

Developing Countries' Participation Decision in WTO Dispute Settlement: Assessing the Role of FDI and Governance

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Abstract

This paper examines the causal mechanisms by which foreign investment by TNCs and governance influence developing countries' decisions to participate in World Trade Organization (WTO) litigation. Using a multinomial logistic regression technique for a compiled data sample of WTO trade complaints, in which countries participate as complainants or as third party over the 1995-2004 periods, we argue that in addition to the political, economic, and institutional variables that have been investigated in previous research, a country's decision of whether to participate in WTO litigation against a powerful defendant depends on the weight of Foreign Direct Investment (FDI) in the host country's economy, the extent of the country's openness to foreign investment, and the quality of host country's system of governance.

Keywords: Foreign direct investment, international trade, World Trade Organization, Dispute Settlement System, developing countries