

Maximizing Trade Benefits Through Strategic WTO Dispute Filings: A Quantitative Analysis of Optimal Initiation

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Iqra Yaseen¹ , Mohammad Shafi² and Umar Nisar Kathjoo³

Abstract

The study investigates the asymmetrical distribution of bilateral dispute initiations at the World Trade Organization Dispute Settlement System (WTO-DSS) between specific country pairs. The study introduces a novel concept of *dispute depth* to examine how the asymmetrical bilateral dispute initiation affects bilateral trade among disputing dyads and to optimize the number of disputes that a country should file to maximize its trade benefit. By using the augmented Structural Gravity Model of trade and the PPMLHDFE estimator with extensive trade data for the years 1995–2022, across selected WTO member countries, the article demonstrates that an increase in the *dispute depth* decreases the bilateral trade between disputing dyads. Further, the study finds that the WTO member countries should strategically file no more than three disputes per year to maximize their trade gains. The study has important ramifications in the ambiguous world of WTO-DSS and paves the way for implementing the optimal number of disputes into trade dispute strategy, policy-making decisions and business environment of the constantly evolving international trade landscape.

Key Words

WTO, Dispute Initiations, Trade, Imports, Gravity Model of Trade, PPMLHDFE

Introduction

The formation of World Trade Organization (WTO) has been a major milestone in ensuring international economic relations among its member countries (Peritz, 2020). Besides acting as an organization that establishes global trade rules and works to build trade capacity, the WTO also acts as a forum for the WTO members to conduct trade agreements (Rahman, 2023). The WTO has helped to reduce trade barriers and make trade more transparent and predictable. Nevertheless, as soon as trade-distorting activities occur, member countries file complaints with the WTO Dispute Settlement System (WTO-DSS) (Davey, 2022).

WTO-DSS acts as the primary mechanism that invariably settles trade disputes among WTO member countries (Atici, 2018). The Dispute Settlement Body (DSB), which includes representatives of the member countries, has the most critical role (Wu, 2023). During the initial 60 days of the consultation period, the parties may negotiate, mediate

or seek third-party help (Hoekman et al., 2021). If consultations fail, complainants can request the appointment of a panel, whose decision can be appealed to the Appellate Body (AB) (Ozcelik, 2023). While the AB has the power to uphold, modify or reverse the panel's findings, the panel retains the final authority to accept or reject the AB's report (Steger, 2017).

The initiation of disputes at the WTO is not merely a reactive response to perceived injustices but rather a strategic manoeuvre designed to achieve specific economic and geopolitical objectives (Yildirim et al., 2018a). Countries strategically engage in dispute filings to address trade barriers, protect domestic industries and assert their rights under WTO agreements (Feinberg & Reynolds, 2018). However, the timing, frequency and selection of disputes present complex decisions that require a thorough understanding of economic, political and legal considerations (Davis, 2015).

One notable aspect of WTO disputes is the asymmetry in dispute initiation among member countries on account

¹ Department of Commerce, University of Kashmir, Srinagar, Jammu and Kashmir, India

² Department of Economics, Islamic University of Science and Technology, Pulwama, Jammu and Kashmir, India

³ Department of Management Studies, Islamic University of Science and Technology, Pulwama, Jammu and Kashmir, India

Corresponding author:

Iqra Yaseen, Department of Commerce, University of Kashmir, Srinagar, Jammu and Kashmir 190006, India.
E-mail: Iqrayaseen30@gmail.com