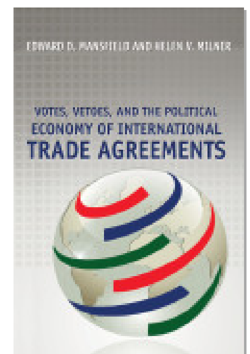
Votes, Vetoes, and the Political Economy of International Trade Agreements



Edward D. Mansfield, Helen V. Milner

Published by Princeton University Press

CHAPTER 2

A Political Economy Theory of International Trade Agreements

In this chapter, we present a theory of the domestic political conditions that lead countries to enter into formal trade agreements. More specifically, we aim to explain the establishment of PTAs, institutions in which member-states reciprocally lower their trade barriers on each other's products and thereby grant each member preferential market access. As we discussed in chapter 1, our focus is on why and when countries have chosen to enter such agreements, understanding that there is substantial variability in the spread of PTAs over time and the countries that join them. Why have some countries joined many PTAs, while others have joined very few, and what explains the timing of PTA formation? In this chapter, we first present a rationalist theory of domestic politics to explain the pattern of PTAs. We then develop seven auxiliary hypotheses that follow from the logic of our model to further explore the model's implications.

Trade agreements are products of international negotiations. In order to take effect, however, legislatures and other veto groups in the contracting states must approve an agreement, or at least not block its passage and implementation (Putnam 1988; Milner 1997a). For an agreement to occur, governments and certain domestic groups have to find the accord preferable to the lack of one. To be rational instruments, agreements must provide net benefits to some domestic groups in all of the participating countries. Equally, the governments involved must decide that the benefits from concluding the agreement will exceed the associated costs. It is on these costs and benefits that we focus in analyzing the conditions under which rational political leaders will enter a PTA.

The costs and benefits of joining a trade agreement could be economic, political, or both. As we noted in chapter 1, economists have spent much energy debating the welfare consequences of PTAs. Whether they promote the economic welfare of states—let alone of the world economy—is still much debated. Existing studies have reached mixed conclusions about whether PTA members realize net economic gains. Many such studies also find that PTAs impose costs on third parties. Thus, it seems unlikely that governments are motivated to sign these agreements for purely economic reasons. Instead, we argue that governments sign PTAs for domestic political reasons.[1]

[1] Pahre (2008) proposes a model that begins at the domestic level, as we do. But his domestic political model is different since it focuses solely on political competition between exporters and import-competing firms.

More specifically, we maintain that these agreements can help leaders by increasing their political support. Leaders cannot credibly promise to ignore special interest pleading for trade protection, which creates a major domestic problem for heads of state. We begin by explaining the nature of this problem and then demonstrate how its severity relates to the extent of political competition. The upshot, we argue, is that democratic chief executives have a greater incentive to enter PTAs than their nondemocratic counterparts.

We also argue that leaders face transaction costs when making a trade agreement. The domestic ratification process contributes heavily to the magnitude of these costs. As the number of veto players expands, domestic ratification of an international agreement becomes more difficult. These two different domestic political factors—the nature of the regime and the number of veto players—play a significant role in determining whether countries are willing and able to form a PTA. In contrast to many other studies, therefore, we emphasize how domestic politics can shape international cooperation.

A Political Economy Theory of PTAs

Why do political leaders enter PTAs? We claim that they do so because joining a preferential grouping yields domestic political benefits for heads of state that are difficult to obtain through unilateral policy measures. PTAs are a form of international cooperation since the participating countries mutually adjust their trade barriers. These adjustments require agreement both among countries and among actors within them. The demand for international cooperation is heightened when states are unable to solve or manage a problem through unilateral action alone. For example, Kyle Bagwell and Robert Staiger (2002) have shown that when countries face the prospect of international terms-of-trade externalities, the optimal solution is an agreement where all parties make market access concessions.[2] Unilateral reactions to this problem are likely to precipitate a trade war that adversely affects all of the countries. Further, as Giovanni Maggi and Andrés Rodríguez-Clare (1998 and 2007) argue, trade agreements can also have domestic political benefits by helping to bolster the credibility of a chief executive's commitment to trade liberalization and assisting the leader in avoiding capture by interest groups.

Negotiating a trade agreement is not without costs, however. Governments incur transaction costs, including search and information costs, bargaining

[2] A country's terms of trade refer to the ratio of its average export price to its average import price. Terms of trade are said to improve when this ratio increases and to worsen when it decreases. A country that has a large market can affect its terms of trade by increasing its tariffs; this leaves it better off but other countries worse off, creating an externality. If all countries do this, no one gains an advantage and everyone loses.

costs (associated with crafting a contract acceptable to both domestic and international actors), and the costs of policing and enforcing the agreement once it is in place. These costs can be significant and their magnitude is one reason that countries often opt for unilateral rather than multilateral solutions to international problems. Governments, then, must balance the gains from a trade agreement with the transaction costs incurred from forging it.

A rational government will only cooperate if the expected benefits provided by the agreement exceed the costs of negotiating and ratifying it. This cooperation is a voluntary exchange, which should be Pareto-improving in the sense that at least one party to the transaction is made better off and no party is made worse off (than its next best alternative) by the transaction. But the benefits and costs we explore are political, rather than economic.

Like some recent research on the political economy of trade agreements, we emphasize the domestic costs that leaders face if they lack a credible commitment over trade policy. It is useful to engage in a brief review of these models, since they serve as a point of departure for our analysis. Maggi and Rodríguez-Clare (1998 and 2007) have developed a series of models of trade agreements that incorporate domestic politics. Governments face a time inconsistency problem that makes them vulnerable to interest group pressures for protection. As Aaron Tornell (1991, 6) notes, "[a] common assumption made in these arguments is that government authorities can credibly precommit to end protection in the future. This is a very strong assumption . . . [given that] government authorities maximize a welfare function or they react to political forces. . . . If these authorities grant protection in the present, it is unlikely that they will not grant it in the future." Building from this idea, Maggi and Rodríguez-Clare (1998) show that even in the absence of terms-of-trade externalities, domestic politics may lead governments to form trade agreements in order to provide credible commitments to interest groups. They also find that even with terms-of-trade externalities, governments face a time inconsistency problem (Maggi and Rodríguez-Clare 2007). Many interest groups want protection. Governments find it difficult to resist protecting them, but protection causes investment distortions, which harm the government politically by reducing efficiency and growth. Governments then use trade agreements to make commitments that are credible and prevent interest groups from demanding greater barriers in the future.

Robert Staiger and Guido Tabellini (1999) use a similar model and provide evidence that international trade agreements actually do enhance government credibility vis-à-vis the private sector. Staiger and Tabellini argue that governments face production distortions due to time inconsistency problems surrounding trade policy. Groups benefiting from protection will expand too much and harm the economy because governments cannot commit to avoid protecting them. Staiger and Tabellini show, moreover, that international trade agreements provide more credibility for governments than do domestic institutions.

Commitments made in both the GATT/WTO and PTAs bind leaders and enable them to avoid making excessive concessions to interest groups.

Devashish Mitra (2002) builds on the analysis conducted by Maggi and Rodríguez-Clare (1998), but demonstrates that the commitment problem for politicians is more general than they posit. The demand for a precommitment to a free trade agreement does not have to be driven by the possibility of capital misallocation alone, as Maggi and Rodríguez-Clare (1998) argue, or by the possibility of organizational costs arising in the expectation of protection. Demand for such an agreement can occur when governments or interest groups face resource costs prior to lobbying because of the actions taken in the expectation of successful lobbying. Mitra shows that the inability of governments to commit unilaterally to resist protectionist pressures by interest groups creates substantial costs for governments. Under certain conditions, these costs can drive governments to seek international trade agreements.

Our argument about the role of domestic politics is similar to that advanced by Maggi and Rodríguez-Clare (1998 and 2007), Staiger and Tabellini (1999), and Mitra (2002). In our case, governments face a time inconsistency problem vis-à-vis the public and free trade interest groups. The latter are those economic groups that gain from trade liberalization, including exporters and importers or multinational firms with global production operations (Milner 1988; Gilligan 1997; Chase 2005). Without the ability to reassure the public and these domestic groups, governments run the risk of being blamed for adverse economic conditions by the public and free trade interest groups that may erroneously assume that these conditions have arisen because leaders gave in to protectionist demands or engaged in rent-seeking. Governments face the possibility that the public and free trade interest groups will try to oust them from office even when they have not given in to protectionist interests. That contingency creates a domestic political incentive for heads of government to sign trade agreements since such agreements can provide a visible mechanism of reassurance.

In some ways, our argument is just the reverse side of the claims laid out by Maggi and Rodríguez-Clare, Staiger and Tabellini, and Mitra. They focus on protectionist interest groups and the misallocated spending or production by them as a result of a government's lack of credible commitment. We focus on the reaction of the public and free trade interest groups to the possibility of the government giving in to protectionist interest groups. One could think of the public and free trade interest groups in our model as punishing the government for the likely capital misallocation posited by Maggi and Rodríguez-Clare or the production distortions posited by Staiger and Tabellini, and the attendant drag on economic growth resulting from the government's inability to avoid conceding to demands made by protectionist special interests.

Trade agreements can enhance the utility of both governments and the public. They can convey information to the public and free trade interest groups about the nature and activities of leaders. Such information can increase political support for leaders, helping them retain office. The public and interest groups differ in their preferences about trade policy and free trade is not a majority preference. Rather, some positive level of protectionism is acceptable to most groups. Governments balance the benefits of increased social welfare from trade liberalization with the rents gained from protection for special interest groups (Grossman and Helpman 1994). Rents for governments rise with the level of protection. Although leaders may not desire as much protection as their special interest groups demand, they are tempted by the rents that accrue from giving protection.

The argument we present here is a more general and less formal version of the argument we made in a prior study (Mansfield et al. 2002). In that article, leaders are assumed to be purely rent-seeking, while we relax that assumption in this book. Leaders vary in their preferences for social welfare and rents. This assumption is very common and follows the well-known Grossman-Helpman models. The assumption underlying our earlier study made the results of our formal model less reliant on the leaders' preferences and made the PTA equilibrium more difficult to induce. But the assumption about leaders' preferences that we rely on in this book is more realistic and makes the PTA equilibrium easier to derive. In addition, we assume that there is moral hazard as voters do not know the precise trade policy chosen by the government and must extract a signal about the policy from the overall economic situation, as in Mansfield et al. (2002). But we also add some adverse selection problems; namely, the public does not know exactly what type of leader exists and how susceptible he or she is to interest group influence. Consequently, leaders can vary and voters can not only sanction leaders through elections but can also try to select better types, which may be a more robust and feasible strategy (Fearon 1999; Besley and Preston 2007). Adverse selection is more realistic than pure moral hazard since leaders differ in their preferences and competence. Partisanship is one form of difference, as we discuss later.

Here we also address the possibility that interest groups can play a role in advocating protection or trade liberalization through their lobbying over a PTA. While not formally part of our model, we suggest that societies are composed of two sets of interest groups: free trade groups that support PTAs and protectionist groups that oppose them. We do not present a formal model in this book, but other social scientists have developed ones that are similar to our argument showing that voters can constrain leaders and leaders can be left better off as political competition increases. A model that includes such adverse selection along with elections and interest groups is developed by James Snyder and Michael Ting (2008). They show that adding a second interest group with opposing preferences to a society having only a single group can benefit both leaders and voters. Leaders are more likely to get reelected and voters are more likely to get their most preferred policies when a second interest group competes for influence over policy. In our case, PTAs tend to mobilize interest groups that oppose protection, like exporters, importers, and multinational corporations with global production networks (Gilligan 1997; Chase 2005). Negotiating a PTA, then, may activate a countervailing interest group that opposes protectionism and thus allows leaders to choose a policy that is ultimately better for them and for voters, as Snyder and Ting's model suggests. Hence, the argument here is more complex but perhaps more realistic than in our earlier study (Mansfield et al. 2002).

Interest groups are therefore important and do not have uniform preferences. Not all special interests desire protection. Exporters and multinational firms with global trading activities are likely to prefer low trade barriers at home and abroad (Milner 1988 and 1992; Chase 2005; Manger 2009). Indeed, we assume that there are free trade interest groups that oppose protectionist demands and that therefore have preferences closer to the public at large.

Governments tend to prefer higher trade barriers than the median member of the public and some free trade interest groups. These groups do not gain from the rents created by protectionism, as do their political leaders. This tension between members of the public and leaders—with parts of the public attempting to restrain an extractive leader—is centrally important. If the government's ideal level of trade barriers was less than that of the median member of society, the political problem would be different. No longer would the public be concerned with restraining the rent-seeking impulses of its leaders; instead, it would encourage leaders to choose higher trade barriers. If the median member of the public is highly protectionist, and even more so than leaders, the decision to establish trade agreements is itself puzzling. One then has to explain why leaders would negotiate agreements to adopt policies that are opposed not only by many special interest groups (for example, import-competing groups), but also by a majority of the populace. Furthermore, one would have to explain why governments are more likely to sign these agreements in democracies than in autocracies, even though the public dislikes them and democratic governments are more responsive to public interests than their autocratic counterparts.

Some arguments about the establishment of PTAs do focus on the role played by interest groups (Manger 2009). However, the puzzle generated by such arguments is why interest groups pushing for such agreements dominate protectionist groups and why leaders ignore the majority of public opinion. In our theory, the median member of the public and some free trade interest groups induce leaders to contemplate PTAs, while protectionist groups may oppose such efforts. To the extent that protectionist groups are represented by veto players in government, as we discuss later, leaders will pay costs for negotiating trade agreements. Only when the benefits to leaders from the extra political support they derive from the public and free trade interest groups exceeds the costs of this opposition will leaders sign agreements.

Leaders may prefer different levels of protection, based on the weights that they assign to the benefits of rents versus social welfare (Gawande et al. 2009). Promoting social welfare is important to them because it generates political support among the public and free trade interest groups that helps lengthen their stay in office. The public generally cannot be certain what balance between rents and social welfare a government truly desires. It does not know the government's exact preferences; nor does the public know the exact trade policy chosen by the government in the absence of an agreement. There is thus both a moral hazard and an adverse selection problem for the public. The public needs some kind of reassurance about the motives and actions of the government.

The public also has heterogeneous preferences about trade policy: some individuals prefer high levels of protection whereas others prefer freer trade. The median member of the public, who commands the attention of leaders, prefers a positive level of trade barriers but cannot directly control or monitor trade policy. Since trade barriers create rents for interest groups, office-holders may seek to raise barriers beyond the level preferred by the median member of society to extract these rents. The public, which does not gain from these rents and probably loses because of them, does not know the extent of government rent-seeking since citizens do not know their leaders' exact trade preferences or policies. Governments would like to limit the amount of protection they furnish since it hurts the economy in the long run and thus lowers their reelection prospects.

But the government cannot credibly reassure the public that it will not overprotect when such protection is demanded by special interests. As others have noted (Maggi and Rodríguez-Clare 1998 and 2007; Mitra 2002), governments face a time inconsistency problem vis-à-vis interest groups. They would like to be able to resist protectionist demands, but when such demands arise, governments are usually better off giving in to each group that presses for protection. The public and free trade interest groups know this and are harmed by government rent-seeking. They can threaten action to lower the incumbent government's probability of retaining office. But they also face an informational problem. Members of the public may not know the preferences of or the exact trade policy chosen by the government, and thus they cannot distinguish perfectly between adverse exogenous economic shocks and the extractive policies of leaders. An economic downturn could be caused by either highly protectionist policies or an exogenous shock, such as a global recession or an international crisis. Both events, for example, might increase the price that the public pays for goods and services, and thus dampen the public's political support for the government.

Leaders, in turn, would like to find a way to demonstrate to their public that poor economic performance is not the result of their extractive policies, thereby reducing the domestic political costs that they face. While they could choose to unilaterally lower trade barriers, doing so is time inconsistent. Leaders can reduce barriers, but they and the public know that future special interest demands for protection may well be met. So heads of government must find other ways to reassure the public that they will not engage in excessive protectionism.

One way of doing so is by entering into an international trade agreement. An agreement is both a visible commitment to restrict protectionism and an institutional reassurance to convey to the public and free trade interest groups that a relatively open trade policy has been adopted. The agreement commits participating countries to a level of trade barriers below each government's ideal unilateral level and it serves as a monitoring mechanism. Other member-states can use aspects of the trade institution (such as the dispute settlement mechanism included in various trade agreements) to signal to each participating government's society if its trade barriers rise above the agreed upon level. The commercial agreement is public and therefore provides information that society and free trade interest groups can use to more closely monitor their chief executive. As Susanne Lohmann (2003, 100) observes about institutions, including those institutions that shape trade, "[c]reating an institution draws a line in the sand that focuses the expectations of an audience: voters, wage-setters, financial markets, other policy-makers. The line in the sand is a public focal point that allows hundreds, thousands, or even millions of people to coordinate their beliefs about the trigger-punishment strategies that will be executed in the event of an institutional defection." The monitoring that an international trade agreement provides can help political leaders overcome their reassurance problem.

Thus, a government benefits from entering into a trade agreement because its political support should remain relatively robust even when the economy experiences a downturn beyond the leader's control and the government has not violated the agreement. Absent the agreement, the government faces greater difficulty retaining office since it cannot credibly reassure voters and free trade interest groups that the downturn was beyond its control. These political benefits are what help motivate leaders to sign trade agreements.

Examining the Assumptions Underlying the Theory

Our argument raises several important issues concerning interest groups' and the public's knowledge about and attitudes toward trade agreements, the ability of domestic and international groups to monitor trade agreements, and the difference between multilateral and preferential trade agreements. The argument we propose makes assumptions about each of these issues; consequently, it is useful to briefly address why these assumptions are reasonable.

Our argument relies on the median member of the public not being strongly protectionist. We assume that the median member of society does not oppose trade barriers completely, but that she or he also supports trade enough so that leaders want to pursue trade agreements. PTAs rarely eliminate all barriers to trade; more typically they lower many and open the economy with respect to overseas commerce. But does the public desire such exposure to the international economy? Public opinion surveys covering international trade have only recently been conducted outside the United States. The Pew Research Center Global Attitudes Survey examined attitudes toward trade in a large number of countries in 2002, 2007, and 2008.[3] In all of these cases, an overwhelming majority of respondents felt that trade was good for their country. In Africa, data on eleven countries, including the largest—Nigeria and South Africa—show that on average over 80 percent of the public favored trade. In Latin America, eight countries were surveyed and there the results were similar. On average 80 percent of the public supported trade (Pew Research Center 2002). Latinobarometro surveys done in the early 2000s show that attitudes toward free trade agreements were generally positive; on average over 50 percent of the public in most of the countries favored the agreements (Lagos 1996, 2003, 2004, 2006, 2007). In Eastern and Western Europe, surveys show similar levels of public support for trade. In roughly eleven countries in this region in 1988, over 60 percent of the public on average supported free trade compared to trade restrictions (Reif and Melich 1988). Other surveys in the 2000s also demonstrate public support for trade. A variety of Pew polls in 2002, 2003, 2007, and 2008 show that trade is seen as a positive factor for a majority of the public in ten European countries (Pew Research Center 2002, 2003, 2007, 2008). In sum, public opinion polls in Europe, Latin America, and Africa provide support for the claim that the median member of the public views trade favorably, providing some justification for our assumption that the public tends to be more supportive of open trade than of protectionism.

Another claim we make is that some members of the public and certain interest groups are aware of the trade agreements their government has signed and generally view such accords favorably. Public opinion data suggests that, in many countries, there is a public awareness of and a favorable attitude about international trade accords. For example, Afrobarometer (Africa et al. 2003/2004) conducted a survey in 2003–2004 about mass attitudes toward the three main African PTAs: SADC, Economic Community of West African States (ECOWAS), and East African Community (EAC). A large majority of the public in fourteen out of fifteen African countries felt that these trade agreements were beneficial. In addition, a survey conducted in 1995 revealed that 44 percent of U.S. respondents and 74 percent of Canadians respondents had heard quite a bit or a lot about the North American Free Trade Agreement (NAFTA), whereas only 15 percent of the U.S. respondents and 3 percent of the Canadian ones had heard nothing. Equally, 31 percent thought it would benefit the United

[3] They generally asked a question such as "what do you think about the growing trade and business ties between your country and other countries—do you think it is a very good thing, somewhat good, somewhat bad or a very bad thing for our country?" Sometimes they used the phrase greater economic trade and sometimes they asked about the impact on the respondent's family.

States and 22 percent thought it would not; 65 percent of Canadians thought it would benefit Canada and only 32 percent thought otherwise (ISSP Research Group 1995). In Western Europe, the 1995 International Social Survey Programme (ISSP) generated similar findings about public attitudes toward the EU. A large majority of those surveyed had heard quite a bit or a lot about the EU, and most respondents felt that being a member benefited his or her country. Eastern European respondents knew less about the EU than their Western European counterparts, but they too exhibited considerable support for it. The 2003 ISSP indicated that both knowledge about and support for the EU were continuing to increase in Eastern Europe. The 2003 ISSP also indicated that 43 percent of Uruguayan respondents knew quite a lot or a lot about Mercosur, whereas only 13 percent knew nothing. Fully two thirds of the Uruguayan public thought this PTA yielded benefits for the country and 83 percent would vote for it in a referendum (ISSP Research Group 2003). More generally, Latin American survey data shows that large majorities support economic integration there (Lagos 1997, 1998, 2001, 2002, 2005, 2008; Baker 2008). Though this overview of public opinion data can hardly be considered conclusive, it does suggest that there is considerable awareness of and support for various PTAs.

Do the public or interest groups know anything—and can they learn anything—about their government's behavior as a PTA member? Reporting on the behavior of signatories is a key function of many commercial agreements, although it is frequently overlooked. The EU issues public summaries of the extent to which countries are adopting and implementing its directives (Martin 2000, ch. 7). NAFTA's dispute settlement mechanism serves a similar purpose: countries can be publicly accused of violating their international commitments and forced to undergo a long, open process of defending their behavior. Members of society and free trade interest groups do not actually read these documents. Rather they are more likely to hear about complaints regarding their government's violations of a trade agreement than they are to learn about changes in domestic trade policy. Such international accusations of bad behavior are more newsworthy than are unilateral changes in trade policy, as many countries (such as Mexico and Canada during the negotiations over NAFTA) have realized.

Indeed, the institutions set up by trade agreements can help transmit information to domestic groups about governments' behavior about which they would otherwise remain ignorant. The legalized dispute processes, for instance, often associated with international institutions, such as the WTO's DSM, play an important role in transmitting information about the policies of member governments to previously uninformed subnational actors, such as the voting public. Many important U.S. trade policies, like antidumping and countervailing duties, receive very little media coverage until other WTO members choose to challenge them under the WTO's DSM. One recent study shows that a WTO challenge can result in significantly increased media coverage for even the most obscure trade policies. The policy of "zeroing," for example, received virtually no media coverage until it became the subject of a WTO dispute, after which it received much more coverage, even landing on the pages of *The New York Times* and *The Washington Post* (Chaudoin 2012).[4]

Furthermore, it is not just trade institutions that can act as monitors. Xinyuan Dai (2007, 56), for instance, has shown that even weak international institutions tend to produce groups that monitor and help enforce them. As she notes, "export-oriented and import-competing firms are often in a convenient position to detect both the effect and source of noncompliance by trading partner countries. The fact that victims of noncompliance can serve as low cost monitors . . . leads to a particular form of decentralized monitoring: private producers detect noncompliance and their governments bring it to the" dispute settlement mechanism of the trade agreement.

Foreign partners can and do report violations, and domestic groups that benefit from the trade agreement frequently inform the public about deviations from it. Foreign partners have reason to sound an alarm when another country cheats. Often this will induce export-oriented groups at home to further publicize the government's behavior since they do not want the foreign partner to retaliate and jeopardize their access to overseas markets. In 2009, for example, Mexico charged the United States with violating the trucking agreement in NAFTA. Moreover, it sanctioned the United States for this longtime violation by imposing duties on about ninety U.S. products, representing about US$2.4 billion in exports from forty states. Opposition to this protectionist action was strong in the United States as well. As the Economist Intelligence Unit (2011, section 6) reported, "[v]arious sectors of the US business community and entities such as the US Chamber of Commerce want the [Mexican] trucking ban lifted, seeing it as an impediment to free commerce and damaging to US exporters." Export interests in the United States responded by launching a campaign to convince Congress to make the policy adjustments needed to address this violation (Hitt et al. 2009). The affected U.S. groups publicly accused the government of giving in to protectionist demands. As one account reported,

> [b]usiness interests ranging from Pennsylvania-based Hershey Co. to the USA Rice Federation are urging the White House to permit qualified Mexican truckers to drive on U.S. roads. Exporters affected by the tariffs say the government is causing economic damage by catering to unions that are more concerned with protecting jobs than improving safety. "This is the Obama administration trying to appease the Teamsters union without taking into account the effect it's going to have," said John Crossland, chairman of the California Association of Winegrape Growers [one of the affected export groups] (Conkey 2009, A3).

[4] Zeroing refers to a method for calculating antidumping duties; critics claim it tends to overestimate the duty assessed relative to the actual dumping performed.

Pressure by export interests and groups opposing this protectionist measure eventually reduced opposition to its settlement. "DeFazio [Democratic Congressman from Oregon and a major opponent of the Mexican trucking agreement] conceded that the Mexican retaliatory tariffs have convinced some House members who otherwise would have opposed opening up the border to support a trucking solution, since a solution would remove the higher tariffs facing exporters from their districts" (*Inside U.S. Trade* 2011, 5). American public attention was drawn to the protectionist actions of the United States by the NAFTA agreement; the DSM procedure activated export and other free trade interests to lobby the government for a change in the protectionist policy. In March 2011, Presidents Obama and Calderón signed an agreement to end the dispute, opening up the American market to Mexican trucking (Williamson 2011).

Similarly, in 2002 President George W. Bush imposed trade barriers on steel products in contradiction to the WTO agreements. The EU announced this violation and targeted U.S. export interests, which launched a campaign to eliminate these trade barriers. At the time, it was noted that "U.S. trade partners are angrier than Mr. Bush's foreign policy advisers expected. And users of steel are more vociferous than his business advisers anticipated, prompting the administration to carve exceptions to the tariffs" (King Jr. 2002, A1).

In each of these episodes, the U.S. public was informed about deviations from trade agreements as a result of the actions of foreign governments and domestic export groups. In the U.S.-EU steel episode, the EU retaliated against U.S. trade barriers by targeting goods produced in electorally sensitive states for the Bush administration. As *The Wall Street Journal* (Winestock and King Jr. 2002, A2) reported,

> [t]he EU is preparing a list of U.S. imported products valued at $2.1 billion annually that could be hit with heavy tariffs. Among the items on the list: Harley-Davidson motorcycles, Tropicana orange juice, and textiles and steel products. Many of the targeted industries are concentrated in states such as Florida, Wisconsin, Pennsylvania and West Virginia, which Mr. Bush battled for in his narrow election victory in 2000. These states figure prominently in the White House's effort to retain control of the House of Representatives in the fall elections.

Consequently, this trade dispute gained widespread publicity in these states and became the subject of national media attention as well. The loss of public support due to violating a trade agreement can keep leaders from giving in to protectionist demands.

In addition, opposition parties can help to inform the public about the government's behavior. As Kenneth Schultz (2001, 80) points out,

> [s]tudies of public opinion show that people are highly responsive to the cues they receive from elites. . . . Unity of opinion at the elite level tends to generate a similar

> unity at the mass level. As a result when the opposition supports the government . . . , the latter enjoys a certain amount of political cover. . . . On the other hand, when the opposition opposes the government, it tends to polarize public opinion. . . . Thus, if large segments of the electorate are likely to follow the opposition party . . . , this strategy can generate a political payoff for the opposition and increase the political risks for the government.

In countries marked by genuine electoral competition, the opposition usually wants to discredit the government and the incumbent party. One way to do so is by charging that the government has been captured by special interests and has neglected the national interest. In bad economic times, this charge is likely to carry more weight since the government will have difficulty demonstrating that the downturn was not due to its rent-seeking. If, however, the government has signed and abided by a PTA, the opposition's argument will be harder to establish. As a result, the opposition may not advance this claim in the first place. If it does so, the government can respond that its hands were tied through a trade agreement that restricted its ability to protect special interests. Hence, it is not responsible for the adverse economic circumstances and should be reelected.

To voters, this argument by the government should be more convincing than if the government had not signed a PTA or if it signed and then violated a PTA. Without a trade agreement or in the face of one that the government has violated, the opposition's claims may be taken more seriously and the government may pay an electoral price for the economic malaise. In sum, members of the public and free trade interest groups—that is, exporters, importers, or multinational corporations—can learn about their government's behavior from the country's trading partners or trade institutions. International accusations of bad behavior are more newsworthy than unilateral changes in trade policy, and hence international trade agreements can provide greater reassurance than do politician's promises made solely in the context of domestic policy.

Our argument also emphasizes how international agreements can help leaders reduce the potential for lost political support by reassuring the public in advance about their intentions. But does society care about whether its government has signed and abided by PTAs? Publicly exposed cheating on trade agreements can generate domestic "audience costs" for political leaders, increasing the penalties they face for violating the accord (Fearon 1994; Lohmann 2003; Tomz 2007). This cost helps create a credible commitment. Recent public opinion research, for example, suggests that voters value trade agreements and believe they are needed to support an open trading system, implying that leaders may pay a political price for violating the rules of such institutions (Hermann et al. 2001).

Further, Fiona McGillivray and Alastair Smith (2008) show that the public wants the government to target leaders of countries that cheat on international agreements, and that being named as a cheater has negative consequences for a country's leader. Such domestic punishment for cheating may deter it from engaging in such actions in the first place. Furthermore, the costs associated with cheating tend to be higher in democracies than in other regimes because the political survival of democratic leaders hinges on the outcome of competitive elections. Hence, democratic governments are at a greater disadvantage if they violate an international agreement. International economic cooperation can help democratic governments boost their chances of reelection, thereby providing a strong inducement for them to pursue PTAs.

Finally, it is useful to consider why leaders would choose a PTA rather than—or in addition to, as is usually the case now—joining the multilateral trade regime. Membership in the GATT/WTO may well provide a credible commitment mechanism for some countries (Maggi 1999). For many countries, however, it is much less likely to do so. One reason is that PTAs are often more binding agreements than the GATT/WTO. Most developing countries in the multilateral regime have had very high bound tariffs or have often been subject to special and differential treatment that allowed them to continue protecting their economies (Michalopoulos 2000; Özden and Reinhardt 2005). Many developing countries thus do not participate fully in the reciprocity that is central to the GATT/WTO.[5] In contrast, in most PTAs developing countries have to bargain for reciprocal trade barrier reductions. In all of the PTAs that we analyze, reciprocity is a defining feature. Consequently, for many of them, PTAs impose more stringent trade barrier reductions than the WTO. Furthermore, in many PTAs the difference between bound and applied tariff rates is much smaller than in the WTO (Hale 2009). This implies that countries often face greater constraints over their trade policy in PTAs than they do in the WTO setting.

A second reason is that PTAs are often better monitored and enforced than the WTO, especially with respect to the activities of smaller trading states. PTAs are frequently signed with one's neighbors or one's major trading partners and these countries have strong incentives to monitor the agreement.[6]

[5] As Michalopoulos (2000, 3–4) notes,

> [t]oday developing countries probably account for over two thirds of the 135 Members of the World Trade Organization; and the WTO agreements contain a very extensive set of provisions addressing the rights and obligations of developing and least developed countries. . . . Developing countries sought to emphasise the uniqueness of their development problems and challenges and the need to be treated differently and more favourably in the GATT, in part by being permitted not to liberalise their own trade and in part by being extended preferential access to developed country markets.

[6] In our empirical analysis, we show that trade agreements are more likely to arise between relative equals than between pairs of countries marked by highly asymmetric power relations. This again suggests that monitoring and enforcement might be more likely within PTAs since relatively equal partners can more credibly threaten to punish one another.

This local monitoring may be more effective than multilateral monitoring for these countries. In sum, for the largest trading countries in the world, the WTO may function as a strong credible commitment device and one that restrains terms-of-trade competition. But for many states it may help their leaders less than a PTA.

In this section, we have explored several key assumptions in our argument. Our goal has been to increase confidence in the argument by providing evidence that these assumptions are reasonable, although it is important to recognize that they need not be completely realistic to be useful (Friedman 1953). Our argument suggests that international cooperation can help political leaders increase their chances of remaining in power, thereby providing a strong reason for them to pursue such agreements. By making an agreement, the executive trades some of her policy-setting discretion for the greater certainty that she will remain in office. The leader may benefit from the agreement because it reassures the public and reduces the prospects of being punished by voters and free trade interest groups, especially when economic downturns occur. These political benefits induce leaders to sign PTAs.

An Alternative Argument about PTAs and Domestic Politics: The Role of Interest Groups

To better understand our claims, it is useful to describe the main alternative argument about how domestic politics shapes the decision to enter PTAs. In general, research on the domestic political sources of these international agreements has been scant. In contrast to our focus, however, most extant research cast at the domestic level of analysis has centered on the effects of interest groups. In this view, the gains that certain interest groups expect from a trade agreement are the motivation for the agreement itself. These domestic groups pressure the government to realize the international accord in order to advance their interests.

Some of the earliest work in this vein was conducted by neofunctionalists (Deutsch et al. 1957; Haas 1958; Nye 1971). They saw the development of economic relations among countries as creating groups that gained from further ties, and thus the creation of pressure groups that pushed their governments to pursue further economic integration. As Joseph Nye (1988, 239) points out, "[w]hat these studies had in common was a focus on the ways in which increased transactions and contacts changed attitudes and transnational coalition opportunities, and the ways in which institutions helped to foster such interaction." Lately, there has been a revival of interest in neofunctionalism; some of that scholarship addresses whether PTAs form among countries with extensive economic ties as an institutional means to ensure that these ties will not be disrupted in the future (Sandholtz and Stone-Sweet 1998; Stone-Sweet et al. 2001).

These studies, many of which center on the EU, emphasize that domestic social groups that gain from a trade agreement constitute the main source of demand for economic integration agreements.

Most of the contemporary research on interest groups and PTAs, however, is not neofunctionalist. Instead, various studies have analyzed the incentives for different industries to lobby for or against the establishment of these arrangements. Andrew Moravcsik (1998, 473), for example, concludes that

> the most persistent and powerful source of varying national preferences concerning [European] integration over the past four decades has been economic, in particular commercial, interests . . . which locates the source of European integration in the explosion of world trade after World War II. In response . . . , governments tended to be heavily influenced by the commercial interests of domestic producer groups, interests that reflected respective positions in the global market.

Some interest groups have an incentive to press for trade agreements, and preferential ones often generate greater benefits for these groups than a multilateral one.

As we noted earlier, PTAs discriminate against third parties. Industries that could ward off competitors located in nonmember countries, if they were covered by a PTA, have an obvious reason to press for its establishment. So do export-oriented sectors that would benefit from preferential access to overseas markets. Michael Gilligan (1997), for instance, argues that export-oriented firms have a strong incentive to lobby for reciprocal trade agreements because they will realize the lion's share of the benefits stemming from reciprocal (but not unilateral or multilateral) trade liberalization. In the same vein, Helen Milner (1997b) and Kerry Chase (2003 and 2005) claim that exporters are particularly likely to support the formation of PTAs if they operate in industries characterized by economies of scale, since PTAs will both protect them from foreign competition and offer them access to a larger market, thereby allowing them to realize significant reductions in per-unit production costs. A number of scholars further attribute interest in PTAs to the pressure of multinational corporations, which have global trading and production networks that induce them to seek to protect their networks through PTAs (Solis 2003; Manger 2005 and 2009). These studies thus identify large, multinational firms in the major trading countries as a prime source of political pressure for PTAs. Demands by these types of actors should be a primary force for initiating a trade agreement.

Another set of studies on the role of interest groups has argued that the redistributive effects of PTAs within countries are likely to influence the political support for and opposition to these arrangements. Public officials must strike a balance between promoting a country's aggregate economic welfare and accommodating interest groups whose support is needed to retain office. Gene Grossman and Elhanan Helpman (1995) argue that whether a country chooses to enter a PTA is determined by how much influence different interest groups exert and how much the government is concerned about the median voter's welfare. They demonstrate that the political viability of a PTA often depends on the amount of discrimination it yields. Agreements that are trade diverting will benefit special interests, while creating costs borne by the populace at large. If these groups have more political clout than other segments of society, then a PTA that is trade diverting stands a better chance of being established than one that is trade creating.

In the same vein, Pravin Krishna (1998) shows that governments are more likely to form preferential arrangements if they are trade diverting, since such arrangements create rents for interest groups that have considerable political clout.[7] As noted above, Maggi and Rodríguez-Clare (1998 and 2007) have developed models of trade agreements, including PTAs, which emphasize the role of interest groups. In these models, the government extends trade protection to industries in exchange for their political contributions and support. Finally, Etel Solingen (2008) argues that the origins of PTAs are sometimes best explained by the nature and preferences of the dominant internal coalitions in member-states. Both economists and political scientists then have identified interest groups as a major impetus for international trade agreements, especially preferential ones.

In these studies, the gains that some interest groups expect from such agreements motivate them to lobby governments to pursue PTA membership. The more that the agreement diverts trade, the more of these gains they can capture. Hence, if PTAs are driven by interest groups, they are likely to be trade diverting and to degrade the economic welfare of both the country itself and the rest of the world. Governments nonetheless supply such agreements because of the political contributions and support they can generate from these interest groups, which can compensate for any loss they suffer from the adverse impact of trade diversion. As a recent review of the regional trade agreement (RTA) literature points out, "[i]f governments were simply interested in national welfare in their countries, there would be no reason for concern: Only trade-creating, welfare-improving RTAs would come into force. But governments also have other motivations and are in particular influenced by special interest groups. . . . Governments influenced by special interest groups will seek primarily trade-diverting RTAs" (Freund and Ornelas 2010, 142).

Thus, if interest group arguments are correct, PTAs should be largely trade diverting. But the empirical literature strongly suggests that "trade diversion is not a major concern, although in some agreements and sectors it may matter"

[7] Ornelas (2005, 1476–77), however, concludes that "[a]nticipating these effects, and recognizing that lower rents imply lower contributions, a politically motivated government will adopt only FTAs that raise national welfare enough to compensate for the lower rents—that is, those that are sufficiently trade-creating." Richardson (1994) and Bagwell and Staiger (1999) also argue that FTAs tend to weaken protectionist pressure groups in member-states.

(Freund and Ornelas 2010, 144). The bulk of empirical evidence is therefore inconsistent with the thrust of interest group arguments about PTAs. Indeed, Baier and Bergstrand (2004 and 2007) show that trade creation is the modal outcome of these agreements and that states form PTAs when there are gains to be realized from trade liberalization. Our argument suggests not only which governments are likely to enter trade agreements, but also why they might prefer to join trade-creating arrangements.

Although interest groups can play a role in shaping PTAs, they are not the focus of our study for three reasons. First, because trade policy has distributional consequences, certain domestic coalitions will favor freer trade and others will favor protectionism (Rogowski 1987 and 1989; Milner 1988; Hiscox 2002). The composition and power of these distributional coalitions differ across countries, since states vary with respect to their comparative advantage and factor endowments. In a cross-national context, however, it is extremely hard to determine how to identify and empirically specify the structure of interest groups in each country. There are no existing measures that delineate the distribution of interest groups across countries or over time.

Second, as we explained in chapter 1 and as we discuss in greater detail below, one of our central arguments concerns the effects of veto players on PTA formation. Like many existing studies of veto players, we assume that interest groups affect trade policy indirectly. On the one hand, these groups shape the preferences of the executive, since he or she worries about retaining office and thus requires their support. The executive negotiates with interest groups over the choice of whether to proceed with a PTA and over its terms prior to engaging in international negotiations. Thus, the executive's position already reflects the influence of those interest groups that are important to the executive.

In addition, interest groups affect policy indirectly through their influence on the preferences of veto players. Trade policy creates distributional winners and losers, and thus generates incentives for interest groups to organize and press for their policy preferences. One way these pressures become manifest is through political parties and their platforms. There is a long tradition of associating parties with the trade policy preferences of different interest groups (Rogowski 1989; Milner and Judkins 2004). Preferences over trade policy often structure political cleavages that are represented in party systems. Hence, we expect interest groups to operate through parties, and leaders of such parties constitute the executive and legislature. In our model of veto players, the structure of the legislature and its partisan composition are key elements. We therefore indirectly account for interest groups through their impact on the preferences of the chief executive and political parties.

Third, arguments about the effects of interest groups on trade agreements suggest that these groups—and not the government—are the primary drivers of PTAs. But it is not clear that interest groups play much of a role in the decision to form a PTA. In fact, heads of government often decide to enter a PTA, regardless of interest group preferences. Consider the situation Napoleon III faced on the eve of the 1860 Anglo-French commercial arrangement. Anxious to liberalize trade with Great Britain, he encountered a French legislature and various salient domestic groups that were highly protectionist. But while the legislature had considerable control over unilateral trade policy, the Constitution of 1851 permitted the emperor to sign international treaties without this body's approval. Napoleon therefore was able to skirt well-organized protectionist interests by concluding a PTA (Kindleberger 1975, 39–40; Irwin 1993, 96). Moreover, this is not an isolated case. Douglas Irwin (1993, 116 fn. 7) notes that, during this era, "[c]ommercial agreements in the form of foreign treaties proved useful in circumventing protectionist interests in the legislature throughout Europe." It is the decision of leaders to enter these agreements that often needs explanation, and this is the focus of our argument.

Similarly, governments that propose a program of liberal economic reforms and encounter (or expect to encounter) domestic opposition may enter a PTA to bind themselves to these changes (Summers 1991; de Melo et al. 1993; Haggard 1997; Whalley 1998). Mexico's decision to enter NAFTA, for example, is frequently discussed in such terms (Tornell and Esquivel 1997, 54; Whalley 1998, 71–72). For a state that is interested in making liberal economic reforms, the attractiveness of locking in such changes through an external mechanism, like joining a PTA, is likely to grow if influential segments of society oppose reforms and if domestic institutions render policy makers especially susceptible to societal pressures. Our model of domestic politics builds on this idea of domestic "lock in," but it elaborates some conditions under which these agreements are politically profitable for the government.

These claims form the main alternative domestic political argument about PTAs. The domestic interest group argument cannot be directly examined in our quantitative analysis. But we do consider some of its implications in our short case studies below. And, as we noted, we do take interest groups into account indirectly through our analysis of veto players.

Regime Type, Domestic Political Costs, and PTAs

Our argument helps to explain why leaders might want to enter PTAs. But the domestic political costs and benefits that we emphasize are difficult to measure and test directly. Therefore, we develop a testable hypothesis about the conditions under which these costs and benefits are more likely to arise, influencing the incentives for joining a PTA.

The extent of the domestic political costs generated by a leader's inability to resist engaging in excessive rent-seeking varies according to a country's regime type. While autocracies have difficulty reassuring the public about their intentions, there is less need for them to do so since they are not regularly confronted by voters and interest groups who can easily remove them from office. Democratic leaders, by contrast, are confronted with more substantial reassurance problems. Domestic political competition can generate political costs that leaders seek to mitigate through international cooperation, including PTAs.

Our analysis of regime type emphasizes the role of elections. It shows how international cooperation in trade is affected by the control that the public and interest groups exert over political leaders, a factor that varies in important ways between democracies and autocracies. Fundamental to all democracies is the regular occurrence of fair and competitive elections (Dahl 1971, 1–5; Schumpeter 1976 [1942], 269). As G. Bingham Powell (2000, 4) observes, "[t]here is a widespread consensus that the presence of competitive elections, more than any other feature, identifies a contemporary nation-state as a democratic political system." Schumpeter (1976 [1942]) points out that such elections vest the public with control over government leaders that is absent in nondemocratic polities. Free and fair elections have the greatest influence on the behavior of democratic leaders if the public and interest groups care about the policy choices made by leaders.

Both democracies and autocracies can and do hold elections (e.g., Gandhi and Przeworski 2007). What differs across regimes is the degree to which these contests affect the executive's fate. The more democratic a country, the more important elections are in determining whether the incumbent leader retains office. If the election's outcome is binding on the executive, the regime is democratic. If, on the other hand, the executive retains office irrespective of the voters' decision, the regime is autocratic. We expect a continuum of possibilities for the role of elections and hence for the type of regime: the degree to which the election controls the fate of the executive ranges from low to high. We therefore view regime type as a continuous variable that depends on the competitiveness of the electoral system.

Differences in the degree of electoral competition in political systems affect the optimal foreign economic strategy of political leaders. Some international trade agreements stem from the economic gains that leaders expect to derive from cooperation. Equally important but far more poorly understood, however, are the *political gains* that motivate leaders to cooperate on trade. The degree of electoral competition affects leaders' domestic political incentives. As the fate of a government becomes more dependent on free and fair elections, its leaders derive increasing gains from PTAs, prompting public officials to engage in greater cooperation with other countries on commercial issues. Hence, the probability of a country concluding a trade agreement rises as its domestic institutions grow more democratic. In our analysis, the greater electoral constraints faced by democratic heads of government influences them to be more cooperative internationally than their nondemocratic counterparts. The reassurance that PTAs provide to societal groups in democracies helps alleviate the concern that some voters and free trade interest groups have about governments yielding too much to protectionist demands.

PTAs can help both governments and voters. Trade agreements can convey information to voters and free trade interest groups about the nature and activities of leaders; and such information can increase political support for leaders, helping them retain office. Governments generally want to remain in power. In countries marked by genuine electoral competition, they will be highly motivated to take actions that maintain or increase their political support. But governments face a time inconsistency problem. They would prefer to resist protectionist demands, but when these arise they are usually better off giving in to each group that requests protection. Voters and free trade interest groups know this and are harmed by excessive government rent-seeking. They, in turn, can threaten action to lower the incumbent's probability of retaining office. That is, they can threaten to sanction incumbents and to select new leaders.

But voters and free trade interest groups also face an informational problem. They may not know the preferences of or the exact trade policy chosen by the government, thereby hampering their ability to distinguish between adverse exogenous economic shocks and the extractive policies of leaders. An economic downturn could be caused or exacerbated by highly protectionist policies or by an exogenous shock such as a global recession or economic crisis. Both events, for example, might increase the price that the public pays for goods and services, and thus dampen the public's support for the government.

In a democracy, voters may, as a result of this informational problem, reduce their support for the incumbent leader during economic downturns, even if that leader has not engaged in excessive rent-seeking. This prospect creates a cost for the government. Voters may turn against the government even though it did not cave in to protectionist interests, and there is little way for the government to change voters' behavior. That is, the median voter may decide to punish the incumbent and support the challenger in response to bad economic times. Voters may not know much about trade policy, but they do know something about overall economic conditions. The public may not display much interest in or knowledge of policy issues, but economic performance is typically of great concern (e.g., Fiorina 1981; Kiewiet 1983; Lewis-Beck 1988; Fair 2009). When the economy sours, voters will be more likely to reject incumbents and this is the dynamic upon which our argument relies. Voters take many factors into consideration, but the state of the economy is an important criterion, as leaders recognize (Kramer 1971; Fair 1978; Fiorina 1981; Ferejohn 1986).[8]

Leaders would like to find a way to indicate that poor economic performance is not the result of their extractive policies, thereby reducing the likelihood that

[8] Fair (2009) shows that the economy influences both presidential and legislative elections; the economic factors he concentrates on are the growth rate and inflation rate. Trade policy can affect both of these aggregates; protectionism may slow growth and increase inflation.

they will lose power.[9] While they could choose to unilaterally lower trade barriers, this choice is time inconsistent. Entering into a trade agreement with another country, however, may provide a means to convince skeptical publics and interest groups, especially in democracies. An agreement represents a commitment to maintain a relatively open trade regime and is a device to reassure voters and free trade interest groups that a relatively liberal trade policy has been adopted. The public gains from lower levels of protection and from the reassurance and monitoring that the agreement provides. Leaders gain from the greater political support they may command with an agreement because of its monitoring and reassurance vis-à-vis domestic groups.

Of course, in democracies the public has many sources of information. On the one hand, it is possible that the public may not need a PTA to furnish information about the behavior of governments. On the other hand, however, these additional sources of information may not be terribly relevant for international issues like trade. The public is likely to derive more reassurance from an international agreement than from the information provided by domestic sources since many such sources are linked to the groups desiring protection and hence are biased in one way or another. PTAs could also furnish biased information, but this strikes us as less likely to occur. Moreover, any bias displayed by a PTA is likely to be different from that displayed by domestic sources, which creates an incentive for the public to pay attention to both types of information.

It is important to recognize that we are not arguing that democratic leaders have a greater preference for free trade than leaders in other regimes. Instead, democratic leaders are more likely to join PTAs than other governments because electoral competition creates an incentive for them to do so. PTAs solve an informational problem that hurts the head of government. Participating in a trade agreement reassures the public and interest groups favoring trade that executives will refrain from overprotecting special interests and thereby enhances the leader's political support.

Autocrats, however, do not face this cost. In general, they are less vulnerable to special interest pressures than democratic leaders. Even in cases where they are susceptible to such pressure, the public cannot sanction autocrats in the same way that they can punish democratic leaders. Furthermore, it is less likely that the public in an autocracy understands whether the government has signed and is abiding by an agreement, since autocracies lack many of the institutions—such as a free press and robust opposition parties—that provide information to the public in democracies. Because autocrats have less reason to worry about reelection, there is less need for them to solve this informational

[9] Even if the public's preferences for protection rise in bad economic times, our results still hold. As long as the median voter is slightly less protectionist than the executive, the public will still be concerned about the executive relinquishing too much to protectionist demands (Mansfield et al. 2002).

problem by concluding commercial agreements. With little electoral competition, autocrats are less likely to be removed from office than democratic leaders and do not have to worry as much about how economic conditions are going to affect their survival. They thus have fewer incentives to commit their country to a lower level of trade barriers in exchange for the informational advantages that an agreement could bring them. As McGillivray and Smith (2008, 54) point out,

> [w]hen the cost of replacing leaders is high [as in an autocracy], the citizens do not replace leaders in poor [international] standing. . . . When the cost of replacing leaders is low [as in a democracy], citizens replace leaders who are caught cheating [on international agreements]. By doing so, citizens ensure continued cooperation. . . . This desire to avoid cheating allows leaders to commit to maintain a level of commitment that the citizens themselves could not maintain.

Violating an international agreement does not carry the same costs for an autocrat as it does for a democratic government. Hence, it provides less reassurance.

Although we expect democratic leaders to enter PTAs at a more rapid clip than autocracies, it is clear that the latter regimes sometimes sign trade agreements. Our model does not bear directly on why autocracies do so, but it suggests that the extent of political competition within these states might affect their likelihood of joining a PTA. Furthermore, it suggests that autocracies are generally less likely to sign these agreements for domestic political reasons than are democracies. Instead, autocrats may be driven more by factors such as economic benefits of PTA membership or international political advantages. Moreover, the PTAs that autocracies enter are likely to aim for more shallow integration, with less trade barrier reduction. Finally, such PTAs might also be much more likely to fail (due to cheating) since autocracies would not pay as great a domestic political price for their collapse as would a democracy. Our model therefore generates some expectations about why autocracies might sign trade agreements; and especially some expectations about how they would differ from those signed by democracies. We elaborate on these later in this chapter and test some of these ideas in chapter 5.

Two Cases of Democracy and PTA Formation: SADC and Mercosur

Below we present two brief case studies of PTAs from different parts of the world that illustrate our argument. In both cases, the preferential grouping was established in the wake of a democratic transition in at least one member-state. In both cases, the decision to enter the grouping was made by political leaders who faced little interest group pressure, but substantial concerns about elections and political competition. We also present some evidence that the public had knowledge of the PTAs and had a positive opinion of them, suggesting that trade agreements might be a popular tool for political leaders.

South Africa and the SADC

South Africa's decision to join the SADC illustrates our argument about how democracy promotes PTA membership. It also shows the differences between our argument about domestic politics and those that rely more heavily on interest groups. Between 1990 and 1994, South Africa underwent a democratic transition as apartheid ended and the African National Congress (ANC), the main anti-apartheid party, competed in its first elections. As we describe in chapters 3, 4, and 5, we rely primarily on the Polity Project's 21-point index of regime type in this book, which ranges from 1 for the most autocratic countries to 21 for the most democratic states (Marshall and Jaggers 2005). South Africa's score rose gradually from 15 in 1989 to a high of 20 in 1994 and beyond. While it held competitive elections before 1994, the franchise and political rights were restricted to the white minority. Democratization in South Africa led to a widening of the franchise and extension of political rights to the entire population.

The SADC is one of the most important PTAs in the developing world. It is composed of a diverse group of fifteen countries with a total of more than 200 million inhabitants. Intraregional trade as a percent of total trade more than doubled during the 1990s for SADC countries, reaching 20 percent in 1997; and South Africa was the major beneficiary of this growth (De la Rocha 2003, 7). For South Africa, which is by far the biggest SADC member, foreign trade accounted for about 50 percent of its gross domestic product (GDP) by the turn of the twenty-first century. The formation of a PTA that promoted trade in the region was therefore in South Africa's interests.

Many observers have noted that this democratic transition was necessary for the South African government to join SADC, as well as a revised Southern African Customs Union (SACU)[10] and the African Economic Community (AEC) (e.g., Hentz 2005, 31; Gibb 2007). As Adam Habib and Vishnu Padayachee (2000, 245) mention, South Africa's democratic transition thrust new groups onto the political stage, which created "the possibility for significant changes in the economic policies." The South African government joined SADC in 1994, soon after its inaugural democratic election. In August 1996, SADC members approved a free trade area, which entered into force in 2000.[11] Democratization

[10] While the original SACU was signed many years earlier (1910), it was essentially a nonmutual PTA until recently, when it was renegotiated. "Post-apartheid South Africa prioritised 'democratisation', both domestically and throughout Africa, and the new 2004 SACU Agreement reflects this fundamental re-orientation of policy in South Africa. The 1910 and 1969 SACU Agreements were profoundly undemocratic, enabling Pretoria to determine tariffs and excise rates unilaterally for the whole SACU region" (Gibb 2007, 429–30). It signed the AEC agreement in 1997 and finally ratified it in 2001.

[11] South Africa ratified the FTA in 1999 and began implementing the FTA agreement in 2000. After a nearly ten-year phase-in, the full FTA was launched in 2008. Further moves include the establishment of a customs union by 2010, a common market by 2015, a monetary union by 2016, and a single currency and regional central bank by 2018 (SADC Barometer 2003). One reason for the delay between signing and ratification was due to domestic politics in South Africa. The

was an impetus for the ANC government to join this and a number of other PTAs, significantly lowering its trade barriers.[12]

Why, however, was the new ANC government interested in joining these PTAs? The new ANC government was the prime mover in the trade negotiations. Interest groups, largely because they were associated with the previous apartheid regime, were of little influence in this case. The decision to join was linked to an overall economic policy strategy that the ANC government decided upon.

Domestic political factors were especially important. This government faced a novel set of constraints and problems after the 1994 elections. It confronted a set of social actors who had been newly empowered by democracy and the elections. Even though it was elected by a large margin, fissures within the ANC and competition between it and other groups led to heightened political competition within South Africa. Further, the ANC faced the possibility that bad economic times could reduce or even eliminate its majority, especially if such circumstances split the ANC and precipitated the formation of a new party.

The end of apartheid resulted in the incorporation of the black population into the political system, extending them the franchise and political rights. The long struggle to end apartheid had consolidated black political support behind one party, the ANC, which represented a very broad and diverse set of interests. During the first years after apartheid, the ANC aimed to remain unified and prevent splinter parties from forming. The government won elections handily in the 1990s (and beyond) and it faced limited competition from the parties representing white voters. Its main source of political competition was internal. Differences in economic policy preferences among its various constituent groups were a central concern for the party, especially at the time of the first election in 1994. As one commentator noted at the time, "[e]conomic policy has the potential to split the ANC and to place great strain on its alliance with

---

clothing and textile industries, which opposed the SADC PTA, were influential veto players in South Africa's debate over ratification of the Protocol (Hentz 2005, 35). The unions and businesses in South Africa had two worries. The first was that eliminating tariffs within the SADC while allowing external tariffs to vary across SADC members would mean that the products of non-SADC members would enter the arrangement through the SADC country with the lowest external tariff (Sharpe 1998). A second concern was that the free trade area would lead to job losses in South Africa (Dludlu 1999), especially as businesses moved to the Southern African countries with the lowest labor costs (Hentz 2008, 505). In response to these concerns and with the help of the clothing and textile industries (Hentz 2005, 506), the South African government had to insert more protection of the clothing and textile industries into the SADC agreement, especially in the rules of origin. This also illustrates our argument about domestic veto players.

[12] "Between 1990–96, the average economy-wide tariff fell from 28 to 10 per cent, while the average manufacturing tariff dropped was reduced from 30 to 16 per cent. . . . The maximum tariff rate was cut to 61 per cent (40 per cent if 'sensitive' industries are excluded), the number of tariff lines was cut by a third, and the number of separate tariff 'bands' or rates cut from 200 to 49" (Lewis 2002, 347).

the South African Communist Party (SACP) and the Congress of South African Trade Unions (COSATU)" (Nattrass 1994, 343).

Left-wing factions in the ANC wanted nationalization of much of the economy combined with a vast redistribution of wealth. Parts of the ANC's left wing also advocated protectionism as a way to restructure the economy and pursue a state-run industrial policy, especially in the nationalized sector. But centrists in the ANC opposed this tack, viewing it as a costly tax on consumers who were mainly the poor black voters making up the ANC's chief constituency (Nattrass 1994, 354). This faction advocated reducing trade barriers as a way to prevent "the exploitation of South African consumers" (Nattrass 1994, 354–55). Centrists in the ANC also proposed liberalizing trade and forming PTAs due to their concerns over political competition within the party and a desire to maintain power. The centrists worried "that over-rapid redistribution would guarantee economic collapse, and thus guarantee also an ANC government forfeiting chances of re-election. [Thus,] over the course of 1991, the ANC's national leadership started projecting more moderate, business-friendly policies," including trade liberalization (Nattrass 1994, 351). By 1996, it unveiled the "Growth, Employment, and Redistribution" (GEAR) program, "a neo-liberal strategy designed to make South Africa a destination for foreign investment and a competitive global trading state" (Tieku 2004, 253). Crucial to this program was the belief that economic growth and stability would be needed to promote political and social stability (Evans 1999, 627). Economic liberalization would be necessary for political reasons and trade liberalization, including the formation of PTAs, was part of this larger strategy.

Throughout the 1990s, South Africa signed a series of PTAs, including SADC in 1994 and the AEC in 1997. It also joined the GATT/WTO. SADC committed South Africa to trade barrier reductions. It was opposed by big business in South Africa, especially by the textile, apparel, footwear, and furniture industries that were likely to face import competition as a result of such reductions (Hentz 2005, 43). Lowering trade barriers in industries without comparative advantage would mean more import competition. The ANC, however, had little political incentive to protect big business. Nor was it interested in protecting low skill industries.

On the contrary, the ANC leadership was committed to opening up these sectors. As David Lewis, Kabelo Reed, and Ethel Teljeur (2004, 160) point out,

> [t]here is a certain common irony in the ANC's support for trade reform and competition policy. Both derive strongly from the ANC's anti-capitalist roots, or, at least, from its distance from domestic business interests. The relatively easy passage through the ANC and, particularly, its union allies, of trade reform has much to do with the exclusion of the ANC from the ranks of national capital, combined with the strongly held view that tariff protection amounted to little more than a feeding trough for white-owned business.

Interest groups then seem to have played little role in the ANC government's decision to join SADC. Instead, this decision was part of a political strategy for the government.

The ANC's strategy of lowering trade barriers by signing the SADC had at least some roots in South Africa's domestic political conditions. The government needed to reassure parts of the public about its support for trade liberalization to help stimulate economic growth and hence promote political support. It needed to demonstrate that it was not the handmaiden of protectionist interests and would not sacrifice the general welfare to special interests. Reinventing South Africa as a "global trading state" was the ANC government's goal for a set of domestic and international reasons (Evans 1999, 627). By signing the PTA, it avoided potential costs associated with the public's suspicion of its economic policies. The ANC government knew that the costs of reneging on a liberal trade policy would be much higher with an international agreement in place.

Further, the government recognized that industries in partner countries would be all too ready to monitor and complain about any violations of the agreement by South African businesses. South Africa is the economic leader in southern Africa; its gross domestic product is nine times larger than the other southern African nations combined (Lewis et al. 1999, 4).[13] It has also run large trade surpluses with its southern African neighbors. As a result, South Africa's partners in trade agreements are very sensitive to its dominance and to any sign that it is not living up to its obligations (Hentz 2005).

To address this concern, the agreement set up various institutions designed to monitor trade policy. The SADC Tribunal, for instance, hears disputes among the member-states, and the SADC Trade, Industry, and Investment Review provides annual audits of members' trade policies as well as other aspects of the agreement.[14] During the phase-in to the SADC FTA, a new mechanism of monitoring was set up to allow private sector groups to join the monitoring process.[15]

[13] "In 2003 approximately 90 per cent of SACU's GNP was produced in South Africa. The corresponding figures for SADC and COMESA are 66 per cent and 61 per cent, respectively. South Africa's real GNP is approximately three times larger than the combined GNP of the other 13 SADC states and in 2004 South Africa accounted for approximately 25 per cent of total African GNP" (Gibb 2007, 431–32).

[14] "Annexe [sic] VI of the SADC Trade Protocol provides for a trade dispute settlement mechanism, thereby underscoring and enforcing the point that it is a rules-based regional trading system" (SADC Barometer 2003, 10).

[15] "To monitor the implementation of the FTA, a Trade Monitoring and Compliance Mechanism has been set up by SADC. This body will ensure that SADC member states implement agreed programmes and provide a facility for resolving problems on a day-to-day basis. Its effectiveness, says SADC, depends on the full and active participation of the business community, which must take the lead in identifying problems related to cross-border trade." See Erasmus (2008) available at http://www.mediaclubsouthafrica.com/index.php?option=com_content&view=article&id=633:sadc-free-trade-area-180808&catid=45:economy_news&Itemid=55. (Last accessed July 27, 2011.)

Membership in the SADC helped solve an informational problem for the newly democratic South African government by helping reassure the public that its policies would promote the general welfare rather than enriching special interests pleading for protection. Data on public attitudes toward the SADC in South Africa also provides some support for this claim. The *Afrobarometer: Round II Survey of South Africa* in 2002 shows that about 50 percent of the public had heard of SADC. Of those individuals who had heard of SADC, close to 70 percent thought it was performing well.[16] As one discussion of SADC observes, PTAs like this one "can help address concerns over policy credibility by locking in domestically implemented trade liberalization and functioning as an agency of restraint" (Khandelwal 2003, 19).

Clearly, there are various reasons why South Africa opted to enter the SADC. Some of these owe little to domestic politics, including an interest in rewarding its regional neighbors for supporting the ANC when it was in exile during apartheid, attempting to stem the flow of illegal labor from these countries to South Africa, and its interest in bolstering its power base in the region.[17] Nonetheless, the South African case also illustrates how political competition in a democracy can induce governments to adopt PTAs that reassure their publics about their intentions and thus help them gain public support.

Argentina and Brazil in Mercosur

Argentina's and Brazil's decision to create Mercosur (i.e., the Common Market of the Southern Cone) in combination with Uruguay and Paraguay further illustrates our argument about the effects of democracy on PTA membership. Launched in 1991, Mercosur is one of the most robust PTAs in the developing world. Exports among Mercosur's member-states rose dramatically during the first years of the agreement, from US$4.1 billion in 1990 to US$20.4 billion in 1998. Additionally, intra-Mercosur trade as a percentage of members' total trade increased from 8.3 percent in 1989 to 23.7 percent in 1997 (Kaltenthaler and Mora 2002, 91). The agreement also contributed to domestic political stability in the countries involved, as we explain below.

Mercosur was formed on the heels of transitions to democracy in Argentina (1983) and Brazil (1985), following several decades of authoritarian rule in both countries (Vanden and Prevost 2002, 374–76 and 407). Based on the Polity Project's 21-point index of regime type that we discuss further in chapters 3, 4, and 5 (Marshall and Jaggers 2005), Argentina's score rose from 3 to 19 in

[16] *Afrobarometer: Round II Survey of South Africa*, 2002. The question was: "Giving marks out of ten, where 0 is very badly and 10 is very well, how well do you think the following institutions do their jobs? Or haven't you heard enough about the institution to have an opinion? Southern African Development Community (SADC)." Of the total respondents, about 35 percent responded at 5 or above.

[17] We are grateful to B. Peter Rosendorff for this point.

1983, and Brazil's score increased from 8 to 18 in 1985, indicative of a clear shift to democracy in both countries. These regime changes were essential for the formation of Mercosur. Political leaders in Brazil and Argentina saw the trade agreement as part of an economic strategy that would help them politically. They initiated the agreement with little input from interest groups and with substantial concern for their domestic political situations.

The idea of forming a PTA in the Southern Cone was hatched by Argentina's and Brazil's newly elected presidents—Raúl Alfonsín in Argentina (1983–1989) and José Sarney in Brazil (1985–1990), respectively—immediately after the transitions to democracy. Alfonsín and Sarney, however, did not achieve a common market. Instead, a meeting between their successors, Presidents Carlos Menem of Argentina and Fernando Collor de Mello of Brazil, in July 1990 culminated in the signing of the Act of Buenos Aires, which called for the creation of a common market by the end of 1994 (Gardini 2010, 91–92). Negotiations were expanded to include Paraguay and Uruguay in August 1990. Following a final round of negotiations in February 1991, all four countries signed the Treaty of Asunción, which formally established Mercosur. This PTA called for the free circulation of goods and services, the reduction of internal trade barriers, a common external tariff, and macroeconomic coordination (Gardini 2010, 95–96).

Alfonsín, Sarney, and their respective successors—Carlos Menem in Argentina and Fernando Collor de Mello in Brazil—viewed the trade agreement as a means to improve their countries' economies by facilitating economic stability, growth, and competitiveness, as well as deeper integration into the global economy (Manzetti 1993, 110; Oelsner 2003, 194 and 198–99; Perales 2003, 84–86; Gardini 2005, 417; 2007, 824). For these leaders, however, domestic political competition and electoral incentives also played key roles in the decision to establish Mercosur. Prior to the democratization process, autocratic leaders in both countries had made a number of attempts to develop trade agreements that promoted economic integration.

But those leaders were unable and unwilling to proceed very far. In Brazil, autocratic leaders were wedded politically to import-substituting industrialization (ISI) as a political strategy and it is unlikely their governments would have retained power with a sudden change to open trade (Kaltenthaler and Mora 2002, 73–75). Moreover, the macroeconomic crises both countries faced weakened their leadership politically and pushed them into more protectionist modes, which undermined any attempt at regional integration (Hirst 1988, 5–7; Kaltenthaler and Mora 2002, 73).

Democratization brought a dramatic change in both countries. The new political leaders had different political concerns and constituents. They were no longer beholden to the industries protected by ISI and they needed to generate economic stability and growth in order to survive politically. The initial decision to develop a PTA in the Southern Cone was political and had its roots in the desire for economic stability and growth to augment political support for both presidents. At its most basic level, democratization in Argentina and Brazil facilitated the popular political participation of individual voters whose electoral support would henceforth be necessary to ensure survival in office. Much of this electoral support depended on economic conditions. By 1990, the second generation of democratic leaders had watched the first generation fall from power because of serious economic setbacks; they became convinced that promoting regional economic integration would yield political fruit. At the same time, the legislature and organized domestic groups, such as business and labor, appear to have played little role in the actual integration process (Kaltenthaler and Mora 2002).[18]

A central problem for the new democratic governments in Argentina and Brazil was the lack of governmental credibility with respect to economic policy. Time and again, leaders had promised to keep inflation in check and avoid deficits, and they had usually given in to societal pressures when times turned difficult. As one study of Mercosur notes,

> [p]oliticians [in Brazil and Argentina] not only had to deal with a relatively unreceptive private sector, but also had a credibility problem that affected the implementation of their economic policy announcements. . . . In order to break the time inconsistency trap decision makers needed to establish the credibility of their commitments to reform. . . . By linking trade reform to an international bargain, leaders would be reinforcing the credibility of their commitments to economic openness. . . . The choice of a customs union over other forms of PTAs conforms to the commitment problem these governments were facing: the CET leads to stronger policy coordination among countries (Perales 2003, 94–95).

Political leaders understood that an international agreement would be a stronger signal for reassuring their publics than a simple domestic policy change and thus would have greater political benefits.

Both Menem and Collor were acutely aware that their future electoral success and chances for reelection would hinge upon their ability to produce economic stability and growth, as the failures of Sarney and Alfonsín had underlined.[19] Thus, despite the existence of single term limits, it is clear that concerns about domestic political support played a role in shaping executives' decision about Mercosur in Argentina and Brazil. As one pair of observers point out, "it was critical for Alfonsín and Sarney that their heterodox economic policies and state-directed integration process succeed in order to strengthen democratic

[18] The lesser role played by elected legislators in the decision on Mercosur compared to each country's executive is consistent with the high degree of "presidentialism" characterizing the political systems in both Argentina (Jones 1997, 259–62) and, to a somewhat lesser degree, Brazil (Mainwaring 1997, 55–56) at the time of integration. This was particularly apparent in the areas of economic policymaking and foreign policy (Perales 2003, 93; Gardini 2007, 822).

[19] This premise assumes that term limits would be altered, as they eventually were in the case of Argentina and Brazil.

rule and their domestic political position" (Kaltenthaler and Mora 2002, 85). Mercosur was seen as an economic means to a political goal. Democratic leaders in both countries wanted to use trade integration to bolster their domestic political positions.

It is also worth briefly considering the electoral incentives faced by legislators in Argentina and Brazil. The emphasis placed thus far on the salience of electoral constraints for incumbent executives is consistent with the observations of Latin America scholars, as well as nearly all scholars studying Mercosur, that Argentina and Brazil are both presidential political systems in which legislatures play a relatively weaker role (Jones 1997, 285; Mainwaring 1997, 55; Perales 2003, 93; Leiras and Soltz 2006, 25; Gardini 2010, 126–27). Nevertheless, characteristics of the political system that manifest themselves in each country's legislature may have exerted at least a marginal impact on the integration process, as entry into force of the Treaty of Asunción required ratification by both the Argentinean and Brazilian Congress (Gardini 2010, 114). In Argentina, high party discipline has historically encouraged legislators to vote along party lines, as was the case with ratification of the aforementioned trade accords under Alfonsín and Sarney (Jones 1997, 278–79). By contrast, in Brazil, the legislature has historically been characterized by much higher levels of party fragmentation, which made it more difficult for both Sarney and Collor to pass the trade agreement's legislation (Mainwaring 1997, 91–96).

Legislators also made it clear that their support for integration was driven to some extent by electoral concerns stemming from Argentina's and Brazil's recent transitions to democracy. For example, in Argentina, Unión Cívica Radical Congressman Federico Storani—the president and vice president of the Foreign Affairs Committee of the Chamber of Deputies from 1983 to 1989 and 1989 to 1991, respectively—notes that on the whole the Chamber of Deputies was both well-informed and in support of Alfonsín's push for regional economic integration. Moreover, Menem's Partido Justicialista was also largely in favor of the proposed integration project, with the exception of a small group of party members (Gardini 2010, 115–16). Given legislators' willingness to ratify the Treaty of Asunción, this lends added support to the argument that legislators viewed ratification of the integration accords as beneficial to their survival in office.

Patterns of legislative behavior in Brazil with regard to ratification of the integration accords were similar to those in Argentina. The ratification of the Buenos Aires Act and the Treaty of Asunción proceeded with relatively little controversy. The generally low profile of the Mercosur process among domestic groups and debates about constitutional reforms preoccupied legislators, thereby reducing the attention they paid to the trade agreement (Gardini 2010, 118–20). Some legislators in both Argentina and Brazil were more reticent to vote against ratification of the integration accords given Mercosur's key role in the broader economic agenda advanced by Menem and Collor and their predecessors. Others were actually eager to ratify the accords.

Both Menem and Collor were committed to trade liberalization via Mercosur as part of a broader neoliberal economic agenda intended to promote economic growth and stability and thus enhance their political support. Interest groups, as noted above, seemed to have played little role in the initiation and negotiation of Mercosur. Business was largely in favor of integration in the Southern Cone. Nonetheless, both Menem and Collor, as well as other political figures involved in negotiating the integration process, took pains to ensure that protectionist demands did not derail integration (Kaltenthaler and Mora 2002, 84; Perales 2003, 94–95).

Leaders in Brazil and Argentina, then, pursued the trade agreement as a means of bolstering their domestic political positions. Mercosur allowed the leaders to commit to trade liberalization and a broader market-oriented agenda that reassured society about their intentions. Mercosur's institutional structure and public opinion data (albeit limited in scope) further highlights the dynamics at play in the theory we propose. In particular, the institutionalization of Mercosur's DSM since the signing of the Treaty of Asunción helped ensure that domestic groups would be informed about trade violations and that they could monitor their chief executive's actions.

Equally, there existed a relatively high public awareness of Mercosur and strong preferences among a majority of Argentinean and Brazilian voters in favor of further integration. Latinobarometro surveys, for example, indicate that a large majority of individuals in Mercosur member-states had heard or read about the trade agreement. In 1995, 1996, 1997, 1998, and 2000, the Latinobarometro survey asked, "Have you read or heard anything about Mercosur?" In Argentina during those years, between 78 and 87 percent of respondents had heard or read about it; in Brazil, a substantial majority, between 53 and 70 percent, had done so (Lagos 1995, 1996, 1997, 1998, 2000).

Additional Latinobarometro survey evidence indicates that a large majority of individual voters were consistently in favor of Mercosur. In 1997, 1998, 2001, 2002, 2005, and 2008, the Latinobarometro asked, "Generally speaking, are you very in favor, quite in favor, slightly against, or very against the economic integration of the countries of Latin America?" In Argentina during those years, 78 to 90 percent of the respondents said they were very much or quite in favor of Mercosur; in Brazil, 67 to 86 percent said they favored it (Lagos 1997, 1998, 2001, 2002, 2005, 2008). These findings, in conjunction with domestic groups' willingness to rely on Mercosur's DSM to arbitrate disputes and the growing institutionalization of the DSM itself, suggest that domestic constituents were increasingly able to hold elected officials accountable for welfare-reducing violations of trade policy, such as those that might occur in support of demands made by domestic groups seeking protection.

Democratization and concerns over electoral competition played a key role in the decision to form Mercosur. Of course, this decision was shaped by a host of other factors as well. Both governments wanted to promote political-military cooperation; they believed that closer economic ties would reduce the prospect of political hostilities between Argentina and Brazil and would limit the military's ability to reassert itself in the domestic affairs of either country. They also believed that integration would contribute to regional economic stability and end repeated bouts of hyperinflation and economic mismanagement in the region. In addition, though, both Argentina's and Brazil's newly elected executives came into office with a heightened awareness of the need to ensure economic stability and growth in order to survive in office. The credibility of economic policy was also an issue, as previous governments had seemed to relent frequently to special interest pressures.

At the same time, political competition resulting from democratization rendered both executives and legislators more accountable to domestic constituents. Electoral shifts in party vote share and seat share, as well as the executives' ability to pass controversial economic legislation, depended on maintaining sufficiently high levels of popular support, which in turn was determined by voters' perceptions of the domestic economy. The fact that both presidents and their predecessors went to great lengths to exclude protection-seeking groups from the Mercosur negotiation process speaks to their attentiveness to the economic demands of the populace for economic growth and stability. Legislators' willingness to ratify the Treaty of Asunción, as well as the deepening institutionalization of Mercosur's DSM and the strength of public opinion in favor of economic integration, collectively lend support to our argument that signing a PTA is one way for governments facing political competition to reassure publics that they will promote the general welfare and resist the demands of special interests, thereby enhancing their political support.

Veto Players, Transaction Costs, and PTAs

In addition to regime type, a second element shaping a government's decision to enter a PTA is the extent of domestic transaction costs it faces in reaching an international agreement. Like most international agreements, PTAs do not have direct effects in signatory countries. In order for the arrangement to take hold, it has to be ratified by some set of domestic veto players (Yarbrough and Yarbrough 1992, 35).[20] Convincing these players to sign off on the agreement is as important as negotiating acceptable terms with the other signatory

[20] We focus on veto players instead of veto points, since we conceive of them as strategic actors in their own right. Veto players are not passive; they are part of the negotiation and ratification process and as such can affect both.

governments. One can think of transaction costs as reflecting the amount a government would need to bribe all veto players to accept the international agreement. The more veto players there are, the more costly the ratification, and the higher the transaction costs of cooperation.

The number of veto players is different from the degree of democracy in a country. All types of governments can have veto players. There are two important aspects of governance systems: (1) the extent of political—and especially electoral—competition, and (2) the degree to which leaders face checks and balances. Political leaders are constrained by competitive elections that can oust them from office and by institutions that influence the policy process. Veto players reflect different constraints on leaders, namely, the extent of checks and balances in a country's political institutions.

We argue that the number of veto players affects the ability of chief executives to enact their preferred policies. On average, democracies tend to have more veto players than other states. But veto players exist in all regime types. Even in dictatorships, groups with varying preferences often compete for influence over policy. More generally, veto players are usually embodied in institutions—such as legislatures, judiciaries, local governments in federal systems, and opposition parties—that can initiate, amend, and block policies proposed by the executive. The checks and balances that these institutions promote serve to increase political competition. However, political competition stemming from a large number of veto players is not a boon for international cooperation. Instead, this situation hampers international agreements by raising the domestic transaction costs for leaders.

Like domestic policy, trade policy is subject to the influence of domestic veto players. Such groups must ratify the policy choices made by the executive. Veto players contain a combination of interests in institutional roles that give them the capacity to block policy. The focus on veto players allows us to incorporate interest groups in our analysis while directing attention to the most politically important groups. Interest groups, as we mentioned previously, are not the center of our attention. Modeling and empirically specifying the structure of interest groups across all countries and over time is beyond the scope of this study. Groups opposing and supporting trade liberalization exist in all countries, but their identity and relative influence will vary depending on the specific national context.

We follow existing models of veto players in assuming that interest groups affect trade policy indirectly (Henisz 2000; Henisz and Mansfield 2006; Kono 2006; Mansfield et al. 2007 and 2008). One way they do so is by shaping the preferences of the executive, since he or she requires their support to retain office. The executive's position *ex ante* reflects the influence of politically important interest groups. In addition to influencing the preferences of heads of state, interest groups have indirect effects through veto players. We expect interest groups to operate through political parties, and leaders of such parties constitute the executive, the legislature, and the opposition. Thus, interest groups are indirectly incorporated in our analysis via their impact on the preferences of the executive and parties.

Strategic interaction among veto players and the executive is central to the formation of PTAs. In many cases, there are groups in society that have both preferences that diverge from the head of government and the institutional capacity to block a preferential agreement or prevent its implementation. Veto players must ratify policy change, including the creation of a trade agreement. Formally, the head of government in a democracy is often required by the national constitution to obtain the approval of the legislature for international agreements, including PTAs. Hence, the chief executive must negotiate a preferential arrangement that is acceptable to a majority of the legislature, either a simple plurality or some supermajority depending on the issue area and the country. In the United States, for example, any treaty negotiated by the president must be approved by two-thirds of the Senate. That the executive must obtain legislative approval will affect how he or she negotiates. Bringing home an unratifiable PTA is likely to be costly—domestically and internationally—for the executive. He or she will therefore need to anticipate the legislature's (or any other veto player's) reaction to the proposed arrangement and ensure it is domestically acceptable.

Ratification can also be less formal. In dictatorships, shifts in foreign economic policy often require the support of groups like the military or local leaders; implicitly these groups have ratified an enacted trade agreement if they had the ability to veto it and chose not to (Gandhi and Przeworski 2007). Informal ratification also occurs in democracies. If a leader needs to change a domestic law, norm, or practice in order to implement a PTA, even if no formal vote on the arrangement itself is required, a legislative vote on any necessary domestic change becomes a vote on the agreement.

One might argue that leaders could simply craft a PTA in ways to purchase the acquiescence of veto players. That is, a government could build flexibility into an agreement so that its terms would be weakened where domestic groups oppose it; or the government could exclude from the agreement all sensitive sectors that affect veto players adversely. In this way, a government could negotiate any agreement so that its veto players did not oppose it. Research has suggested that governments do indeed respond to domestic political conditions when designing international agreements (Downs and Rocke 1995; Koremenos et al. 2001; Rosendorff and Milner 2001). However, there are constraints on such behavior. First, the government cannot expect to successfully negotiate whatever terms its domestic veto players desire, since foreign countries have to sign on to the agreement. They are likely to want exactly those concessions that the domestic veto players oppose most fiercely. Indeed, Jon Pevehouse (2007) shows that veto players influence the ratification of agreements, even after accounting for their effects on the form of the agreement itself.

Second, as the number of veto players grows, the demands of these groups for exclusions or flexibility must also rise, making it more difficult for the executive to find an acceptable agreement with its foreign partners. Hence, as the number of veto players increases, the transaction costs of an international agreement are likely to grow, and the possibility of establishing a PTA lessens. Even though the design, negotiation, and ratification of international agreements are not independent events, veto players are likely to have an impact because of the transaction costs they can impose on executives at the ratification stage.

Imagine that the government could offer something valuable to a veto player to change its ratification vote. This is the most direct measure of the transaction costs incurred by a government to secure the ratification of an agreement. If such bribery is allowed—that is, if a government could transfer some of its utility to the veto groups in order to buy their acquiescence—an increase in veto players still increases the transaction costs facing a chief executive. Acting rationally, the government will only transfer as much utility as it gets from the agreement relative to the reversion point or status quo, thereby limiting its ability to bribe. As more veto players are added, at best the government has to bribe no more groups if all the new veto players are free traders; but at worst (that is, if their preferences are protectionist relative to the government's) it will have to make ever larger bribes. At some point, it will not be able to transfer enough utility to make the bribe effective. Consequently, adding more veto players tends to result in paying more bribes (and never results in paying fewer bribes), reducing the probability that an executive can bribe all the veto players. An increasing number of veto players therefore raises the transaction costs a leader must pay for an agreement and acts as a brake on PTA formation.

Some Illustrations of the Effects of Veto Players on PTA Formation

We present several brief cases that illustrate how a large number of veto players can delay, derail, or complicate attempts to negotiate and ratify international trade agreements. We also present some evidence that a smaller number of veto players can facilitate PTA formation. A number of these cases are drawn from Asia, a region that has been slow to adopt PTAs. In part, the slow pace of PTA formation may stem from the lack of democracy in the region. As an increasing number of countries in the region have become democratic, the pace of PTA formation has picked up. However, for many of these countries, a major stumbling block to any trade agreement has been the agricultural sector. In combination with key legislators and parts of the government bureaucracy, agricultural groups have formed a potent veto player. Only as this player has weakened politically have various Asian countries signed trade agreements.

South Korea and the Korea-Chile FTA

Consider South Korea during the period from 1998 to 2003. As we discuss in chapter 4, we use a measure of veto players (Henisz 2000) that ranges from 0 to 1, with higher values corresponding to a larger number of veto players. During this period, the veto player score for South Korea fell from 0.46 to 0.39, as the opposition party, the National Congress for New Politics (NCNP), consolidated power. In 1997, the longtime ruling Grand National Party lost its first major election. For the first time, power shifted to another party. Kim Dae Jung of the NCNP was elected president and formed a government with a large coalition, including the United Liberal Democrats (ULD) party (Kim 2000). The Kim government began a program of economic reform, which included trade liberalization and a desire for trade agreements (Lee and Moon 2008; Park and Koo 2008). This development accords with our claim that democracy induces leaders to seek trade agreements (Park and Koo 2008, 36).

The problem for Kim was that numerous interest groups with extensive connections to political parties and the bureaucracy were hostile to such reforms, especially trade liberalization. The Kim government reorganized the bureaucracy to weaken the influence of these groups. In the trade arena, it created an Office for the Ministry of Trade (OMT) that was devoted solely to promoting trade liberalization and negotiating trade agreements. The government began actively pushing for bilateral trade agreements in 2000, entering into negotiations with Chile. When the 2000 parliamentary elections yielded a legislature with an even larger majority of seats for the governing coalition, thus reducing the number of veto players, the government increased the pace of international negotiations.

Nonetheless, certain veto players remained in place. Some of them opposed the Korea-Chile FTA and slowed progress on the negotiations for three years. Agricultural groups and import-competing industries were particularly influential, using political parties and parts of the state bureaucracy to delay the negotiations. As Seungjoo Park and Chung-in Koo (2008, 36–37) point out,

> [d]uring the negotiations with Chile, opposition to the OMT's initiative came from the Ministry of Agriculture and Forestry and farmers' organizations such as the Korean Farmers League and the Korean Women Farmers Association. . . . In addition, the OMT's mission to maneuver through bureaucratic and social opposition was challenged by rival institutions, such as the Ministry of Commerce, Industry and Energy and the Ministry of Finance and Economy.

After making concessions to the agricultural interests, an international agreement was reached in early 2003.

However, some veto players almost derailed the agreement's ratification. Youngshik Bong and Heon-Joo Jung (2005, 149) observe that "[t]he general voting for ratification was postponed three times (December 29, 2003, January 8, 2004, and February 9, 2004) due to a series of organized efforts by lawmakers from rural districts of both ruling and opposition parties to defeat the bill. Meanwhile, the protest of farmers' unions spread nationwide and became increasingly violent." The FTA was ratified in 2004 through a compromise whereby the government agreed to legislation that provided compensation to declining industries and agriculture (Park and Koo 2008, 39–41). Key veto players stalled the negotiations over this FTA and threatened to derail its ratification. But in the end, a decline in veto players allowed the government to move forward on the agreement and the reduction in the number of players allowed the government to craft a compensation package to buy them off and rescue the FTA.

Japan and PTAs

Another interesting case of veto players affecting PTA formation involves Japan. Around 2000, Japan began pursuing a series of bilateral trade agreements. In part, this decision was an outgrowth of domestic political changes. In the mid-1990s, the long-ruling Liberal Democratic Party (LDP) was forced to form a coalition government for the first time as it faced the prospect of losing power. This change led to a substantial rise in Japanese veto players. The LDP subsequently regained a majority in the late 1990s, precipitating a drop in the number of veto players. But the party and the government were forced to adapt to the heightened domestic political competition.

Agricultural interests had been a key source of opposition to trade agreements. Traditionally, these groups had been allied with members of the LDP (called *norin zoku*) who represented rural districts; such districts were significantly overrepresented as a result of the electoral system (George 1991/1992; Mulgan 2005; Hayes 2008). As Hidetaka Yoshimatsu (2006, 488) points out, "[s]trong lobbying by agricultural groups represented by the Central Union of Agricultural Cooperatives (*zenchu*) was involved in urging the *norin zoku* to oppose the progress of FTA talks." A combination of the Japanese bureaucracy, in particular the Ministry of Agriculture, Forestry and Fisheries (MAFF), in addition to groups of LDP legislators and agricultural and import competing industrial interests, opposed the PTA negotiations (Yoshimatsu 2006). By the late 1990s, however, industrial groups—including large exporters and multinational corporations—began advocating for trade liberalization.

Furthermore, in the 1990s, electoral reforms were completed that diminished the power of the rural districts, and the LDP and its partner the New Komeito party began to represent urban voters and other interests to a greater degree (Thies 2002; Mulgan 2005).

> The Japanese business community through its peak umbrella organization—Keidanren—began to press the government in the late 1990s for a more activist trade policy. . . . This business demand was at odds with the protectionist posture

> of the agricultural lobby. . . . Despite adverse demographic trends (with the ageing and shrinking of the farming population) and changes in electoral rules (since 1994 the shift to single-member districts and the reduction of over-representation of rural areas), the Japanese agricultural lobby continued to be a formidable political force. The agricultural *zoku* still dominated intra-party policy-making, and the agricultural bureaucracy worked zealously to maintain the system of protection and subsidization that it administers (Pekkanen et al. 2007, 959).

In 2002, the LDP selected a reformer, Junichiro Koizumi, to be prime minister. Pressed by urban and industrial groups, he launched a set of bilateral trade negotiations. This development coincided with changes in the policy position of the MAFF and some agricultural groups toward trade agreements. As Yoshimatsu (2006) notes, both expanding trade with Asia and agricultural exports led to a decline in opposition to trade negotiations with other countries within the ruling LDP and in the MAFF.

> Thus, the agricultural groups changed their basic stance on FTAs from general rejection to conditional acceptance through co-operation with farmers in East Asia. The shift in preferences in the supporting groups influenced the LDP's *norin zoku*. With the agricultural groups changing their posture towards FTAs from rejection to conditional approval based on co-operation, politicians no longer had to continue their adamant opposition (Yoshimatsu 2006, 495–96).

Because of a decline in the number of veto players in Japan and the erosion of some veto players' opposition to PTAs, the government was able to forge ahead with international negotiations. These negotiations culminated in a rash of PTAs with Singapore (2002), Mexico (2005), Malaysia (2006), the Philippines (2006), Chile (2007), Thailand (2007), Brunei (2007), Indonesia (2007), ASEAN (2008), and Vietnam (2008). The erosion of Japan's veto players helped set the stage for this wave of PTAs.

India and ILFTA

A third case of interest is India. A signatory of the South Asian Preferential Trade Agreement (SAPTA) in 1993, India ratified it in 1995. In the wake of a series of shaky coalition governments, the Congress Party formed a minority government in 1991. Led by Narasimha Rao, the coalition government became more stable and larger over time, generating a reduction in the number of veto players from 1993 to 1996. Rao was thus able to begin an economic reform program that included trade liberalization. Many interest groups long protected by India's ISI program opposed these changes.

In December 1998, India also signed the Indo-Lanka Free Trade Agreement (ILFTA) with Sri Lanka (Associated Press 1998; Reuters 1998; Weerakoon 2007, 243). This agreement was partially facilitated by a decline in veto players in India that year. The number of veto players in India shot up from 1996 to 1998 as elections reduced the control of the Congress government. In mid-1998, however, elections were held after the Congress government ran into trouble and its coalition collapsed. The Bharatiya Janata Party (BJP) made gains in these elections and was the largest party in the legislature, with 251 of 539 seats. After some wrangling, the BJP was able to form a majority alliance with the support of regional leaders. However, the BJP majority was tenuous and India remained marked by a fairly large number of veto players (Jalan 1999).

Partly as a result of these domestic political conditions, ratification of the ILFTA agreement took about two years. Despite strong support for the trade agreement by both the Indian and Sri Lankan governments, the ILFTA encountered significant problems entering 1999. One sticking point was how to treat trade in tea and rubber, which were key Sri Lankan exports. The agreement had proposed to cut tariffs by half on Sri Lankan goods that were not on India's excluded list. Indian producers of these goods, such as those in the southern state of Kerala and the northeastern state of Assam, strongly voiced their desire to have tea and rubber put on the excluded list (Hussein 1999; Reuters 1999a). In March, India yielded to this pressure and decided to place tea and rubber on the excluded list from the ILFTA (Jayasinghe 1999a; Reuters 1999b). Talks stalled throughout 1999, as veto groups in India refused to give ground (Jayasinghe 1999b; Reuters 1999b).

By November 1999, negotiations were put on hold as both countries—and both incumbent leaders—faced elections. The results augured well for the continuation of the ILFTA. Sri Lankan President Kumaratunga easily won reelection in December, while Prime Minister Vajpayee's BJP government widened its majority substantially as well, leading to a sizable drop in the number of veto players. Following extended negotiations on the Indian proposal for tea and garments tariffs, final details were hammered out by April 2000 (Reuters 2000). In July 2000, India ratified the ILFTA. The vote easily passed the BJP majority-controlled parliament, despite continued opposition by domestic tea producers (Bhattacharjee 2000).

Vajpayee and the BJP were able to secure ratification of the agreement in 2000 because of their much stronger position after the 1999 election. Indeed, the BJP had called early elections in 1999 and their coalition had won 297 out of 539 seats in the legislature. Though the BJP had to join with 24 regional parties to form a working majority, it was the largest national party with 182 seats of its own right (297 with allies). The National Congress party held 114 seats (136 with its allies) and was the second largest party. Congress's decline in seats (from 167 with its allies before 1999), moreover, weakened the party as a veto player, since it could no longer threaten the government with collapse by withdrawing its support. In addition, whereas Congress had a sizable legislative presence in tea-trading regions before 1999, its electoral losses of that year diminished its seats in these regions as well. Clearly, the ILFTA's ratification was not due solely to the decline of representation of these regions in the governing majority. But the decline of Congress's seats and the widening of BJP's majority coincided with a decline in the relative power of tea-exporting regions, while the BJP government itself was more secure in parliament. Extensive veto players in India made passage of trade agreements generally difficult. But the reduction of veto players in the governing majority after 1999 seems to have helped India ratify the ILFTA.

Taken together, these cases illustrate how a large and rising numbers of veto players can complicate the negotiation and ratification of trade agreements. Increases in veto players can also cause delays in ratifying PTAs. As the number of veto players shrinks, in contrast, governments have an easier time overcoming opposition to trade deals.

Further Effects of Domestic Politics on International Trade Agreements: Auxiliary Hypotheses

Thus far, we have developed arguments about how regime type and veto players affect PTA formation, and these hypotheses will be tested in chapter 4. Other models of trade agreements, however, yield similar predictions but for different reasons than the ones we emphasize (e.g., Pahre 2008). To help assess whether the mechanisms that we concentrate on are in fact driving the effects of democracy and veto players, we also test seven auxiliary hypotheses in chapter 5 that are logical outgrowths of our arguments and the causal processes underlying them. Such auxiliary hypotheses are often seen as a sign of a progressive research program because they are made up of newly predicted phenomena that can be empirically tested (Lakatos 1978).

Leadership Duration and PTAs

One direct implication of our argument is that a leader's political support should be affected by signing a PTA. If PTAs help chief executives overcome domestic political problems, then leaders who sign them should enjoy a longer tenure than those who do not. The reassurance mechanism that PTAs provide should make leaders less vulnerable to being tossed out of office, especially in bad economic times. The public, or significant segments of it, should gain confidence that the bad times are not due to the leader's policies (i.e., to his or her pandering to special interests), but rather to exogenous shocks that are beyond the leader's control. This should make some voters and interest groups less likely to reject an incumbent and hence extend his or her time in office.

In testing this hypothesis, it is important to compare heads of state in similar regime types. That is, among leaders who face substantial levels of political competition and could be turned out of office, we anticipate that they should last longer in office if they make trade agreements. Thus, among democracies, the effect of PTAs on longevity should be strongest, *ceteris paribus*. This implication flows directly from our argument and hence helps distinguish our claims from those of others who argue that democracies are more likely to cooperate for other reasons.

Partisanship and PTAs

Another auxiliary hypothesis that derives from our argument concerns the impact of partisanship on PTAs. We assume that leaders vary in their emphasis on social welfare versus rent-seeking and that most of the public is unware of their government leaders' true preferences. In addition, the public does not know the exact trade policy that has been chosen; they only observe economic conditions and then support or oppose their leader as a consequence. One clue that is visible to the public eye about their leader stems from his or her partisan affiliation. We anticipate that partisanship should affect the probability of signing and ratifying a trade agreement.

Left-wing governments should be more likely to sign and ratify such agreements since they have a greater need to provide reassurance on trade policy. Left-wing governments tend to be more apt to intervene in the economy, often in ways that provide protection. They are thus in greater need of a reassurance mechanism to convince the public that they are not excessively protectionist. Hence, a PTA can provide a more powerful reassurance mechanism for left-wing governments, as it insulates them from claims that they overprotected and should be removed from office. For right-wing or centrist governments, the need for a reassurance mechanism is less pressing since claims that such governments are overly protectionist are less likely to be believed by the public or interest groups.

Regime Type and Exposure to the International Economy

Our argument implies that domestic actors have some incentive to pay attention to the international economy. Certain segments of the public and various interest groups are reassured about leaders' behavior when leaders enter trade agreements. These societal actors therefore condition their political support to some extent on trade policy. In turn, leaders enter trade agreements to generate political support and forestall the possibility that they will be turned out of office because the public blames them for economic problems beyond their control.

However, this argument should apply with greatest force to countries marked by extensive exposure to trade. Leaders in highly trade-dependent countries should be more likely to turn to trade agreements to solve their political problems, while the public and interest groups should be more likely to pay attention to trade policy in these more trade-dependent nations. In situations where leaders face heightened political competition, this dynamic should be even stronger. Hence, we expect that more trade-dependent democracies will be more likely to sign PTAs than less open ones. For the most autocratic countries, we anticipate that trade dependence will have little if any effect since leaders will not have domestic political incentives to join PTAs. We will therefore address whether the interaction of regime type and trade dependence affects the odds of entering a PTA.

Autocracies, Political Competition, and PTAs

Although autocracies sign fewer PTAs than democracies, they nonetheless do participate in various preferential groupings. In another extension of our argument, we address whether variations in the degree of political competition among autocracies influence their prospects of signing trade accords. If autocrats in countries with more politically competitive systems are more likely to be forced from office than other autocrats, they are also more likely to see trade agreements as reassurance devices. While all autocracies are less politically competitive than democracies in the sense that their leaders face a lower probability of losing office (especially because of the median voter), some autocracies that face relatively high competition may feel the need to seek international agreements to provide domestic reassurance. This causal mechanism is similar to that in democracies. We expect, then, that more politically competitive autocracies will be more likely to sign PTAs than their less competitive counterparts.

Regime Type and the Levels of Economic Integration and Enforcement

As we explained in chapter 1, all PTAs attempt to promote economic integration by improving and stabilizing the mutual access that each member offers to the other participants' markets, but important differences exist among these arrangements. In a preferential arrangement (PA), member-states grant the other participants preferential access to selected segments of their market; in a free trade agreement (FTA), members mutually reduce or eliminate trade barriers on many (if not all) products; in a customs union (CU), members eliminate barriers to trade with other participants and erect a common external tariff (CET) vis-à-vis third parties; in a common market (CM), countries augment a customs union by implementing similar product regulations and by permitting the free flow of factors of production between members; and in an economic union, members participate in a common market and coordinate fiscal and monetary policies.

Different types of trade agreements thus aim to achieve different degrees of economic integration among members, with PAs being the least integrative and economic unions being the most. It follows from our argument that domestic political conditions should influence the form of arrangements that rational leaders propose. More specifically, these conditions should affect whether a leader chooses to enter a PTA that aims to achieve minimal or substantial economic integration among member-states. Leaders will rationally calculate the optimal depth of integration given their domestic political situation. The need for greater reassurance will lead to deeper agreements. As such, we expect democracies to seek PTAs that aim to achieve deeper integration among member-states.

In addition, leaders can choose to incorporate stronger mechanisms for enforcing trade integration into their agreements. DSMs provide parties to an agreement with the means to legally settle disagreements. Countries that desire to enforce the terms of an agreement are more likely to want such a mechanism. Hence, leaders rationally designing a trade accord are likely to include or exclude DSMs on the basis of their domestic political situation. Where leaders have greater need for a reassurance mechanism, they are more likely to include a DSM. Therefore, more democratic countries are on average more likely to include DSMs than autocratic ones.

Veto Players and the Levels of Economic Integration and Enforcement

The institutional form of a trade agreement can also be affected by the number of veto players in a country. As we have noted, PAs, FTAs, CUs, CMs, and economic unions require member-states to undertake policy changes designed to foster increasing levels of integration. In addition, the inclusion of DSMs creates an enforcement mechanism that makes the agreements stronger. Such policy changes have distributional implications. Consequently, the number of veto players will also have a strong influence on the type of integration arrangement that a government enters.

The magnitude of domestic change needed to comply with a trade agreement and the associated political costs borne by leaders depend on the extent of integration that the agreement aims to achieve. As the proposed degree of economic integration rises, so do the expected adjustment costs for domestic actors. As the number of veto players increases, so does the likelihood that adversely affected groups are represented by at least one veto player. These players are increasingly likely to resist policy change, as their key constituents bear higher costs stemming from that change.

Deeper economic integration and tougher enforcement are likely to spur increasing opposition to trade agreements among certain segments of society. Heightened integration and the presence of a DSM tend to reduce the decision-making power of certain veto players (such as domestic legislatures), increase the adjustment costs and the portion of society affected, and attenuate the ability of domestic groups to lobby the government. All of these effects will be resisted by veto players, and they will add to the transaction costs that governments must pay for ratification. As the proposed level of integration deepens or the likelihood of a DSM rises, the number of actors affected is likely to grow considerably. Arrangements that envision more extensive integration are likely to cover more goods and services—and therefore to affect more sectors and a larger segment of society—than other trade agreements. With the adoption of a CET, moreover, the prospect of a sector in a given member-state obtaining protection against imports from third parties declines as well. Similarly, moving from a PA or an FTA to a CU, a CM, or an economic union increases the variety of issues that are covered by the arrangement (from trade to finance and immigration, among others) and the odds that additional domestic groups will face sizeable adjustment costs. Thus, as the breadth of the issues covered by a proposed trade agreement rises, so too does the likelihood that a significant portion of society will anticipate being adversely affected and therefore oppose entering the arrangement.

Ratification Delay and Veto Players

Veto players can affect more than just the probability of entering a trade agreement and the agreement's proposed level of integration. They may also affect the amount of time it takes to conclude and implement the agreement. At the outset of international negotiations, leaders understand the extent of domestic veto players they face. They must anticipate the kind of agreement that such veto players would accept. But problems can arise when there is a change in the number of the veto players before domestic implementation of the international agreement occurs. We expect that in countries where the number of veto players increases from the date an international agreement is signed to when it is ratified at home, delay should grow longer. More veto players add transaction costs and cause executives to take added time to find ways to make the agreement more palatable to those groups. Delay in domestic ratification arises from the introduction of new and greater numbers of veto players after an international agreement has been reached.

Delay is an important and interesting issue in politics, and prior research has indicated that it can be caused by a wide variety of factors (Lesbirel 1987; Alesina and Drazen 1991; Cramton 1992; Drazen 1996; Martin and Vanberg 2003; Manow and Burkhart 2008). Lanny Martin and Georg Vanberg (2003), for instance, show that greater ideological distances between the parties and a larger number of parties produce more delay between the conclusion of an election and the formation of a government. S. Hayden Lesbirel (1987) reports that more local interest groups, and better organized ones, lead to more delay in starting public works projects desired by a national government. As our South Korea case above indicates, veto players are often capable of obstructing both the length of international negotiations and domestic ratification. We propose, then, that high and rising numbers of veto players are likely to lead to greater time (i.e., more delay) between signing and implementing trade agreements, holding other factors constant.

Conclusion

In this chapter, we have developed a domestic political argument to explain why and when states decide to enter PTAs. Political leaders face a cost from their inability to assure their publics and free trade interest groups that they will not give in too much to protectionist pressures. Because they lack a reassurance device, they may lose popularity or be thrown out of office when the economy turns downward, with the public suspecting that they have given in to special interest groups' protectionist demands. While elections rarely turn on trade policy, they do often depend on the state of the economy and on voters blaming leaders for bad times (Kramer 1971; Fair 1978 and 2009; Fiorina 1981; Ferejohn 1986).[21] As elections play a larger role in determining whether leaders retain office, these costs rise in importance.

The costs can be reduced by entering a PTA, which increases the likelihood that leaders will be exposed if they give in to protectionist interest groups. Hence, these agreements help the government resolve the public's concerns over special interest protection. We cannot measure the political benefits from trade agreements directly but we know that they vary with the degree of competitiveness of elections. The more democratic a country is, the more elections matter to leadership survival. Thus, the greater the incentives for leaders in such regimes to pursue international trade agreements.

To sign and ratify international trade agreements can be costly for political leaders. These domestic transaction costs reduce the probability that leaders will seek trade agreements and that they will be capable of finding agreements acceptable to both domestic and international parties. One set of domestic transaction costs stems from interest groups that have sufficient influence to be able to veto policy proposals. These veto players occupy institutional positions that give them the ability to block policy changes. We have argued that the greater the number of such veto players, the higher the transaction costs and the less likely states are to join and ratify PTAs.

Finally, we have advanced a set of auxiliary hypotheses that flow from our argument and allow us to test it more thoroughly. First, our argument implies that leaders who sign PTAs should enjoy a longer tenure in office than those who do not sign them. Second, we expect left-wing governments to be more likely to sign PTAs than right-wing and centrist ones. Leftist governments need the public reassurance that PTAs will provide more than do right-wing ones. Third, the interaction between trade dependence and regime type should affect PTA formation. More trade-dependent democracies should be more likely to adopt trade agreements as trade has a more significant bearing on economic

[21] Note there are cases of elections that did revolve heavily around trade policy: for example, the United Kingdom in 1846 and in 1923; Canada in 1988; Costa Rica in 2006; as well as various EU entry cases. See Brander (1991), Irwin (1996), Schonhardt-Bailey (2006), and Hicks et al. (2008).

outcomes of concern to the public and interest groups. Fourth, while democracies are expected to display a greater propensity for signing PTAs than other countries, nondemocracies have entered such arrangements as well. We have speculated that the more politically competitive a nondemocracy is, the more likely it is to sign a PTA. Fifth, we have argued that democracies are more likely to enter PTAs that aim to achieve deeper integration and that are marked by DSMs than other regimes. Sixth, we claim that greater numbers of veto players reduce the likelihood of states entering arrangements that attempt to promote deeper integration and those with DSMs. Finally, veto players should affect the ratification process. More veto players and rising numbers of them should lengthen the time from signature to ratification. These specific hypotheses flow directly from our argument and thus provide us with extra empirical leverage in examining it.

In the following chapter, we initiate our empirical analysis. To begin, we focus on the international factors that might explain PTAs and present a systemic model. Although our central argument is about the effects of domestic politics, various studies have emphasized the international influences on PTA formation. It is important to evaluate these claims and to account for key international factors when we test our claims about regime type and veto players (chapter 4). After analyzing these international influences in chapter 3, we test our claims in chapter 4. This is an unusual empirical strategy. Most studies of international political economy do not include both domestic and systemic factors, but doing so is necessary to both evaluate our argument and adequately examine various prominent alternative arguments.