, 2006).

*“In a world of bounded rationality, much of the negotiation process is a contest of partisans trying to establish the dominant frame of reference. The more a weak-state coalition can do to prevail in this subjective contest, the larger its gains are likely to be ... But generally which arguments will prove to be persuasive, under which conditions?”*  
(Odell & Sell, 2006: 23-24)

The public information embedded in the complainant's official framing of the conflict within the WTO may be a useful tool for MNE managers as they consider ways to handle the risks arising out of a

<sup>2</sup> See [https://www.wto.org/english/tratop\\_e/dispu\\_e/dispu\\_body\\_e.htm](https://www.wto.org/english/tratop_e/dispu_e/dispu_body_e.htm)



trade dispute, even if the ultimate outcome of the dispute is uncertain in its timing and the result. Our study aims to address this gap in the existing literature on conflict framing and coalition formation among trading partners by contributing new theory, methods, and empirical findings. Our investigation of WTO members' propensity to join disputes as third parties is based on the idea that building coalitions is a critical element of resolving disputes. We posit two key mechanisms that may influence WTO members' propensity to join disputes as third parties: *conflict framing* and *multilateral leadership*. We hypothesize about how complainants' framing of the nature of respondents' alleged violations of WTO policies, and the perceived importance, risk, and urgency of disputes affects members' propensity to join disputes as third parties. We also hypothesize about how members' engagement in the general global governance activities of the WTO and in the existing negotiating coalitions within the WTO affects members' propensity to join disputes as third parties.

Our research contributes to the literature on international trade dispute resolution, global governance, multilateral organizations, and its implications for MNE risk management strategies, in three main ways. First, we extend existing theory on bilateral trade relations to account for temporary coalition formation as part of the dispute negotiation process. Unlike prior research, which examines *dyads* of complainant and respondent countries, we explore potential and actual *triads* of third party trading partner, complainant, and respondent countries. By establishing a theoretical basis for predicting the formation of these triads, our research provides scholars, MNE managers, and policymakers with an approach for evaluating the wider impact of the dispute and for formulating new strategies and tactics in response. Second, based on our proposed extension to existing theory, we hypothesize and empirically test conflict framing and multilateral leadership as two possible mechanisms that affect coalition formation in trade disputes. We believe that our research may be among the first large-scale analyses of the entire at-risk set of trading partner countries that may seek to join product-related trade disputes. We introduce new measures to systematically capture and quantify various observable dimensions of conflict framing and multilateral leadership and demonstrate their use in our research design. The ability to estimate the probability that the countries associated with specific products will join a WTO dispute, may

be useful for MNE managers to incorporate in their predictive analytics for strategic risk management. Third, our findings indicate that critical aspects of conflict framing and multilateral leadership have economically significant effects on the likelihood that a trading partner joins a dispute. Our *post hoc* analyses indicate that framing and leadership also have economically significant effects on the outcomes of disputes in terms of remaining in consultations or negotiating or litigating a settlement.

### **WTO DEFINITIONS, CONCEPTS, AND AN EXAMPLE**

In contrast to civil litigation, the design of the WTO DSB encourages disputant countries to discuss their problems and settle their disputes by themselves. The WTO DSB stipulates a minimum 15- day period of private negotiation between the trade partners, before the complainant may request to enter the consultation phase (for a detailed explanation of the entire process, see Kim (1999)). There are three types of participants in WTO trade disputes: complainants, respondents, and third parties. The *complainant* initiates a dispute based on the occurrence of an alleged violation of a trade agreement.<sup>3</sup> The complainant frames the nature of the conflict by filing a request for consultation (RFC) or official brief describing the dispute. The *respondent* country is the alleged violator against whom the complaint is filed. *Third parties* are other WTO member countries, such as the respondent's trading partners, that have economic interests in the dispute. Once in the consultation phase, the *complainant* may unilaterally request, after a minimum of 60 days, for a *panel to be formed*. Before making this request, and within the first within 10 days of the consultation phase, other WTO member countries have the option of joining the dispute as *third parties*. Any member of the WTO may request to join a dispute as a third-party, subject to the approval of the respondent. In nearly all cases, respondents allow affected countries to join as third parties, since this potentially prevents the filing of additional, separate disputes by the third parties against the same respondent. Thus, permitting interested WTO members to join as third parties may be a means for the respondent to consolidate their defensive effort and resources instead of having to

