

Why and When will Leaders of Developing Country Negotiate South-North Preferential Trade Agreements?

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Research Question

- Empirical Puzzle: Preferential trade agreements (hereafter PTAs) negotiation between South Africa and the EU in 1994
- Research Question: **Why and when** will leaders in the developing country negotiate South-North preferential trade agreements with provisions of economic reforms?
- Why important?
 - South-North PTA is rapidly growing.
 - Power imbalances between S-N reflect their political costs and motives.
 - Contributes to a larger debate: do PTA change leaders' behaviours, or leader self-select into the treaty?

Context and Rationale

- PTA is an international institution.
- Two themes in the literatures:
 - Effects vs. **Causes** of PTAs.
- What are the gaps in the literature?
 - Treat PTA as unit of analysis.
 - ➔ Focus on the deepest and costly subcategory of PTAs.
 - Overlook a key actor
 - ❖ Literature only looked at median voters¹, interest groups², and private sectors³ matters.
 - ➔ Opposition matters.

Argument

- Leaders negotiate PTAs after **political crisis**: A leader negotiates a PTA with the provision of economic reform to punish the opponents' past transgression.
- PTA negotiation is a **deliberate choice** that a leader makes to commit to the binding and stringent policy reforms to rearrange the domestic power structures.

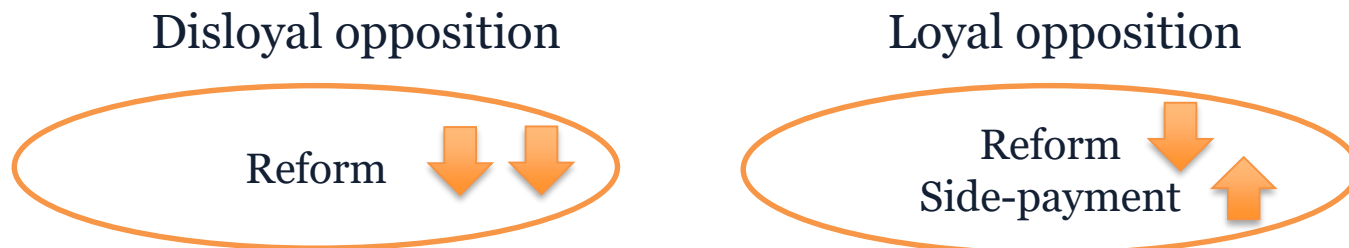
Theory

(I) The Logic of Economic Reforms



(II) Why negotiating a PTA with major liberal powers?

- PTA as a signal: ↑ leader's commitment, ↓ opposition's deposition
- PTA as a mechanism to redistribute **rent**:



Research Design

Hypothesis:

Negative shocks to a leader's security increase the probability of PTA negotiations.

(Hypothetical Treatment)

Shock to Leader's Security



South-North PTA Negotiation

Research Design:

Compares the likelihoods of the South-North PTAs negotiation in:

Leaders **with**
Shocks to Security

Leaders **without**
Shocks to Security

Research Design

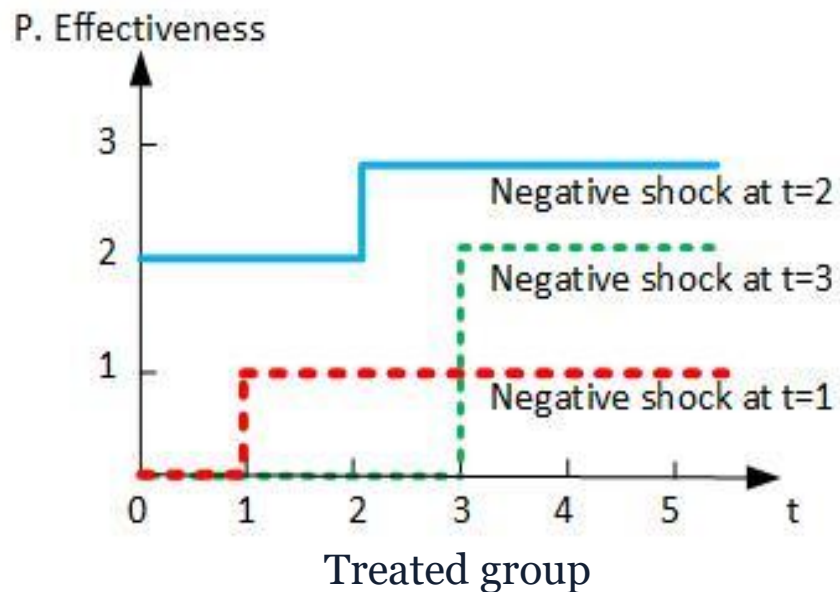
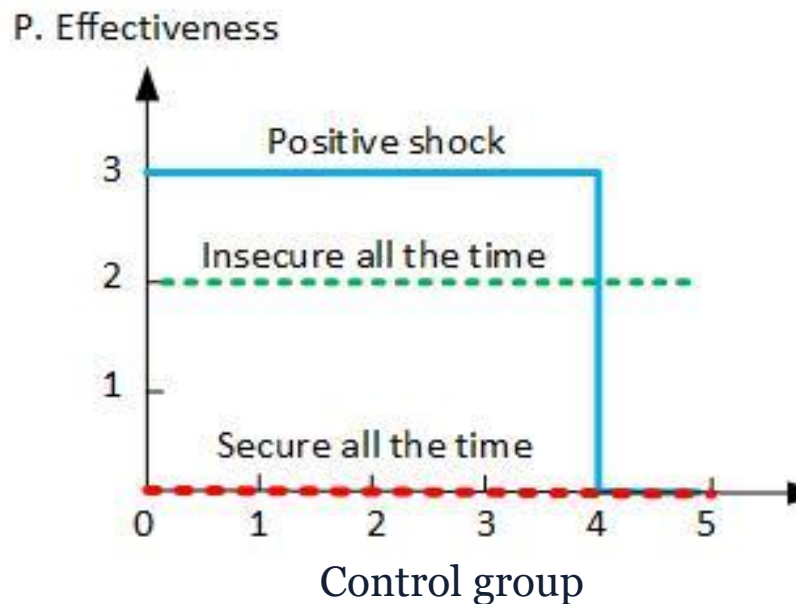
Measure the Security of a Leader:

- 1) A leader's security before he starts his tenure at time 0 (Svolik 2012);
- 2) The security of the regime at time t (political effectiveness score in the state fragility index).

Identify Leaders who have **Shocks to Security** (Hypothetical Treatment):

- ❖ Type 1: a leader experiences a shock to security at time 1 .
 - political effectiveness score > 0 .
- ❖ Type 2: a leader experiences a shock to security at time t .
 - worsening political effectiveness score.

Who are Treated?



Examples in Datasets

Unit of analysis: Leader-Year

Country	Year	Leader	Regime	R.T. Past	P. Eff	PTA Nego.
Albania	1997	Fatas	Dem.	NA	1	0
Albania	1998	Fatas	Dem.	NA	2	0
Algeria	1995	Zeroual	Dict.	Regime	2	0
Algeria	1996	Zeroual	Dict.	Regime	2	1
Algeria	1997	Zeroual	Dict.	Regime	2	0
Algeria	1998	Zeroual	Dict.	Regime	2	0
Algeria	1999	Zeroual	Dict.	Regime	2	0



Unit of analysis: Leader

Country	Leader	Tenure	Regime	R.T. Past	P. Eff	Shock(Z)	PTA Nego.
Albania	Fatas	2	Dem.	NA	shock_t	1	0
Algeria	Zeroual	5	Dict.	Regime	shock_t1	1	1

Research Design

- **Unit of analysis is leader.**
 - The dataset covers 286 leaders in 62 developing countries from 1995 to 2015.
 - Exclude liberal democracies
 - Exclude leaders whose tenure is less than one year
- **Dependent Variable:** South-North PTA negotiation
- **Independent Variable:** Negative Shocks to Security
- **Matching on the Covariates:**
 - Regime Type (V-Dem's Electoral Democracy Index)
 - Human Rights Conditions (PTS Score)
 - Regime Duration (Archigos, 2016)
 - GDP per capita (World Bank)
- **Confounding Variables in the OLS Model:**
 - Leaders' tenure (Archigos, 2016)
 - Negative Economic Growth (World Bank)

Empirical Findings: Data Description

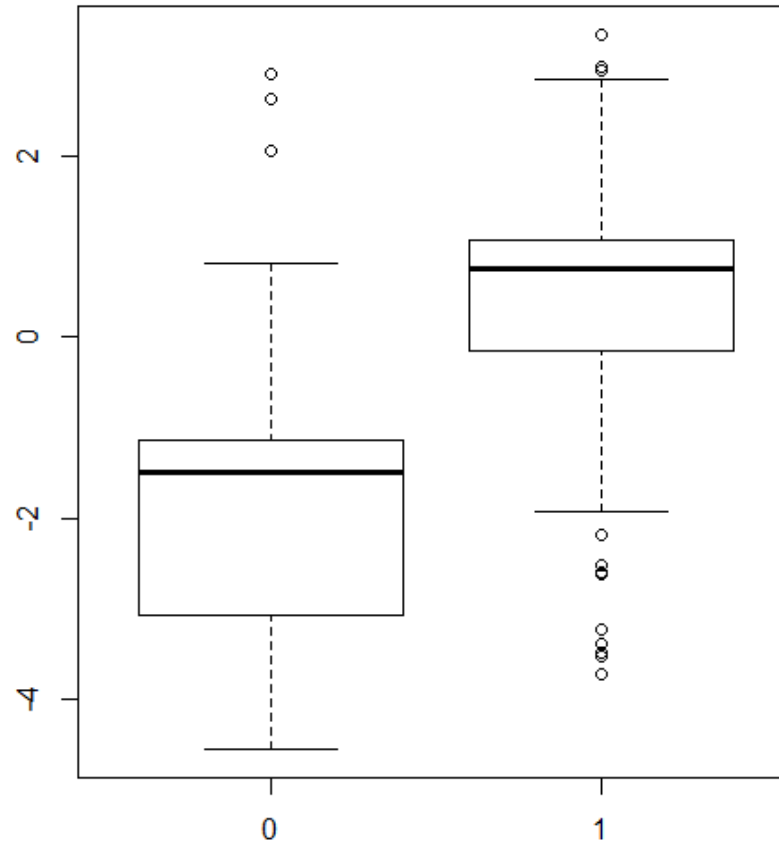
Table 0.1: Percentages of Leaders Having a Shock and those not and Percentages of PTA Negotiation

	All Regime Types	Democracies	Nondemocracies
Percentages of leaders being treated (%)	32.52	31.10	36.36
Percentages of those treated negotiated a PTA (%)	44.09	35.38	64.29



Empirical Findings: Propensity Score Before Matching

Estimated Propensity Scores before Matching



Empirical Findings:

Propensity Score After Matching

Table 0.2: Test Balance on Covariates before and after Matching

	Z=0	Z=1	adj.diff	std.diff	z		Z=0	Z=1	adj.diff	std.diff	z
Democracy Index	0.4322	0.3405	-0.0918	-0.5124	-3.954	***	0.3372	0.3472	0.0100	0.0559	0.3432
GDP per capita	6,292.7957	4,458.3435	-1,834.4523	-0.2492	-1.964	*	7,006.2627	5,297.5109	-1,708.7519	-0.2321	-1.0831
PTS Score	2.8147	2.9300	0.1153	0.1286	1.019		2.9790	2.9798	0.0007	0.0008	0.0054
Duration of Democracy	12.3834	7.4624	-4.9211	-0.4785	-3.705	***	6.7211	8.6492	1.9282	0.1875	1.2647
Duration of Autocracy	3.5855	6.4516	2.8661	0.2666	2.099	*	11.4569	7.4825	-3.9744	-0.3697	-2.1103
Political Effectiveness Score	0.7254	1.6667	0.9413	1.4182	9.364	***	1.0387	1.0967	0.0580	0.0874	1.4350

Table 0.3: Test Balance before and after Matching

	chisquare	df	p.value
Pre-Matching	95.34	6	0.00
Post-Matching	5.05	6	0.54

Empirical Findings:

Treatment Effect After Matching

Table 0.4: Ordinary Linear Squared Regression Model (After Full Matching): Results

	<i>Dependent variable:</i>
	Preferential Trade Agreement Negotiation Rate
Constant	0.049 (0.154)
Shock to Security	0.152* (0.090)
Economic Recession	−0.026 (0.068)
Mean Tenure	0.036*** (0.006)
Observations	228
R ²	0.318
Adjusted R ²	0.180
Residual Std. Error	0.426
F Statistic	2.316***

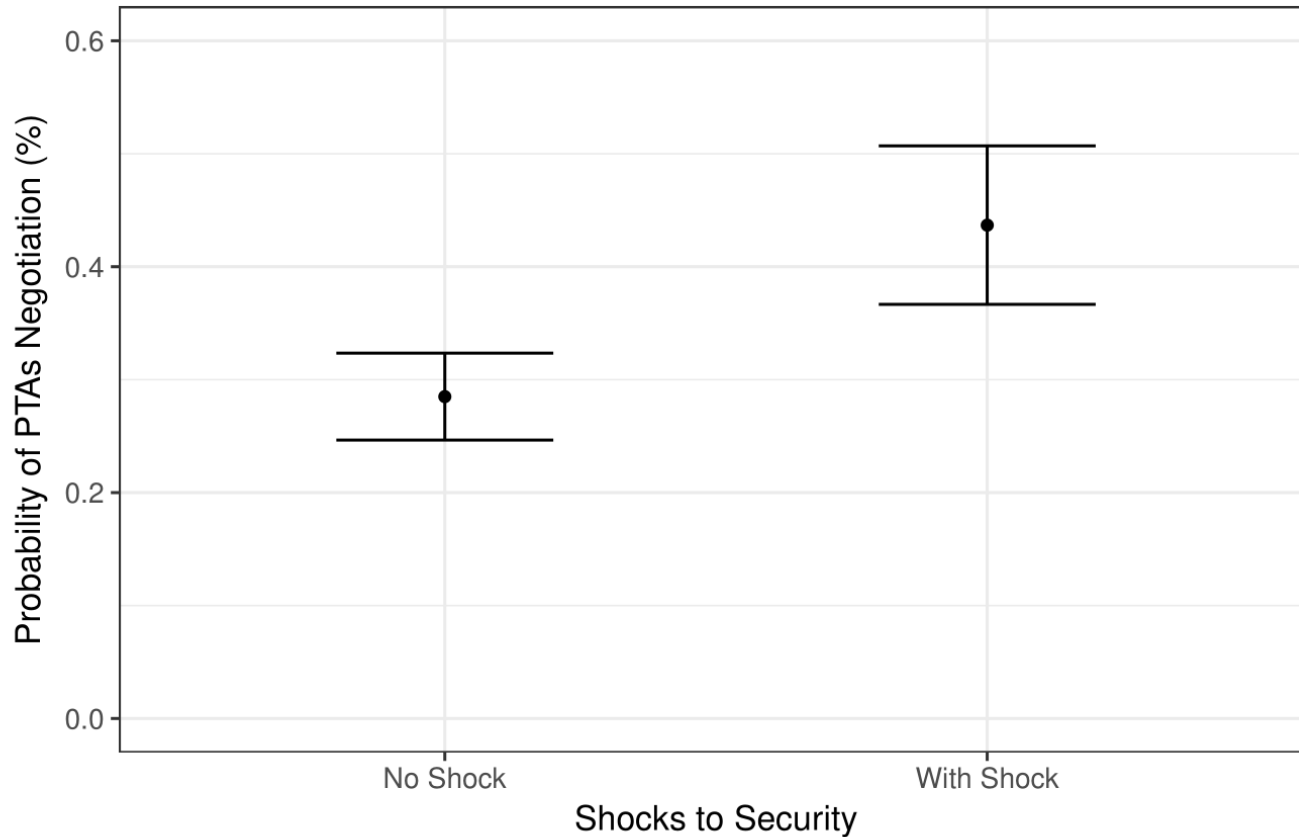
Note:

*p<0.1; **p<0.05; ***p<0.01



Empirical Findings: Treatment Effect After Matching

Treatment Effects on Leaders After Matching



Conclusion

My hypothesis is empirically supported:

When leaders experience a political crisis, they are **more likely** to negotiate a South-North preferential trade agreement with the provision of economic reforms.

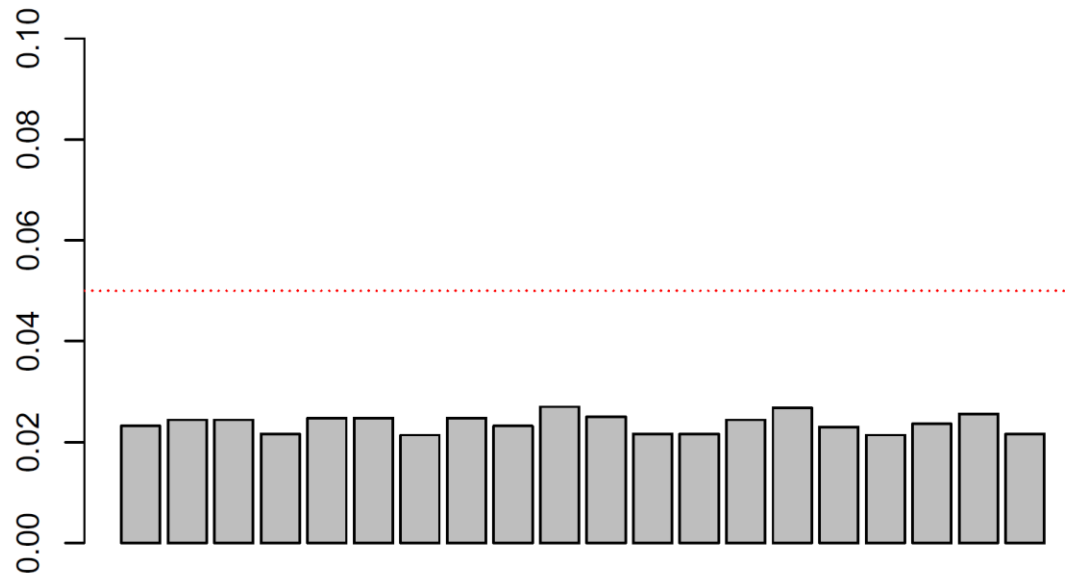
Moving forward:

- ❖ Explore whether PTA negotiation helps leaders to conduct economic reforms.
- ❖ Use a multilevel analysis to account for the nested structure of data variability.



Appendix

P-value distribution with Permutation in 100-times simulation



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