Presentation

Lucie

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In today’s presentation, I’ll briefly present my first-year project in the PhD program. I’m seeking your feedback and opinions to improve my research design, so please feel free to ask any questions you have in mind or seek for clarification. My research topic is understanding political motivations of leaders in developing countries to negotiate a particular type of international treaty with developed countries. I hope this study can shed some new lights on exploring how political leaders can use trade agreement as an instrument to consolidate their power at home.

I’ll start by a brief case in South Africa in the 1990s, and then situtate the project in the broader literature. I’ll breifly touch upon the theory section, and introduce my resesarch design. My presentation will end with some priliminary empirical findings and some thoughts moving forward.

In 1994, South Africa took an opportunity to negotiate a preferential trade agreement with its most important economic partner in history, the European Union (EU). The same year also featured a prominent leadership change: the victory of Nelson Mandela and African National Congress from the first universal suffrage elections ended decades of Apartheid regime. However, the regime is measured as one of the most extremely unstable and insecure one immediately when Mandela starts his tenure. Mandela’s government wanted to conduct substantial privatization and further economic reforms to restore the collapsing economies due to decades of isolations. However, this new government’s initiatives were challenged by the other influential domestic political players[[1]](#footnote-1) that strongly opposed privatization and foreign investment. Mandela immediately approached to the EU to start the process of PTA negotiation. After five years of negotiations, the preferential trade agreement with the EU put in force in 2000 helped South Africa to undergo the transition smoothly. The government was fully prepared to adjust its trade policy by moving away from import substitution industrialization towards a competitive trade liberalization. Finally, the reforms have successfully rebuilt the confidence of the foreign investors not only from the EU but also other countries.

South Africa’s experience is a successful case for developing countries to pursue its reform-oriented trade strategy in the negotiation of PTAs with the major trade powers. Domestic economic reforms usually provoke controversy and organized opposition, so often times the ability of leaders to implement such liberal economic reforms is limited. A credible international trade agreement with the leading economies has the potential to help facilitate this process. This paper is interested in explaining what motives a leader from the developing countries to negotiate this particular type of international treaty – the South-North preferential trade agreement (PTA) with the provisions of economic reforms.

More precisely, my research question is: Under what conditions will leaders in the developing countries negotiate the South-North preferential trade agreements with provisions of economic reforms? After all, not all the leaders in the developing countries who conduct economic reforms negotiated a PTA with the major trade powers.

Preferential trade agreements (hereafter PTAs) are binding international treaties that help states to foster trade and economic integration among member-states. Current literature on the PTA mainly focuses on the effects of this institution. Scholars examine to what extent the PTAs have achieved their desired economic purposes: lowering tariffs, facilitating trade and increasing the welfare of the states in the long term. Notice that the political purposes of the leaders in the developing countries to negotiate trade treaties are currently understudied. In addition to studying the consequences of the PTAs, emerging political economy literature has offered explanations for why states form the PTAs.

One possible reason is, government negotiates PTAs for domestic political reasons. To advance the literature on understanding the formation of PTAs, this paper focuses on the strategic behaviours of leaders to form PTAs to consolidate their power vis-à-vis the opposition.

Current scholars also tend to treat the PTAs as one concept and analyze the potential benefits of it on selected outcomes. They overlook the design differences of the PTAs, some of which are designed to go beyond tariff reduction. I argue leaders have political motivations to commit to different designs of the PTAs with the expectation to adjust their policies. Some PTAs require deeper levels of the cooperation and higher degrees of market integration, such as opening domestic markets to foreign direct investment, removing competition rules that discriminate foreign traders. This paper focuses on the PTAs with the provisions of structural economic reforms, which is defined as a *deep* PTA.

The **puzzles** are: What motivates leaders to participate in this particularly costly game? When is the optimal time to do so?

**Theory**

The PTAs with the leading liberal economies, for instance, E.U., U.S., Japan, Australia, include a wide range of reform provisions in their agreement packages. Most of these deep PTAs generally require structural economic reforms in the partner countries. When developing countries negotiate with these major liberal powers, the developing countries may bargain specific provisions but have little room to change the whole package. In other words, when they approach these major powers to negotiate a PTA, they more or less anticipate they have chosen the deep PTAs by design. In contrast, when developing countries negotiate a PTA with an emerging trade power, China or India, they will not anticipate this type of power partner to promote and enforce such liberalizing reforms to a large extent.

When the developing countries negotiate the deep PTAs, they anticipate a forthcoming structural economic transformation. To comply with these provisions, leaders in the developing countries are required to go through economic reforms across various sectors of the economy. Economic reforms here refer to the institution-buildings that protect foreign direct investment, dismantle trade protection and privatize state-owned enterprises. However, such structural reforms will reduce the possibilities of rent-extracting activities of the current interest groups in autocracies. Economic liberalization is very costly because the elites benefit from the clientelism will have important losses and hence strongly oppose it. The PTA is an effective instrument for promoting economic reform that can potentially cut off the power sources of the elites that compete with leaders in power-seeking in autocracies.

The rationale of my argument is a leader can use the international commitment to facilitate the liberal economic reforms originally curtailed by the domestic political opposition. He even watches for strategically optimal situations to negotiate the treaties, especially when he feels insecure or threaten by the opposition. A leader can view economic reform as one of his toolkits to remain in power. I argue that a leader has different strategies to consolidate his power: co-optation to buy off loyalty, further repression against the opposition, restrictions on the freedom of the press and so on. Economic liberalization is also one of these toolkits. Using such tool, a leader can wash out the oppositions’ power, help coerce the cooperation and consolidate his own power in the regime. I argue the leaders in the developing countries choose to negotiate the PTAs to lock in the economic reforms for the primary goal of political survival.

My **main argument in brief** is the following: The balance of power between leaders and opposition evolves over time, so a leader strategically chooses the optimal time to negotiate the PTAs to shift such balance of power in favours of himself when he feels insecure.

Here I finished the first part of my theoretical argument. Then I’ll present my empirical strategies to test it. I use a quasi-experiment approach where I fully aware that this is not a randomized experiment, but I apply the logic of quasi-experiment in designing my observational studies. More sophisticated statistical tools can be used later, but for now I will focus on the OLS model to draw stastical inference of the treatment effect.

**Empirical strategies at this stage:**

**Treatment in this study is insecure shock.** You may ask, how should I conceptualize it? There are two types of insecure shocks. Before getting into it, here I use two indices I use to measure the securenss of a leader in autocracies: 1) a leader’s securenss when he starts his tenure at time 0 and 2) the secureness of the regime when the leader holds office at time t.

The secureness of leaders in non-democratic regimes at time 0 is coded as authoritarian leaders’ affiliation with their previous leaders. An authoritarian leader is coded as secure at time 0 when he is politically affiliated and from the same ruling coalition with his previous leader. An authoritarian leader is insecure at time 0 when a leader is in the opposition party of the previous leader, openly opposes the previous leader, or he is unaffiliated (defined as not openly oppose or support) with the preceding government. In other cases, if he is in a military regime or the regime with no authority, he is also defined as insecure when he starts his tenure at time 0.

The secureness of the regime over time t measures the vulnerability of the regime to collapse at any given year. I use political effectiveness score in the **state fragility index** to measure the political secureness of a regime to capture the dimensions of political opposition, citizen’s confidence in political process, political violence of a regime etc. The index ranges from 0 to 3, 0 means the most secure, and 3 means insecure. I recoded all the regimes with score 0 as secure, otherwise insecure, if the score remains the same during one’s tenure. I coded a change of worsening security scores (for example, from 0 to 1) as a period of the regime experiencing an insecure shock over time t.

So here are two types of insecure shocks: type 1 -- a leader is secure at time 0 and insecure immediately onward; type 2 -- leader experiences a shock during his tenure.

**Unit of analysis is leader.** The dataset covers the period 1995 to 2015. The total number of observation is 94 in autocratic regimes.

**Dependent variable**: if a leader negotiated his first South-North PTA then it is coded as 1, otherwise 0.

My model compares the likelihoods of leaders with insecure shocks and those without to negotiate the South-North PTAs.

**My hypothesis is**: The more insecure a leader is, the more likely a leader negotiates a PTA as a tool to secure his power in office and overcome domestic opposition. Leaders who experience an insecure shock are expected to have higher probabilities of negotiating a PTA than those do not.

**Preliminary Results**

Before preceeding to the model, let’s look at how the data are distributed first.

In non-democracies, around 39% of leaders have not experienced an insecure shock, while 61% have experienced one at some point of their tenures. It is also worth noticing that for a majority of leaders (the blue dots) who experienced an inseucre shock, when he first starts his tenure, he is considered "secure" because he is politiclaly affiliated with his previous leaders in this study. Quite surprisingly, many of them have been exposed to different overt challenges by the oppositions over time. Among leaders in autocractic and transitional regimes, 24% of those who have not experienced an insecure shock have negotiated a South-North PTA. Around 69% of those who have experienced an insecure shock negotitated one.

After running a model to test the treatment effect, the results are summarized in this plot. Holding leaders’ tenure in constant, on average, without insecure shocks, a leader’s probability of negotiating a PTA in autocracies is around 22%. In contrast, those leaders who have experienced insecure shocks were on average 18% more likely to negotiate a PTA than those without such "treatment". You can see there are no overlaps between the two confidence intervals taking into account the uncertainties of the estimates, which suggest that the treatment effect is statistically sigificant.

1. Mainly, the opposition came from Congress of South African Trade Union and South African Communist Party. [↑](#footnote-ref-1)