

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



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# Outline of Today's Presentation

- Research Question, Context and Rationale
- Theory
  - (I) The Logic of Economic Reforms
  - (II) Why negotiating a preferential trade agreement (PTA) with major liberal powers?
- Research Design and Empirical Findings
- Conclusion, Questions and Comments




# Research Question

- Empirical Puzzle: PTA negotiation between South Africa and the EU in 1994
  - PTAs facilitate costly economic reforms that originally curtailed by the opposition.
- Research Question: **Why and when** will leaders in the developing country negotiate South-North preferential trade agreements with provisions of economic reforms?
- Why important?
  - PTAs are rapidly growing international institution.
  - Understanding the motivates of leaders negotiate international treaty change our perspectives on how international institution shapes domestic politics.





# Context and Rationale

- Two themes in the literatures:
  - Effects vs. Causes of PTAs.
  - This paper contributes to the **causes** of states' formation of the PTAs.
- What are the gaps in the literature?
  - Treat PTA as unit of analysis and overlook the design  differences of the PTAs.
    - ❖ Conceals the power asymmetry of the two bargaining parties and overlook the negotiation is a strategic decision of a leader.
    - ❖ South-North PTAs with the provision of economic reforms are one of the most costly and deepest agreements by design.



# Context and Rationale

- What are the gaps in the literature? (Continued)

Recent studies zoom into the domestic factors within the states to explain this trend.

- ❖ Regime types matter: Democratic countries are more likely to join a PTA than nondemocratic countries (Mansfield & Milner, 2012; Mansfield, Milner, & Rosendorff, 2002).
  - ❖ Interest groups matter: Grossman and Helpman (1995).
  - ❖ Private sectors matter: Staiger & Tabellini (1999).
- Overlook a key actor: How about opposition?



# Argument



- Leaders negotiate PTAs for **political reason**: 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

- In non-crisis circumstances:
  - Leader: repression or loyalty
  - Opposition: cooperation or deposition
- A shock to security has happened (opposition defects):
  - the threatening demands on a regime by opposition groups
  - such as strikes, protest demonstrations, riots, guerillas and civil war
- Story begins in the post-crisis circumstances:
  - Leader: repress more or economic reform
  - Opposition: cooperation or deposition

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

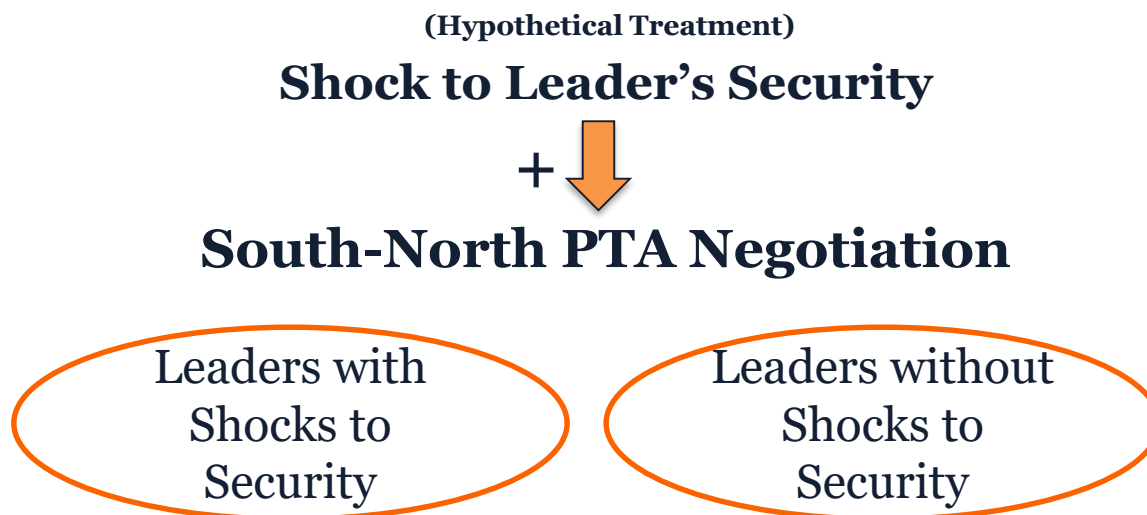
- A signal to the opposition: decrease the likelihood of deposition
- Offering material benefits to facilitate economic reforms



# Research Design

## Hypothesis:

The presence of shocks to security in a regime is associated with higher probabilities of its leader's PTA negotiation.



## Research Design:

Compares the likelihoods of the South-North PTAs negotiation in (hypothetical) treated and control groups.



# Research Design



## Quasi-experiment design in observational data:

- Measure the security of a leader for all leaders:
  - 1) A leader's security when he starts his tenure at time  $0$  depending on his relation to the past leader (or not); and,
  - 2) The security of the regime when the leader holds office at time  $t$ .
- **Hypothetical Treatment: Shocks to Leaders' Security**
  - ❖ Type 1: a leader is secure at time  $0$  and becomes insecure immediately onward at time  $1$  (experiences a shock to security at time  $1$ ).
    - Empirically, a leader starts his tenure in a regime whose political effectiveness score is  $2$  and  $3$ .
  - ❖ Type 2: a leader experiences a shock to security during his tenure at time  $t$ .
    - Empirically, a leader experiences a shock when there is a change of worsening political effectiveness score (e.g. from  $0$  to  $1$ ).

# Examples in Datasets

Unit of analysis: Leader-Year



Country	Year	Leader	Regime	R.T. Past	P. Eff	PTA nego
Albania	1995	Berisha	Dem.	NA	1	0
Albania	1996	Berisha	Dem.	NA	1	0
Albania	1997	Berisha	Dem.	NA	1	0
Albania	1997	Fatas	Dem.	NA	1	0
Albania	1998	Fatas	Dem.	NA	2	0
Albania	1999	Meta	Dem.	NA	2	0
Albania	2000	Meta	Dem.	NA	2	0
Albania	2001	Meta	Dem.	NA	2	0
Albania	2002	Meta	Dem.	NA	2	1
			⋮			
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
Egypt	2013	Mansour	Dict.	Opposition	2	0
Egypt	2014	Mansour	Dict.	Opposition	2	0
Nambia	2005	Pohamb	Dict.	Opposition	0	0
Nambia	⋮	Pohamb	Dict.	Opposition	⋮	⋮
Nambia	2015	Pohamb	Dict.	Opposition	0	0



Unit of analysis: Leader  
(Main dataset)

Country	Leader	Tenure	Regime	R.T. Past	P. Eff	Shock (Z)	PTA nego
Albania	Berisha	3	Dem.	NA	ins_all	0	0
Albania	Fatas	2	Dem.	NA	shock_t	1	0
Albania	Meta	4	Dem.	NA	shock_t1	1	1
			⋮				
Algeria	Zeroual	6	Dict.	Regime	shock_t1	1	1
Egypt	Mansour	2	Dict.	Opposition	ins_all	0	0
Nambia	Pohamb	11	Dict.	Opposition	s_all	0	0

# Cases in Datasets



Scenarios of Leaders	Chan- ges in P. Eff	Shock (Z)	Gr.	Dem.	Aut.
secure all the time at $t_0, t_1 \dots t_n$		0	C	☒	☒
insecure all the time at $t_0, t_1 \dots t_n$		0	C		☒
secure at $t_0 \rightarrow$ insecure at $t_1, \dots, t_n$	☒	shock at $t_1$	T	☒	☒
secure at $t_0, t_1, \dots \rightarrow$ insecure at $t_n$	☒	shock at $t_n$	T	☒	☒
insecure at $t_0, t_1, \dots \rightarrow$ (more) insecure at $t_n$	☒	shock at $t_n$	T		☒
insecure at $t_0, t_1, \dots \rightarrow$ secure at $t_n$	☒	0	C		☒
secure at $t_0 \rightarrow$ insecure at $t_1, \dots \rightarrow$ secure at $t_n$	☒	0	C	☒	☒



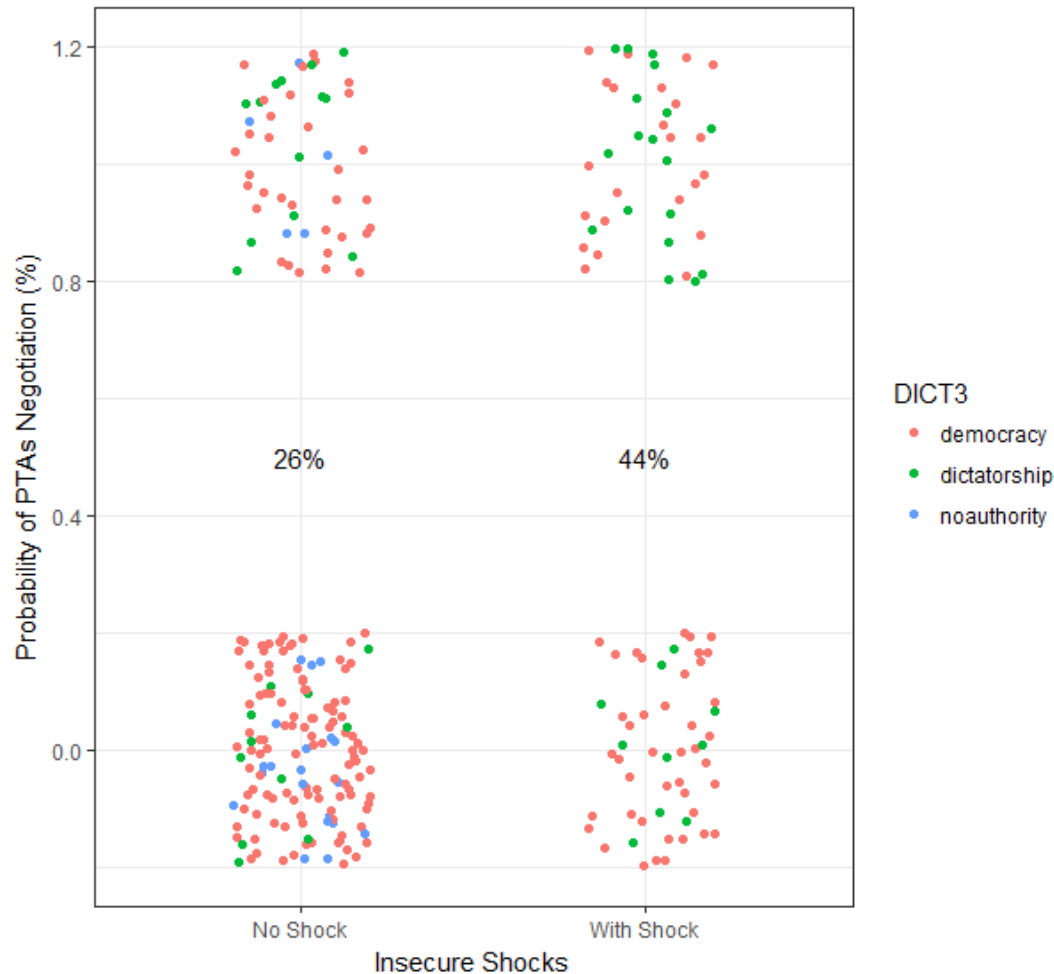
# Research Design

- **Unit of analysis is leader.**
  - The dataset covers 286 leaders in 62 developing countries in the period 1995 to 2015.
- **Dependent Variable:** South-North PTA negotiation
- **Independent Variable:** Shocks to Security
- **Matching on the Covariates:**
  - Regime Type (V-Dem's)
  - Human Rights Conditions (PTS score)
  - Regime Duration
  - GDP per capita
- **Confounding Variables in the OLS Model:**
  - Leaders' tenure
  - Economic Recession (Negative Economic Growth)



# Empirical Findings: Data Description

Distributions of Leaders across Regime Types  
Divided by Secureness Shocks



# Empirical Findings: Data Description

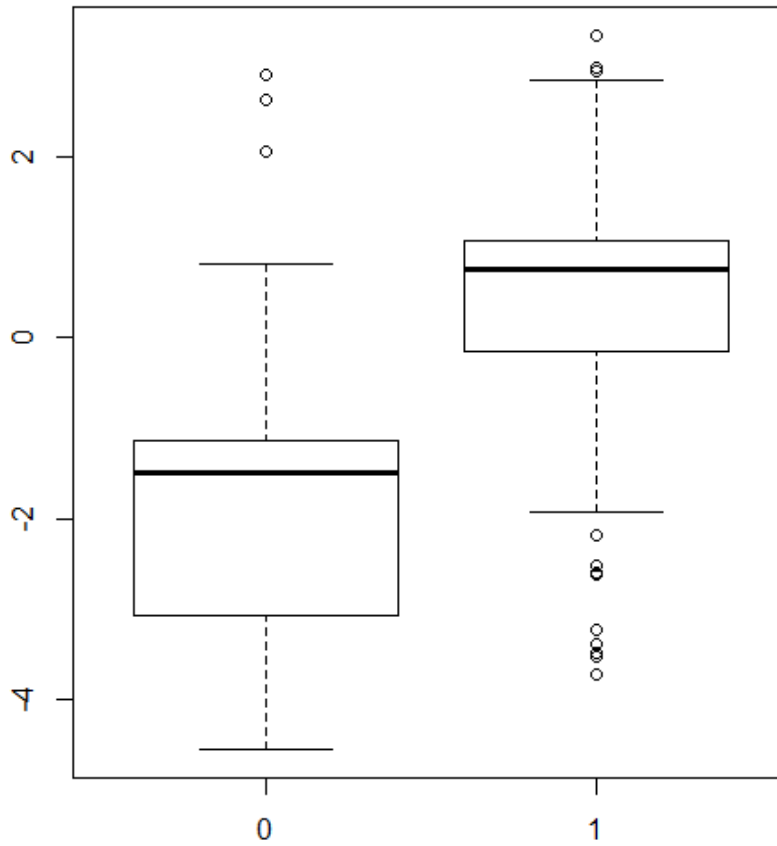
Table 0.1: Percentages of Leaders being Treated and those **Trated** Having an Event

	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



The estimated propensity scores are the fitted probabilities of being treated given four covariates.

The difference between two distributions are substantial.

# 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

After matching, leaders in the treatment and control groups are comparable.



# 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 <sup>2</sup>	0.318
Adjusted R <sup>2</sup>	0.180
Residual Std. Error	0.426
F Statistic	2.316***

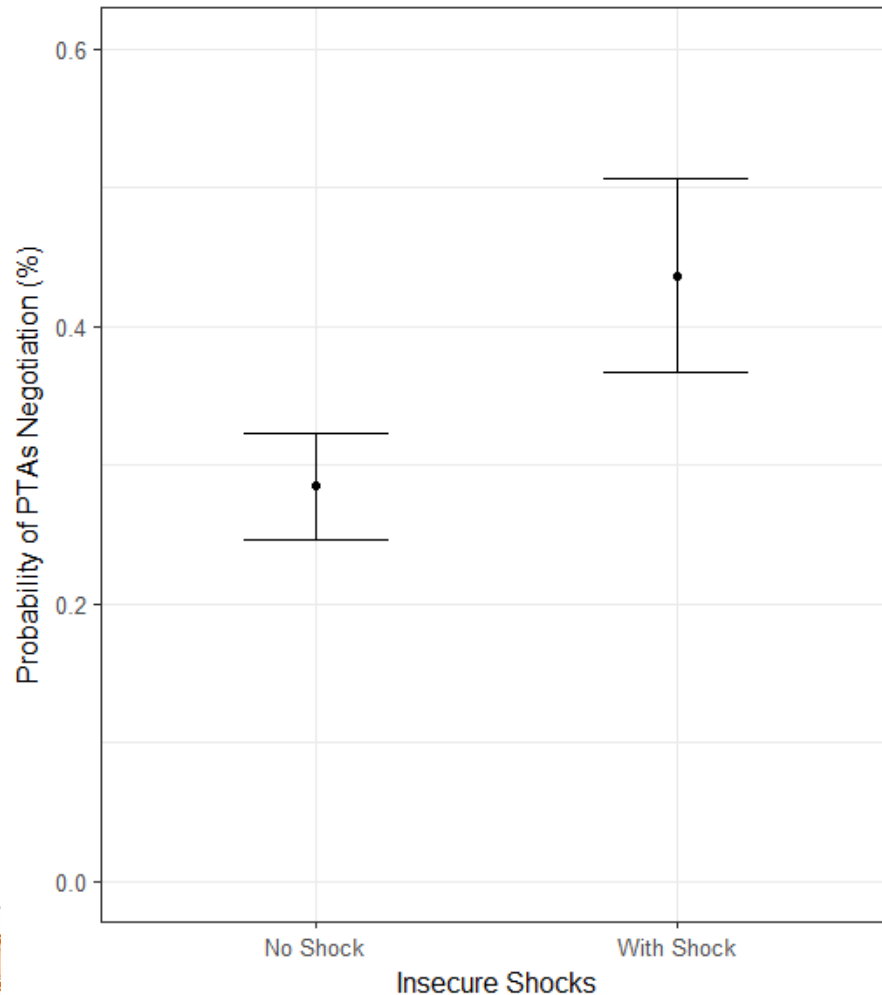



*Note:*

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

# Empirical Findings: Treatment Effect After Matching

Treatment Effects on Leaders After Matching



Holding leaders' mean tenure constant, when there is  economic recession, those leaders who have experienced insecure shocks on average have around **15%** higher probability to negotiate a PTA than those without such “treatment”.

# Conclusion

My hypothesis is empirically supported:

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

Why and when will leaders in developing country negotiate South-North Preferential Trade Agreements?

When leaders in developing country experience a shock that creates political instability, they are more likely to negotiate a preferential trade agreement with the provision of economic reform with the expectation to cut off the power sources of the disloyal opposition.



## Moving forward:

Explore whether PTA negotiation helps leaders to conduct economic reforms.

# Questions and Comments are Greatly Appreciated!



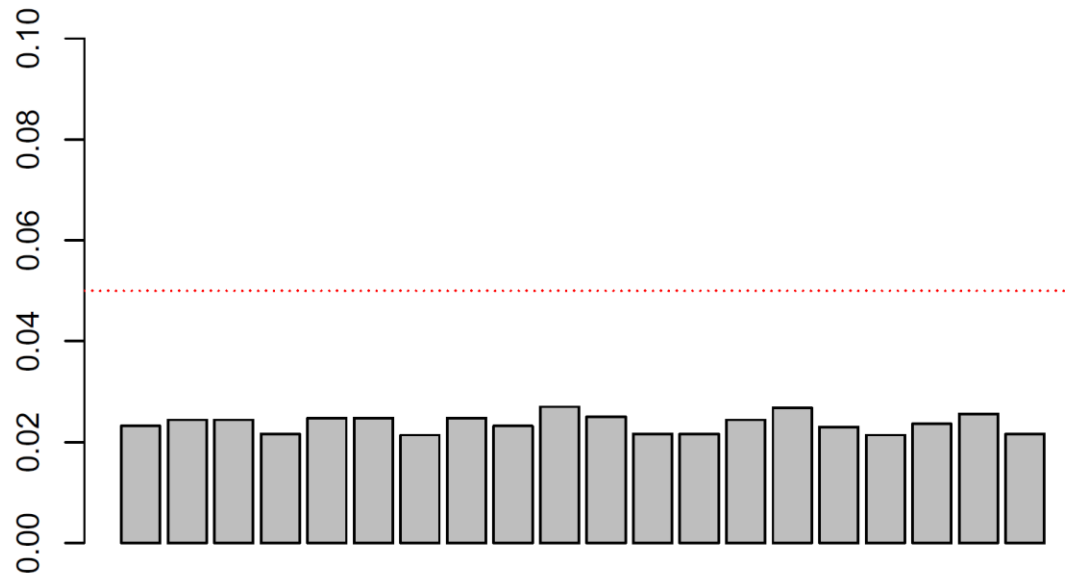
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# Appendix

**P-value distribution with Permutation in 100-times simulation**



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