Do International Rulings Have Spillover Effects?

the view from financial markets

By Jeffrey Kucik and Krzysztof J. Pelc

How influential are international courts? Can their rulings reach beyond a given case and affect the behavior of countries not party to the dispute? International law is clear on the matter: rulings have no formal authority beyond the case at hand. This tenet is consistent with the incentives of sovereign states wary of delegating too much authority to courts. By contrast, the authors claim that even in the absence of formal authority, the rulings of international courts can affect behavior by mobilizing pro-compliance groups in countries not party to a dispute. They test these beliefs in the context of the World Trade Organization (wto) through a novel approach. Because wto rulings have implications for the fortunes of publicly traded firms, they examine whether financial markets bet on there being spillover effects beyond the case at hand. They rely on two quantitative case studies to test for a cross-border and a cross-industry spillover effect: can rulings have effects in countries and on industries other than those at issue in the initial dispute? The results suggest that the answer is a tentative yes. The spillover effects of international rulings may be a matter of scholarly contention, but their existence is something that financial markets appear willing to bet on.

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