Presentation

My first-year paper is interested in exploring political motivations of leaders in developing countries to negotiate a particular type of international treaty with developed countries, the South-North preferential trade agreement. When and why are they more likely to do so? I hope this study can shed some new lights on exploring how leaders can use trade agreement as a political 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 then talk about my argument, theory, and resesarch design, and end with some 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 the victory of Mandela from the first universal suffrage elections. However, the new government was measured as one of the most extremely unstable and insecure ones. Mandela’s government wanted to conduct substantial privatization and other reforms to restore the collapsing economies due to decades of isolations. However, this new government’s initiatives were strongly opposed by the other influential domestic political players[[1]](#footnote-1). 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 helped South Africa to undergo its transitioning economies smoothly.

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. Economic reforms usually provoke controversy and organized opposition domestically. Preferential trade agreements provide member governments with a mandate to make policy changes, as such they entail high political costs.

Recognizing the preferential trade agreement with provisions of economic reforms is a binding commitment that imposes policy reforms and entails political costs, some leaders in the developing countries chose to negotiate it with the major liberal trade powers, while some did not. My research question is: Why and when will leaders in the developing countries negotiate South-North preferential trade agreements with provisions of economic reforms?

This paper is interested in explaining the motivations of a leader in negotiating this particular deep and demanding international treaty. Why is this an important question? One reason is the popularity of this type of preferential trade agreement. The bilateral preferential trade agreement is a rapidly growing international institution that governs economic markets of the member states. South-North agreements from the 1990s onward are also growing. In addition, PTA tends to have deeper integration, a trend especially prominent in the South-North PTA. South-North PTA tends to go beyond tariff reductions but include provisions on regulatory policy areas. This paper focuses on the PTA with the provisions on competition policy. The provision includes but is not limited to the privatization of the state-owned firms and regulation on monopolies and cartels. This specific type of South-North PTAs this paper focuses on is one of the most costly and deepest ones because it requires the states to change their policies, conduct structural economic reforms and open its domestic markets for competition.

This paper also intends to focus only on the leaders from the South and their rationales of initiating a negotiation with the North. The power imbalances between the contracting parties are particularly stark in the South-North PTAs negotiations, reflecting the different potential costs for them. Developing countries make a larger concession to play the rules of the game mainly set by the major liberal players. In other words, when they approach these major powers to negotiate a PTA, they more or less anticipate they have chosen the deepest PTAs by design. Existing research tends to downplay this perspective, and neglect how international institutions enter leaders’ political calculus differently. Yet, this is an important issue because leaders’ choices reflect their motives of negotiating a PTA at a specific time. It can help us getting closer to contribute to a broader research debate: when leaders commit to the international agreement, is it because the agreement change their behaviours or they were planning to do so anyway before the commitment?

The political motivation of PTA negotiation is currently understudied; yet, to understand when and why a leader of developing countries commits to the preferential trade agreement with the provision of economic reform is important because economic reforms will have immense consequences for the citizens of that country and beyond. The key question, the causes of PTA negotiation, yet, remains open.

**Context and Rationale**

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. In parallel with studying the effects of the PTAs, emerging political economy literature has offered explanations for why states form the PTAs.

Recent studies zoom into the domestic factors within the states to explain this trend. While there is no shortage of explanations on why governments form PTAs, scholars also tend to treat the PTAs as a unitary concept. They overlook the design differences of the PTAs, which imply different degrees of policy changes embedded in these international agreements. Few studies reach beyond trade liberalization to examine the role of the PTA in policy reform. As mentioned above, this paper takes the opportunity to examine the deepest and costly subcategory of the PTAs and argues the leaders’ commitments to such agreement reflect their political purposes. Leaders have clear political objectives to commit to the deep PTAs with the expectation to conduct economic reforms.

The existing theoretical frameworks capture the interaction between a government and its domestic audience: median voters, interest groups or private sectors. Leaders generally use the international trade agreements to signal the domestic audience of their welfare-enhancing economic policy for the purpose of retaining office. I argue it is deficient to examine the cause of the PTA as economically driven. I find a key player is missing: the opposition. What is overlooked is that leaders negotiate PTAs for political reason. To advance the literature on understanding the cause of PTA formation, this paper focuses on the strategic interactions between leader and opposition. In this story, the key audience of the PTA negotiation is opposition. That is…

**Argument**

A leader negotiates a PTA with the provision of economic reform to punish the opponents’ past transgression. I argue 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.

**Economic reform as a political strategy**

I argue PTA negotiation with the stringent provision of economic reform is a tactic a leader uses to reduce the strength of opposition after he survives a political crisis.

To understand why this argument holds, I first lay out the basic set-up in a non-crisis circumstance: to accumulate power, a leader can repress opposition or offers rents to exchange for the opposition’s support. To reward the loyalty of the opposition, a leader could promise to implement certain policies that the oppositions benefit. Examples are the government’s subsidies to the SOEs or some public financed projects that create rents for the oppositions. The opposition, benefiting from such an arrangement, offers support for the regime in return. However, a leader never really knows how popular he is and when the promised support stops being delivered. No matter how stable a regime may look, an upheaval may occur any time. This rent arrangement does not prevent a political crisis, which can happen at any time.

The theoretical story begins with the post-crisis circumstances: a shock to security occurs and the leader survive the shocks. We can conceptualize shock to security as “the [threatening] demands on a regime by opposition groups”. The opponents’ abrupt demands can take various forms, such as strikes, protest demonstrations, riots, guerillas and civil war. The opposition group attempts to depose the leader, but this group fails. This group, in the leader’s eyes, is a defector.

What is the leader’s response after the opposition defect from the promised support and pose the threatening demands? The most intuitive response is a leader punishes the disloyal opponents who pose threatening demands. Scholars mainly focus on the violent forms of political repression as the leader’s main response to deter dissent. I argue a different tactic a leader can use, a non-violent form of punishment, economic reform. After the crisis, it is time for the leader to rethink the pre-crisis rent distribution. Originally, the opposition somehow benefits from the distribution of rent prior to the shock. Now, economic reforms cut off the power bases of the interest groups who previously privileged from the political rents. The structural changes of economies also make the opposition’s accumulation of future rents and power harder. Economic reform is a powerful tactic to rearrange the power bases of the elites, so it serves as a punishment to the defectors.

**Why negotiating a PTA with major liberal powers?**

**PTA as a signal.** Without a PTA negotiation, the domestic opposition are skeptical about the leader’s credibility and capacity to implement such a policy. Especially after the shock to security, a leader needs time to restore the status quo ante yet strong enough to implement the reform unilaterally. PTAs by design have some coercive mechanisms of influence to make the costs of defection higher than the costs of conformity. In plain words, if leaders fail to implement the provisions, they will pay the costs. Therefore, PTA negotiation sends a credible signal of leaders’ commitments to the reforms.

PTAs negotiation also sends a signal to the opposition that the current leader has won support from the international community, especially from the major powers. Because both the leader and the opposition are assumed to be office-seeking, so they all hold a value from holding power or seeking power. The opposition cannot perfectly observe the power of a leader holds and how much he has recovered from a shock to security. While a leader’s announcement of economic reforms probably induces backfiring by the oppositions, the successful negotiation of a treaty sends a strong signal to indicate the power of the current leader. This can reduce the possibility of the opposition’s further attempts to overthrow the leader in the short run. PTA increases the possibility of opposition’s cooperation and decreases the chance of deposition.

**PTA as a mechanism to redistribute rent.** The PTAs are expected to increase trade volumes and the flow of foreign direct investment, and hence increase tax revenues. The promising trade benefits also expect to increase national income. As a result, the leader has more resources at their disposal. Economic reforms inevitably hurt the elites who are in fact the government supporters. With the PTA, a leader can use the increased revenue from trade as a side payment to compensate the loyal opposition group, so they can restart their rent-seeking cycles to accumulate wealth and power. Alternatively, leaders carefully crafted the structural economic reforms to further hit the disloyal opposition group and to cut off their power bases. With the PTA, a leader can use economic reform to not only target the disloyal oppositions responsible for the shock, but also use side-payments to reestablish a coalition with loyal oppositions to consolidate his power.

**Summary**

My argument, in brief, is the following: a leader strategically negotiates PTA after he survives a shock to insecurity. After being hit by a shock, a leader can choose economic reforms to punish the disloyal opposition responsible for the deposition. Leaders are more likely to implement economic reform when the PTAs negotiation is in place. My main empirical implication is: **Negative shocks to a leader's security increase the probability of PTA negotiations.**

**Empirical strategies:**

My research desgin compares leaders with shocks to security and those without shocks. I defined two types of **negative shocks to security**. Before getting into how to sort leaders based on a shock, I first use two indices to measure the secureness of a leader: 1) a leader’s secureness when he starts his tenure at time 0 and 2) the secureness of the regime when the leader holds office at time t.

In non-democratic regimes, the secureness of leaders 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. Othersise, an authoritarian leader is insecure at time 0. However, note that in democracies, a leader’s relation to his past is irrelevant; hence, a leader is automatically assumed as a secure leader at time 0.

The secureness of the regime over time t measures the vulnerability of the regime to collapse in any given year. I use political effectiveness score in the **state fragility index** 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.

Here I develop two types of negative shocks to security. Type 1: a leader who is secure at time 0 has a shock immediately onward at time 1. Substantively, it means a leader starts his tenure in an unstable and contested environment in which the leader is highly constrained by the opposition. Type 2: a leader experiences a shock to security during his tenure at time *t*. The political crisis captured in such a shock to security can be a result of threats from the fractionalized ruling coalition, popular uprisings, or even the actual use of force.

**Who are Treated?**

This two figures show the six possible cases of a leader’s security in this study. Generally, the figure on the left shows a leader who has a positive shock or no shock at all. These leaders are in control group. The figure on the right shows a leader who has a negative shock at different times. They are in treated group in this study. Three time points are critical in this study: t0, t1 and tn, depending the regime type a leader rules. I’m happy to talk more details if you have questions.

Here I show you some examples how I code my data. On the left-hand side, the unit of analysis is leader-year. According to a leader’s relationship to the past and the regime’s political effectiveness socre, I collpased a leader’s multiple data points into one data point in my main dataset, on the right-hand side. For example, Fatas was the leader in Alabania in 1997 and 98; his political effectiveness socre changed from 0 to 1; and he didn’t negotiate any PTA in his tenure. In the main dataset, his tenure is 2; he experienced a negative shock to security at time 2, so he was in treated group; and the PTA negotiation was a 0.

**Unit of analysis is leader.** The dataset covers 286 leaders in 62 developing countries from 1995 to 2015. In this dataset, at least one of the leaders in these developing countries negotitaed one PTA with the provision of competition policy with a developed country at some point during this period. It excludes leaders in the liberal democracies (V-Dem’s Electoral Democracy Index above 0.75) where the rule of law and constraints on the executives are respected most of the time. In a regime as such, leadership change is routine and institutionalized, so there are lower risks for leaders losing power and hance lower incentives for leaders to use binding trade agreements for political survival. Furthermore, it removes leaders whose tenure is less than one year, in such case they have no time to pursue any substantial policy changes.

**The dependent variable**: If a leader in the developing country has ever negotiated a South-North PTA with the provisions of economic reforms during his tenure, then this event happened, coded as 1, otherwise 0. Notice that a leader may negotiate a couple of PTAs at different points of his tenure, however, the event will be only counted once, which is the first PTA he negotiated.

**The independent variable** is the hypothetical treatment of negative shock to security. If a leader experienced either or both types of shock to security, he is considered treated.

I completely aware that the treatment assignment is not random in an observational study, so I used a matching design to balance the following observed covariates so that the treatement and control group are comprable. The **covariates** in this study are qualities of democratic or autocratic authority measured by V-Dem’s Electoral Democracy Index, GDP per capita measured by World Bank, human rights conditions measured by Political Terror Scale, and the length of uninterrupted regime duration up to a leader starts his tenure.

I also include two **confounding variables** in my model. The first one is leader’s tenure. A leader’s tenure is a confounder because the longer a leader holds office, the probability of engaging in the PTA negotiation may be higher, and the risks of being exposed to the shock to security is be higher. The second one is economic recession. In a period when a country experiences poor economic performance, a leader in the developing country perceive the potential economic benefits of the PTA with the South can help with the economic recovery. Also, this regime may be more likely to experience a negative shock when the economy declines. Therefore, a country’s econmic growth is an important confounder.

**Preliminary Results**

Before preceeding to the model, let’s look at how the data are distributed first. There are 93 events out of 286 total observations. Around 36% of leaders in non-democracies and 31% in democracies have experienced a shock to security at some point. Among leaders in non-democracie regimes, 64% of those in the treated group negotiated a South-North PTA. In contrast, only 35% in the treated group in democracies negotiated one.

Before matching ,we can see the estimated propensity scores, the fitted probabilities of being treated given five covariates, are substantially different. This suggests on average those leaders who have experienced a shock to security are different from those who have not in terms of regime type, human rights conditions, regime duration, GDP per capita. After full matching, the two groups are balanced.

Now, holding leaders’ mean tenure and GDP decline constant, those leaders who have experienced shock to securitys on average have 15% higher probability to negotiate a PTA than those without such “treatment”. You can see there are no overlaps between the two confidence intervals, which suggest that the treatment effect is statistically significant.

So far, my hypothesis is empirically supported. Why and when will leaders in developing country negotiate South-North Preferential Trade Agreements? When leaders in developing country experience a negative 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, I will explore whether PTA negotiation helps leaders to conduct economic reforms. Also I will use a multilevel analysis to account for the nested structure of data variability. I’ll end here for now and thank you very much!

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