

The Two-Level Battle: Domestic and Foreign Interests in GSP Review

Note to PEIO Reviewers: Unfortunately, we only received the data for this manuscript in December, and have been unable to do any but the most basic analysis at this point.

We will have a complete manuscript by April, but only have a rough outline of our theory and empirics at this point. We have included a (long) introduction and the start of our data and methods section to give you an overview of what you can expect.

Abstract

Non-state actors in the politics of international trade are often relegated to the black box of the unitary state who engages in negotiation or advocacy on their behalf. However, non-state actors can and do enter the arena of trade politics in their own right. One realm in which these actors can directly confront both the state and other non-state firms is in the politics of market access under the WTO's Generalized System of Preferences, which gives preferential tariff access to developing countries. While these preferences are unilaterally granted by developed economies, decisions about which products are eligible for preference are still subject to review and contestation. In the United States, actors can petition the United States Trade Representative (USTR) on an annual basis to add, remove or exempt product lines from the scheme. The actors involved in these reviews comprise both private and public actors, from both the United States and abroad. In this paper, we introduce a novel dataset of over 2,500 product-line reviews and 2,800 product line-year review participants, to investigate the determinants of petition success. Our findings, based on expectations that more politically important entities will be more likely to achieve their desired outcomes, provides new insights about how non-state actors can directly shape the rules of the global trading system.

Introduction

In international relations, we often think of countries as single players on a chessboard, where each move represents the collective national interest. Key approaches in International Relations, like the concept of the two-level game, argue that states mediate competing domestic and foreign non-state interests in international engagements with the benefit of private information regarding their own domestic interests (Putnam 2017). This framework has been applied in a plethora of international relations settings, including trade negotiations (da Conceicao-Heldt 2013; Schoppa 1993), climate change (Depledge 2013), and diplomacy (Bjola and Manor 2018), amongst others. While numerous empirical studies have examined the dimensions of state, firm and market power, most have done so in a context where states mediate or act as agents for (their) firms.¹ However, there are also times when firms engage directly with states, and/or other nations' firms, under the auspices of international agreements. This is often seen in investment disputes resolved under bilateral investment treaties (Trevino, 2014). Of course, other examples, such as CFIUS and similar frameworks, also exist.

In this manuscript, we aim to shed light on *how* state and non-state interests interact by examining the determinants of success in contested international engagements. To do this, we focus on the US' Generalized System of Preferences (GSP). GSP was formalized in a meeting of the United Nations Conference on Trade and Development (UNCTAD) in New Delhi in 1968.² There, a group of rich and poor countries began work on a program of *nonreciprocal* and *nondiscriminatory* tariff preferences to help poor countries. It was formally inaugurated in the United States in January of 1976 according to the Trade Act of 1974.³ GSP in the United States has been suspended routinely as it comes up for renewal (as of this writing, it is currently suspended), but has always been reinstated.

By its nature, GSP plays a huge role in the domestic trade politics of the United States. For importing and import-dependent firms, GSP preferences can help reduce supply-chain costs and lower consumer prices. Yet for import-competing firms, GSP can give additional

¹ Examples include Baccini 2019; Danzman 2019; Eckhardt and Lee 2018; Elkins et al. 2006; Kim 2023; Malesky and Milner 2023.

² UNCTAD 1968. For excellent histories, see Bhattacharya 1976; Graham 1978; Mason 2004.

³ Graham 1978, 513.

advantages to firms in developing countries that might already benefit from lower labor or regulatory costs. This can put significant pressure on US domestic producers, and lead to lost sales and reduced US employment. Unlike bilateral, regional or multilateral trade agreements, GSP tariff preferences are unilaterally granted by the advanced market economy. This does not mean, however, that the granting of these preferences are free from domestic or international politics. In the United States, which product-lines receive GSP preferences (and what those preferences entail) were first laid out in the 1974 Trade Act. However, subsequently, product lines can be added, removed, or temporarily modified for one or more GSP beneficiary countries. These decisions are made by the United States Trade Representative (USTR) through its annual review process.

When products are reviewed for inclusion or exclusion in the United States, it occurs in a context where firms often compete and partner not only with governments, but also with other firms, both domestic and international. GSP Reviews entertain petitions, opposition, and support from public and private actors, both domestic and international. Despite the fact that these petitions are ultimately decided by a US government entity, there is substantial variation in outcomes and, in many instances, US entities, including firms, politicians, and the USTR themselves are unsuccessful in securing their aims.

What determines this variation? Our primary aim in this article is to identify the characteristics that correlate with GSP review success and/or failure. We expect the outcomes of GSP reviews to be a function of the political interests of the US executive. But these interests are complicated and multi-faceted. The US executive needs to balance the complicated politics of US domestic trade-related interests with the more nuanced politics of foreign policy aims and objectives. Thus, we hypothesize that the outcomes of the GSP reviews are not merely a result of the political or economic might of the entities involved. Nor are they a simple economic calculation based on a reading of the GSP statutes. Instead, they are linked to a set of complex, interdependent factors. We focus on three key dimensions: political influence, economic significance, and strategic alliances. Each of these factors is likely to play a pivotal role in determining the success or failure of the parties in these reviews. For any given review, the executive's interest will be determined by the balance of export-oriented, import-competing, and import-dependent domestic interests offset against the foreign policy importance of the foreign state or firm.

To investigate this puzzle of GSP review success, we construct a novel database of over 2500 GSP reviews conducted by the USTR between 1981 and 2019. Our data, released directly from the USTR for the first time, accounts for every US-GSP review during that period, and accounts for the initial request to the USTR, the status and decision of the request as well as the petitioner and petitioner country. We combine this dataset with all publicly available investigations into the cases made by the United States International Trade Commission (USITC), which detail the claims made in the case, as well as the petitioners, public supporters of the petition, and opposition. There is wide variation across types of petitioners (firms, trade associations and countries), as well as types of petitions (including product addition, removal, and “competitive needs limitations”). We code the type and location of the entities involved in these reviews.

This innovative new dataset allows us to unpack how political and economic factors impact the likelihood of a petitioner’s success in GSP review. That, in turn, sheds new light on how non-state actors – notably private firms – are able to successfully navigate the politics of international rules in order to secure favorable outcomes. The contours of the *formal* rules of international economic governance are not in the purview of the state alone.

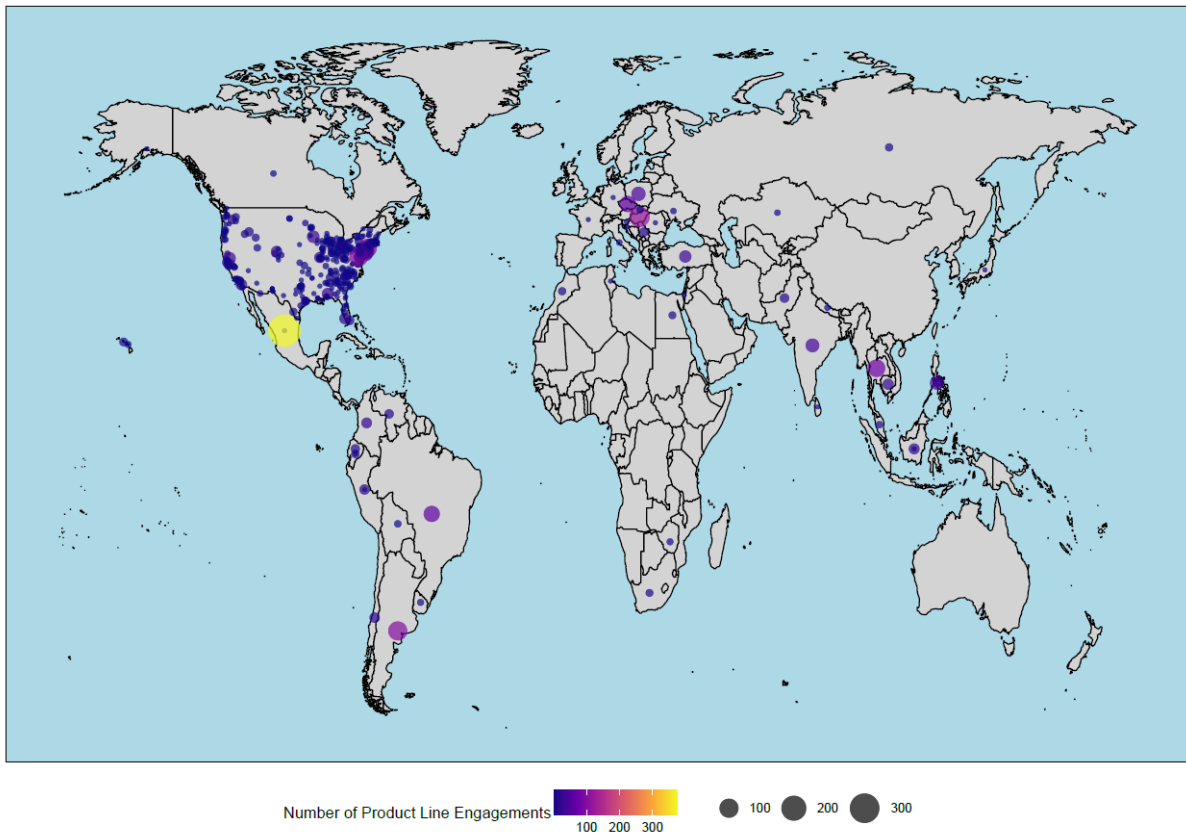
Theory

- **The Generalized System of Preferences**
- **Firm vs. Firm and the Politics of International Market Access**

Data and Method1

To investigate US GSP review success, we have collected data on all reviews between 1981 and 2019. These data were gathered directly from the USTR, and is the first time it has been released by the agency. In total, the USTR conducted 2,581 product-line reviews during this period. No reviews were conducted in 1994, 1996 or 2000 when the GSP had lapsed under US law. Of these reviews, 1,629 were to add GSP product-line access, 301 were to redesignate a product, 142 were to remove access, and 495 were to consider a competitive needs limitation (CNL) waiver. The remainder were focused on smaller issues.

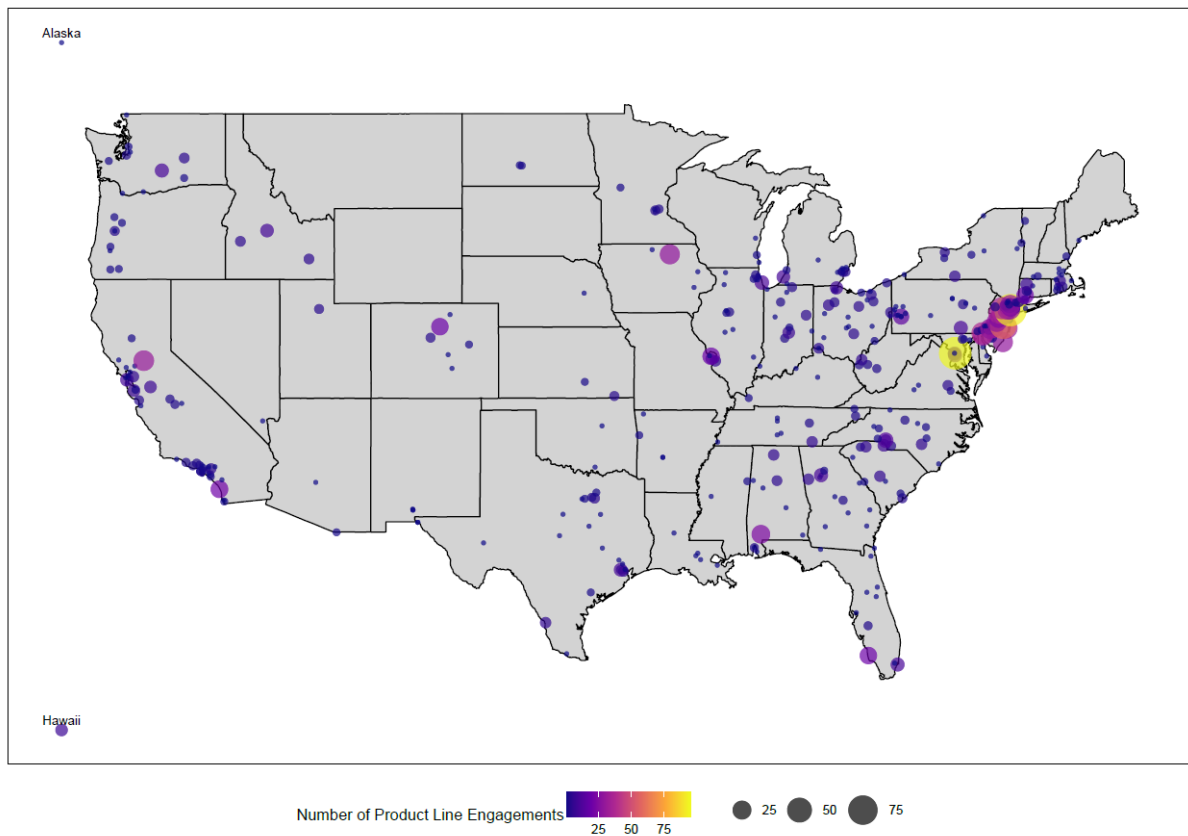
Map 1: Global Distribution of GSP Review Entities.



As described above, for each review, the USTR (describe process here from interviews). Products are considered at the 8-digit level of the Harmonized Tariff Schedule (HTS). In total, 704 of these product line reviews were sent to the USITC for analysis. In these instances, we have collected the USITC reports for each year. From these documents, we have extracted data on the entities involved in the reviews which includes entity name and location. For foreign entities we have recorded the country location, while for domestic entities, we have recorded the city and state. In some instances, this information was available within the documents themselves, while in other instances we made external searches for the information. Unless otherwise indicated in the USITC reports, we selected the location of the US headquarters of the firm when the firm had operations at multiple locations.

We identify a total of 2,837 product line-entity-year observations. Of these, 1,336 are petitioners, 1,149 are opposition parties, and 352 are supporting entities. Of these, 592 are

Map 2: Distribution of USA GSP Review Entities.



foreign firms, 523 are foreign governments, 1,313 are US domestic firms, and 409 are US government entities (the USTR or US Congressional Representative). These entities are found in a total of 455 unique entity-locations, including 406 unique locations in the United States and 49 countries. We display these locations graphically in Maps 1 and 2, where the lighter shading and larger circles indicate a larger number of entities in the geographic region. As we illustrate, outside of the United States, the vast bulk of review parties are clustered in large, middle-income countries. The single largest number of entity-product line-year observations come from Mexico, with 375 instances (prior to NAFTA). Other major international players include Hungary, Argentina, Thailand, Czech Republic (Czechoslovakia), Brazil, Poland and the Philippines. Domestically, the largest number of entities can be found on the mid-Atlantic seaboard, from the Washington DC region, where most entities are industry associations, through to the greater New York City metropolitan area. However, entities are also found across the United States, with at least one entity in 45 of the 50 states.

To proxy for the US executive's interest, we draw on existing data sources that focus on the political influence, economic significance, and strategic nature for each entity. For the

political influence of the US domestic entities, we use a measure of the electoral competitiveness of the Congressional district in which the entity resides, with the expectation that more entities in more competitive electoral districts will be of greater political value to the US executive. For the economic significance of the entity we consider the overall size of US production in the product as well as the size of the firms involved in the review. For the influence and significance of the foreign entities, we use several measures, including the trade share of US exports to the country, the overall US exports to the country, the amount of natural resource inputs from the country, UNGA alignment with the country, and the presence of a security agreement with the country. We expect a higher likelihood that reviews will conclude in alignment with the position of the member(s) of Congress, when they are involved in a review, as this involvement increases the political value for the US executive. This will be especially true in cases where the Congressperson is in the same party as the current Executive. Likewise, we would expect foreign firms will have a higher likelihood of securing their preferred outcome when a foreign government is better aligned with the strategic interests of the United States.

For all models, our outcome variable is a binary indicator equal to “1” if the petition was successful and “0” if the petition was denied. We create a series of binary indicators for each of the four entity types (foreign government, foreign private, domestic government, domestic private) and entity positions (petitioner, supporter, opposition). We then interact these indicators with each other and with the entity characteristics described above. When there are multiple entities for the type or position, we average the entity characteristics. We also create a count variable for the number of entities in each entity position, with the expectation that more petitioner/supporter or opposition entities will lead to a greater or lesser chance of success, respectively, *ceteris paribus*. In the main models we also include year-fixed effects to account for non-observable temporal shocks. In the robustness checks we also introduce HTS 2-digit fixed effects to account for time-invariant unobservables at the level of product type.

Results

Conclusion

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