

# Democratic Disadvantage?: Evidence from Korean Commercial Diplomacy

---

Hailie Na-Kyung Lee  
Seoul National University



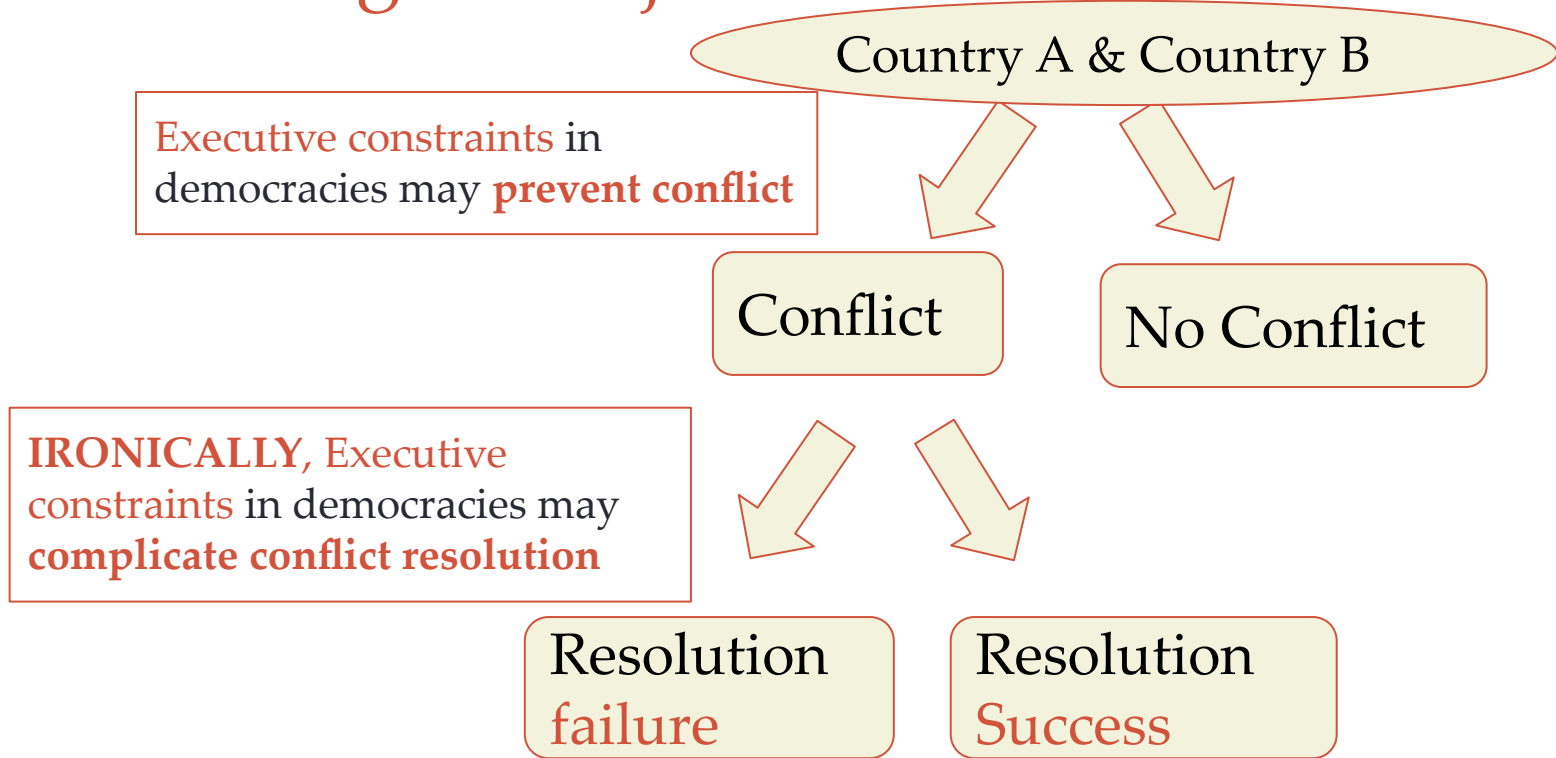
# Democratic Dyads Do Not Fight Each other??



# Two Institutional Mechanisms

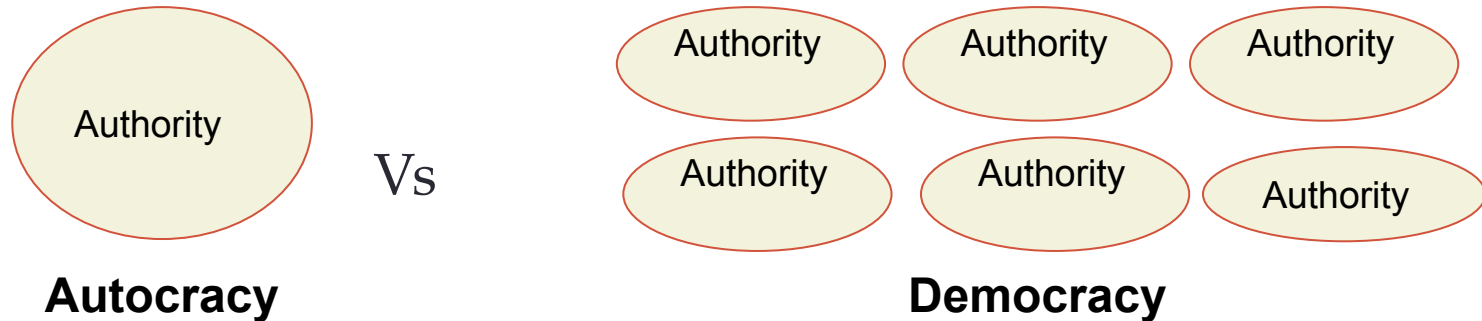
- Electoral accountability
  - Audience cost (Fearon 1994; Choi 2010)
- Horizontal accountability
  - Strong executive constraints & more veto players (Ember, Ember, and Russett 1992; Maoz and Russett 1993)

# Peacemaking is not just about Conflict Onset



# High number of veto players as a hurdle

- **Literature:** Having more veto players limits the government's ability to facilitate negotiation and reach international agreements (Baccini and Urpelainen 2014; Chyzh 2014; Mansfield, Milner and Pevehouse 2007; Howell 2015; Milner and Tingley 2011)
- **Expectation:** Divergence of interest and preferences make negotiations/settlement difficult in **conflict setting!!**



## Context: Investment-driven conflict

- Autocracies are more likely to engage in property rights violations (Li, Resnick et al 2003, Li 2009, Jensen 2008, Henisz 2000 )  
➔ **Potential escalation of conflict**
- **My expectation: Separation of power and multiple veto players in democracies** should complicate amicable informal settlement of investment disputes through diplomacy.

# Observable Implications

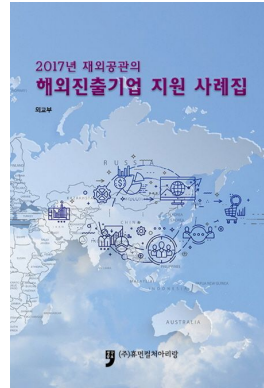
**H1:** When the host country has multiple veto players, **commercial diplomacy is less likely to be successful** since divergences in preferences and conflicting interests will make agreements difficult.

**H2:** When the host country has multiple veto players, **successful negotiations are likely to take longer.**

**H3:** When the host country has multiple veto players, **the number of host government officials required for successful negotiation will be greater.**

# Two Empirical Strategies

1. Quantitative analysis using **original data set**  
(Coded using Annual reports from the Korean Ministry of Foreign Affairs (MOFA) for 2014-2019)

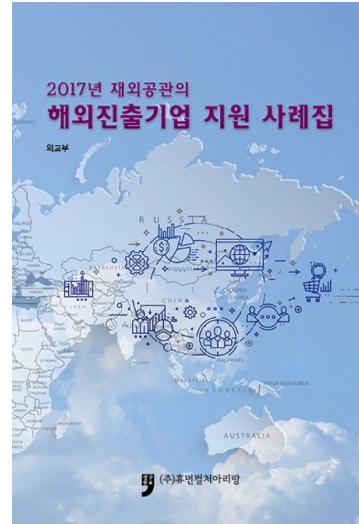


2. **Semi-structured interviews**  
with 14 international investment lawyers and 12 government officials.



## Annual Reports from MOFA

- Reported investment dispute between Korean investors and host governments that received diplomatic assistance
- Often resulted in financial compensation or changes in host government policies



# Coding using MOFA Reports

- **Coders:** Four undergraduate RAs, 1 master student, and myself (triple-check)
- **Variables coded**
  - 1. Start and end dates of conflict
  - 2. Industry (SIC codes)
  - 3. Type of expropriation (direct/indirect)
  - 4. Form of diplomatic contact (written correspondence/in-person contact)

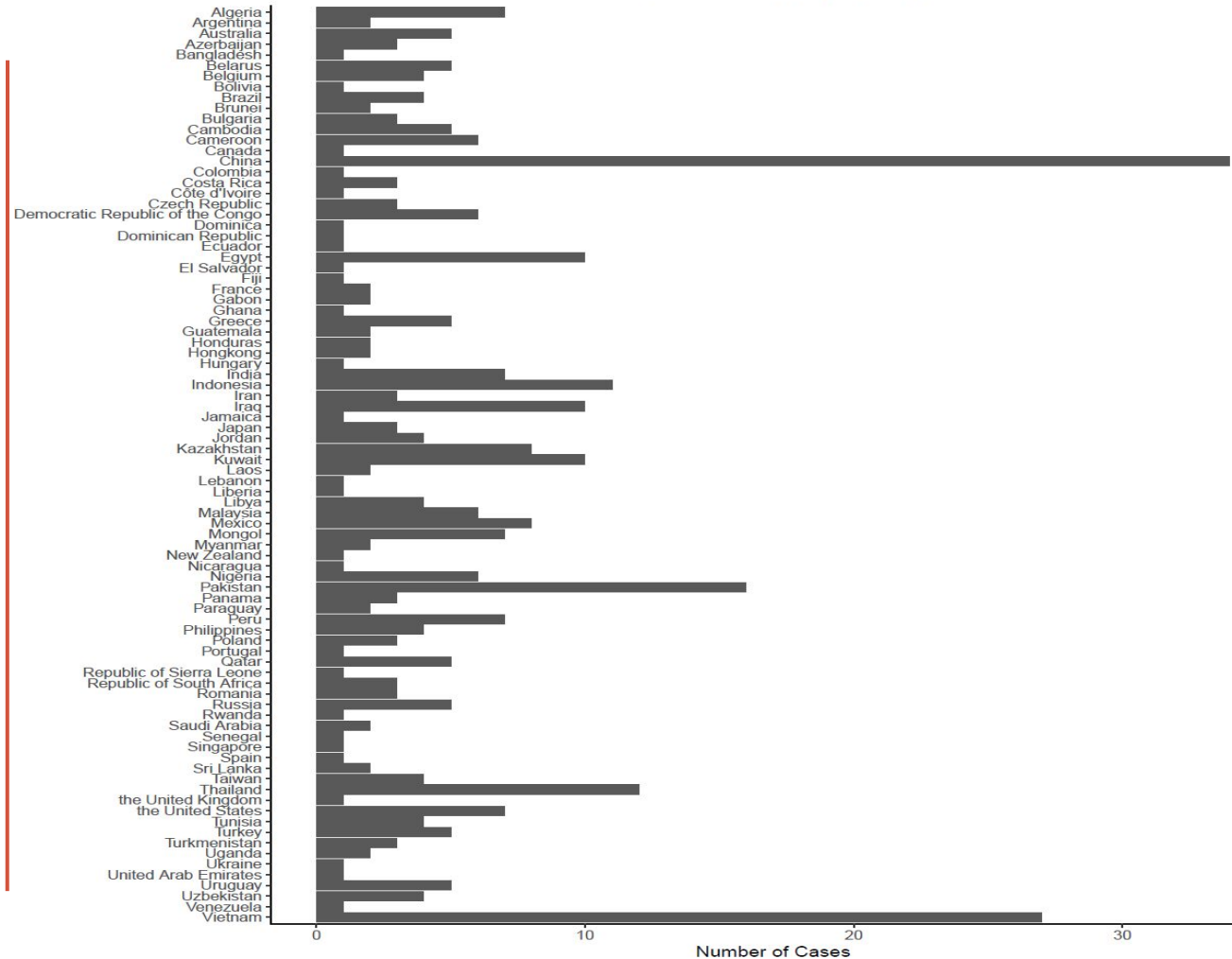
# Data Overview I

Sample:

388 (total cases) - 25  
(private disputes) =  
363 cases of  
Investor-Host  
Dispute from 86  
countries

Most cases:

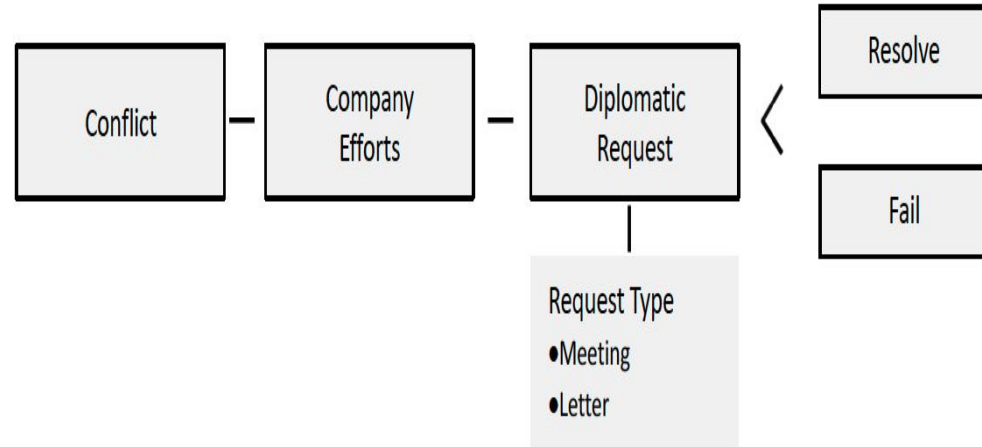
China and Vietnam



# Data Overview 2

Type of Expropriation:  
Direct/Indirect

Commercial Diplomacy:  
Meeting/Letter

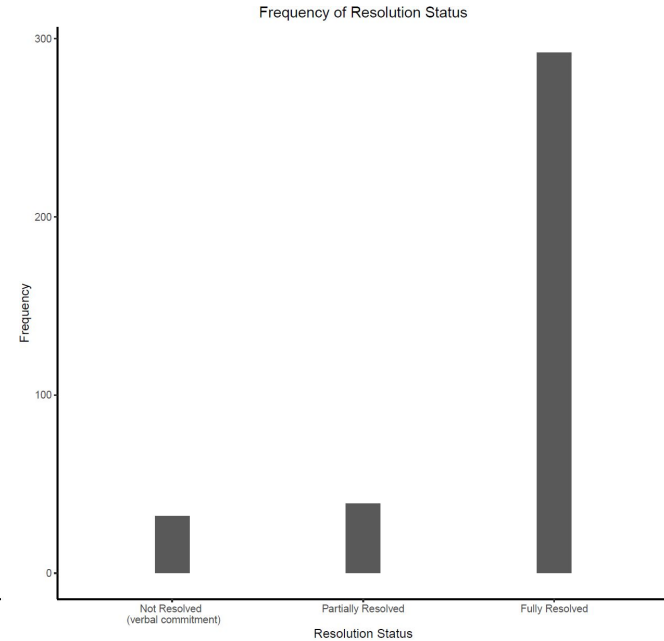
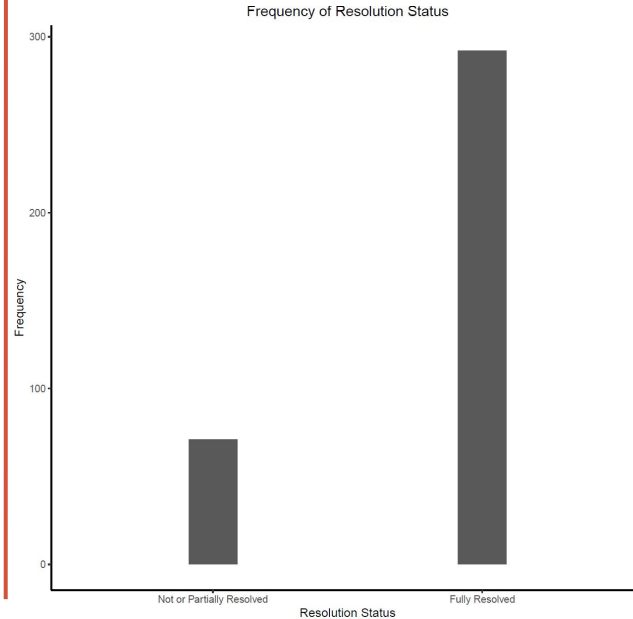


Type of Expropriation	Type of Commercial Diplomacy
Direct (94 Cases)	Letter (33 Cases)
Indirect (211 Cases)	Meeting (272 Cases)

# DV for H1

## Resolution Status

1. Full resolution
2. Partial resolution
3. No real resolution (mostly empty words)



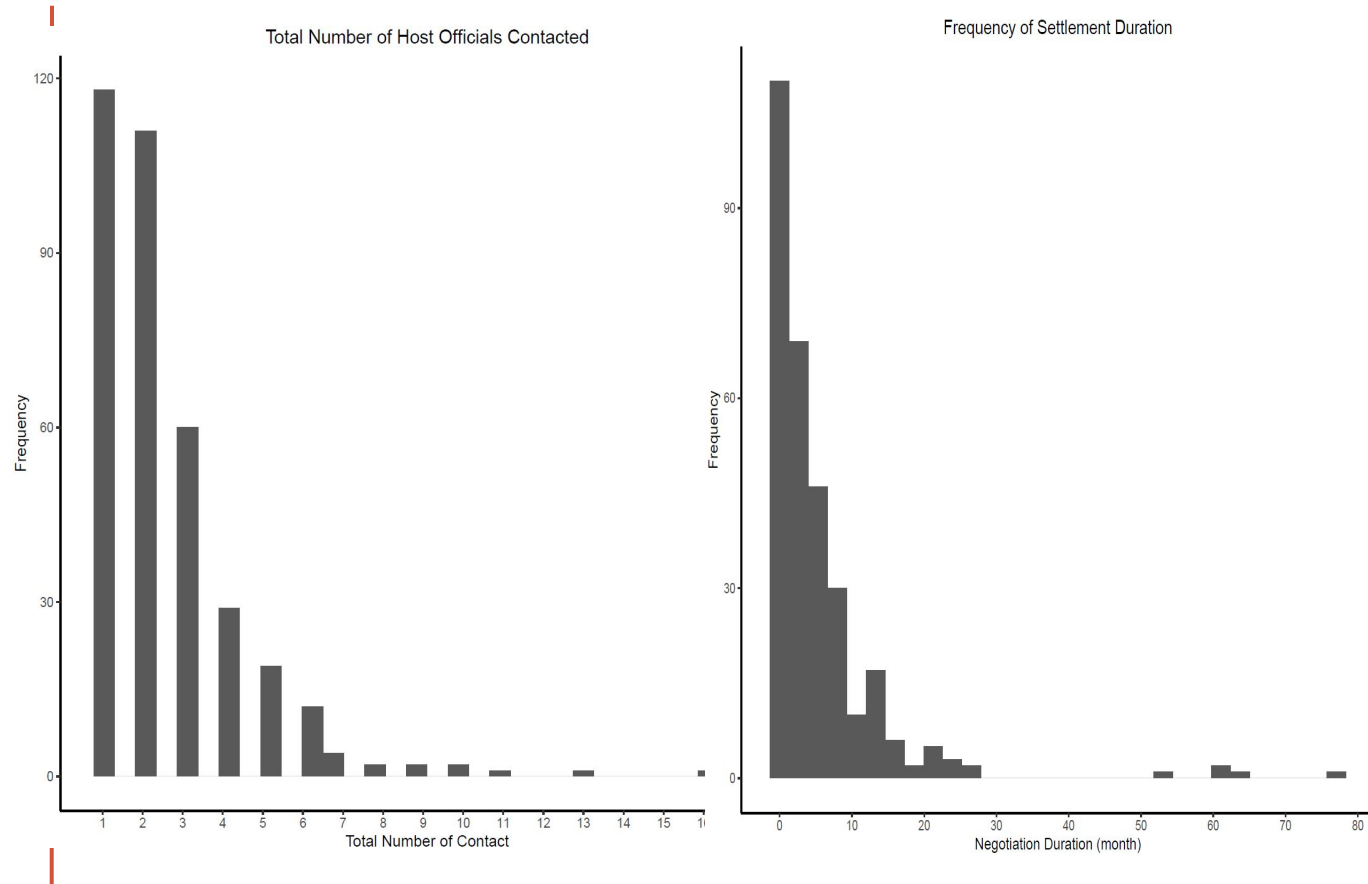
## DV for H2 & H3

### 1. Number of Contact:

Median:  
2 Contacts

### 2. Settlement Duration:

Median:  
3 months



# Explanatory variables

Main IV:

**XCONST from PolityIV**, which measures "the extent of institutionalized constraints on the decision-making powers of chief executives, whether individuals or collectivities." XCONST is in a seven-point scale, ranging from unlimited authority (1) to Executive Parity or Subordination (7)

**Control variables:**

Type of expropriation, Type of support, Conflict Subject, Ideal Point Distance, ICRG regulation, GDP growth (host), logged cumulative ISDS case (host), BIT status,

# Quantitative Results: H1

Findings:

More veto players

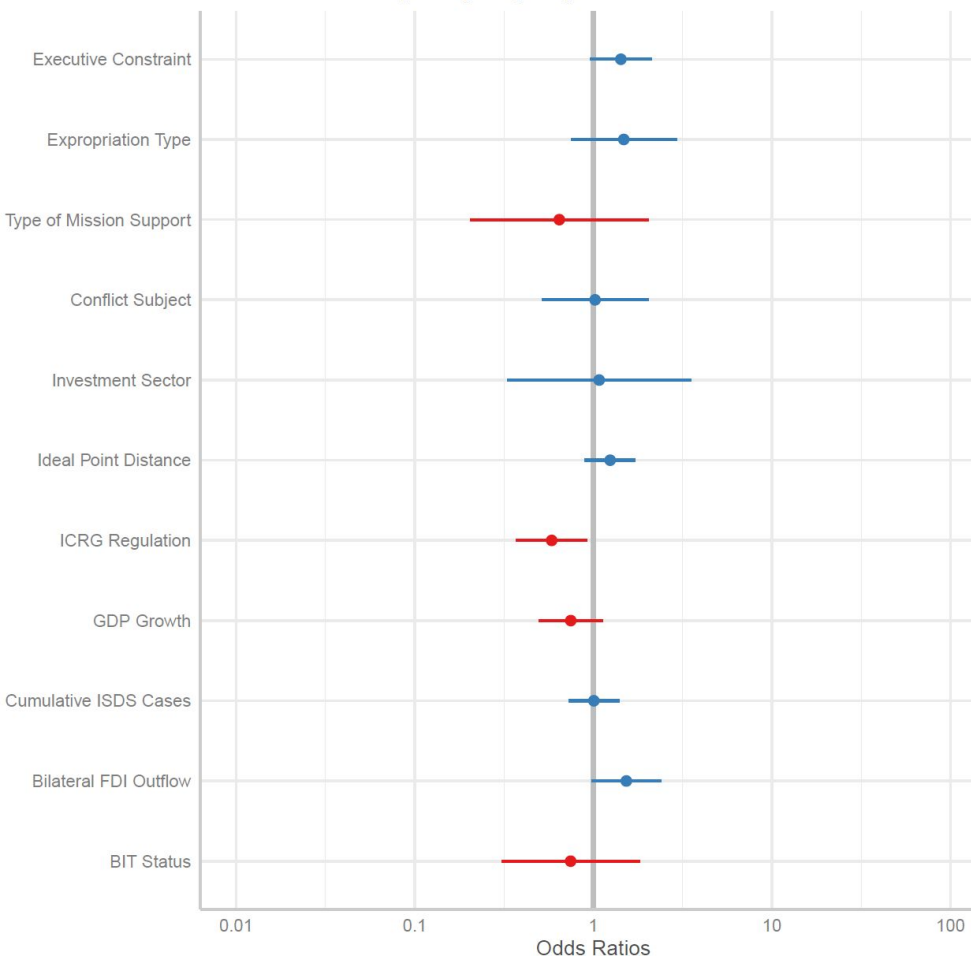


Lower likelihood of  
successful  
resolution

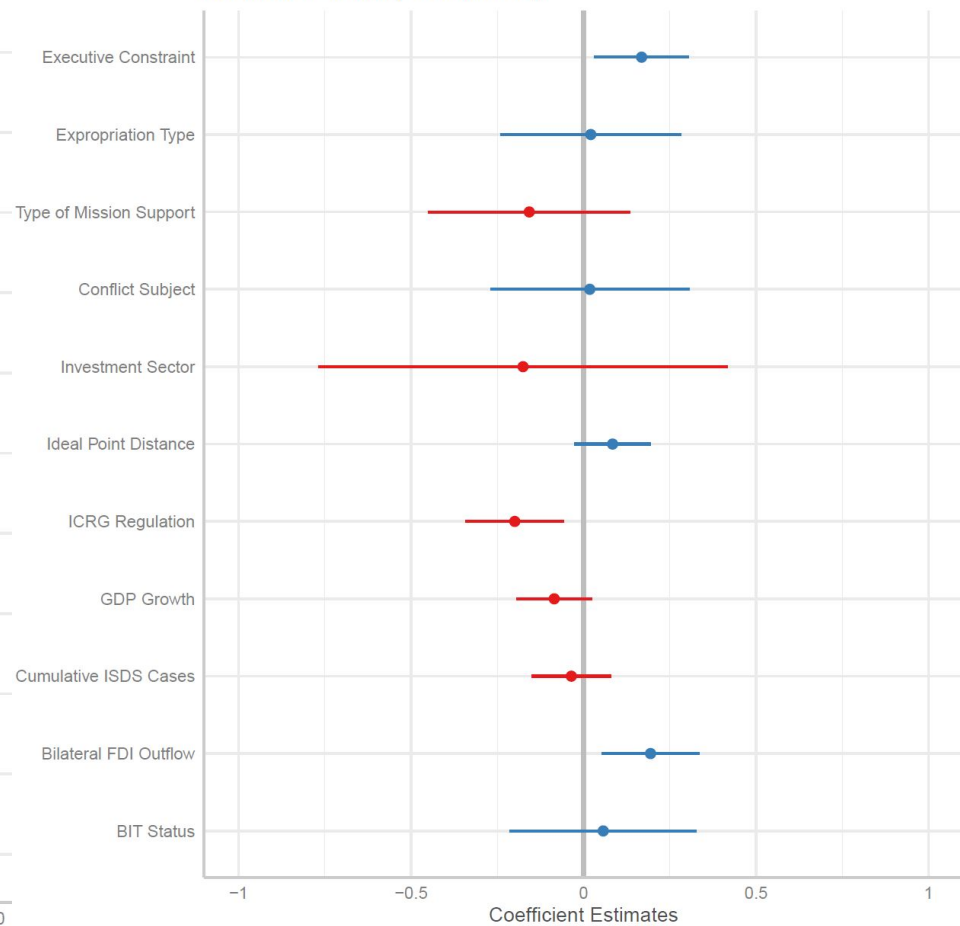
	<i>Dependent variable:</i>		
	Resolution Status (binary logit) (1)	Resolution Status (pooled OLS) (2)	Resolution Status (ordered logit) (3)
Executive Constraint	0.185** (0.090)	0.054** (0.022)	0.214** (0.093)
Expropriation (Indirect)	0.392 (0.355)	0.013 (0.081)	0.310 (0.347)
Mission Support (Meeting)	-0.439 (0.484)	-0.096 (0.091)	-0.411 (0.496)
Conflict Subject (Central Government)	0.023 (0.369)	0.011 (0.091)	0.027 (0.377)
Investment Sector (Insurance and Services)	0.075 (0.623)	-0.107 (0.185)	-0.125 (0.697)
Ideal Point Distance	0.410 (0.275)	0.097 (0.068)	0.431 (0.291)
ICRG Regulation	-2.996** (1.166)	-0.679*** (0.254)	-3.135*** (1.207)
Gdp Growth	-0.097 (0.061)	-0.017 (0.011)	-0.094* (0.055)
Logged Cumulative ISDS Cases	0.007 (0.158)	-0.022 (0.037)	-0.025 (0.147)
Logged Bilateral FDI Outflow	0.152** (0.063)	0.042*** (0.016)	0.166*** (0.060)
BIT Status	-0.293 (0.370)	0.035 (0.087)	-0.194 (0.391)
Constant	1.709* (0.875)	1.667*** (0.194)	
Clustered SE?	Yes	Yes	Yes
Observations	281	281	281
R <sup>2</sup>		0.049	
Adjusted R <sup>2</sup>		0.018	



Resolution Status (Binary Logistic)



Resolution Status (OLS Models)



## Quantitative Results: H2 & H3

### Findings:

#### More veto players



- 1) Longer time taken
- 2) Higher number of contacts required for successful resolution

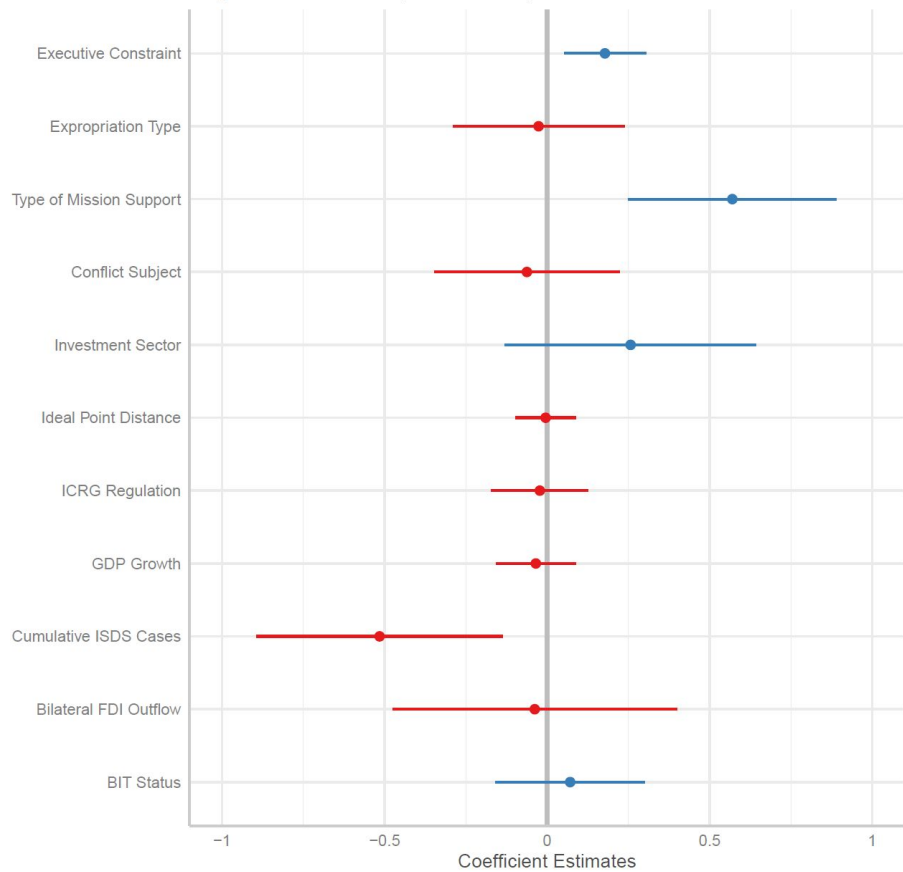
	<i>Dependent variable:</i>		
	Duration (logged)	Number of Total Contact (logged)	Contact Level
	(1)	(2)	(3)
Executive Constraint	0.141*** (0.037)	0.073** (0.029)	0.008 (0.053)
Expropriation (Indirect)	0.027 (0.190)	0.057 (0.122)	-0.165 (0.167)
Mission Support (Meeting)	0.671*** (0.206)	0.463*** (0.105)	0.650*** (0.247)
Conflict Subject (Central Government)	-0.064 (0.159)	-0.197** (0.082)	-0.217* (0.130)
Investment Sector (Insurance and Services)	0.209 (0.219)	0.002 (0.187)	0.019 (0.275)
Ideal Point Distance	-0.072 (0.122)	0.084 (0.098)	0.054 (0.143)
ICRG Regulation	-0.651 (0.504)	-0.551* (0.282)	0.040 (0.436)
Gdp Growth	-0.035 (0.025)	0.012 (0.016)	-0.030 (0.032)
Logged Cumulative ISDS Cases	-0.212*** (0.066)	0.040 (0.046)	0.102 (0.085)
Logged Bilateral FDI Outflow (Korea - Host)	0.048 (0.032)	0.012 (0.024)	-0.052 (0.033)
BIT Status	0.239 (0.156)	0.191* (0.101)	0.188 (0.247)
Constant	0.422 (0.321)	-0.042 (0.233)	1.673*** (0.458)
Observations	196	227	186
R <sup>2</sup>	0.095	0.111	0.084
Adjusted R <sup>2</sup>	0.041	0.065	0.027
Residual Std. Error	1.080 (df = 184)	0.635 (df = 215)	0.942 (df = 174)

Note:

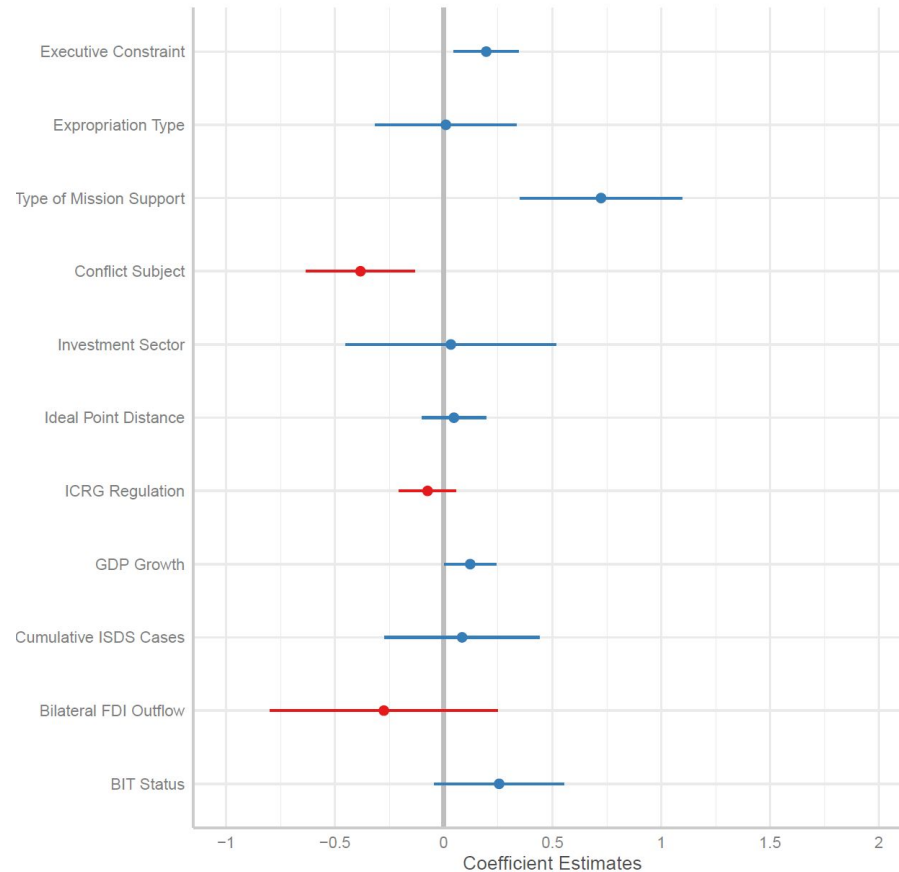
$p < 0.1$ ;  $p < 0.05$ ;  $p < 0.01$

All covariates are lagged by 1 year

Negotiation Duration (OLS Models)



Total Number of Contact (OLS Models)



# Qualitative Evidence

- Semi-structured 30-50 minute interviews with 14 lawyers and 12 government officials in Seoul, South Korea (March-June 2020)
- Recruited via email using Seoul National University alumni network

Lawyer Sample (14/30)	Government Official Sample (12/30)
<ul style="list-style-type: none"><li>• Average 8 years of experience</li><li>• More than 3 investment dispute cases</li></ul>	<ul style="list-style-type: none"><li>• Current and retired employee of the Ministry of Foreign Affairs (MOFA)</li><li>• Minimum 10 years of experience</li></ul>

# Interviews

**Central Question:** All else equal, did you find it more difficult or easier to negotiate in autocracies/democracies? Any regime-type based differences?

Response breakdown:

<b>Easier in Autocracies</b>	<b>Easier in Democracies</b>	<b>I don't know</b>
20 Respondents	4 Respondents	2 Respondents

Overall, 77 percent of respondents:

- Negotiations easier in autocracies
  - 80 percent (15/20) cited concentration of authorities as a primary reason

## Direct Quotes from Interviews

“Settlement for compensation or cancellation of disputed policies becomes much easier when decision-making authority is concentrated” - *MOFA official with 30 years of experience*

“When there are multiple authorities, it takes longer to derive an agreeable solution since differing interests of these entities need to be reconciled first” - *MOFA director*

“In democracies, you have to make sure that every bureaucrat involved is on the same page before you can move up to the executive level for more serious conversation” - *Ex-diplomat (MOFA)*

# Conclusion

## Democratic advantage in investment conflict?

- Executive constraints in democracies double-edged sword for peace
- **Onset of conflict** less common but once escalated, **conflict resolution** may be difficult.

# Contribution

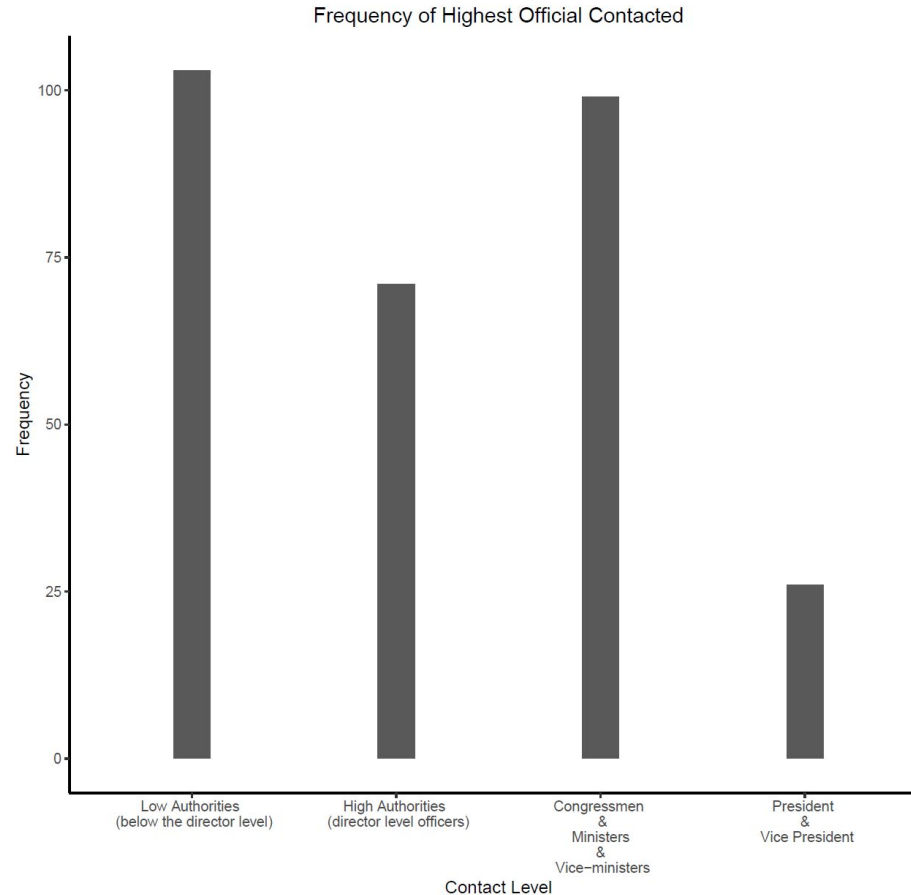
- Rethinking democratic peace
- Novel data: contributes to understanding of commercial diplomacy
  - No fewer than 20000 diplomats providing business assistance
  - When it is likely to be successful



# **Additional Slides**

# Appendix I. Type of Contacted Officials

- VIP Contact (Presidents & Vice Presidents) rarely used to resolve investor-state conflicts



## Appendix II

### Variable summary

Table1

Table 1: Summary of Variables Used

Variables	Mean	Median	Max	Min
<b>Dependent Variables</b>				
Settlement Duration (month)	5.69	3.00	78.00	1.00
Number of Total Contact	2.60	2.00	17.00	1.00
Contact Level	2.16	2.00	4.00	1.00
Resolution Status	1.72	2.00	2.00	0.00
<b>Main Independent Variable</b>				
Executive Constraint (PolityV)	4.80	5.00	7.00	1.00
<b>Controls (numeric variables)</b>				
Ideal Point Distance	1.34	1.40	2.81	0.01
Regulation (ICRG)	0.54	0.50	1.00	0.00
GDP Growth	2.99	3.05	53.85	-19.29
ISDS Filed Cases (cumulative)	6.77	3.50	60.00	0.00
Dyad FDI Flows (million US\$)	838.22	76.52	15318.11	0.00
<b>Controls (dummy variables)</b>				
Conflict Subject (central gov.)	0.68	1.00	1.00	0.00
Expropriation (indirect)	0.69	1.00	1.00	0.00
Type of Diplomatic Support (meeting)	0.89	1.00	1.00	0.00
BIT Status	0.80	1.00	1.00	0.00