Today I will present to you the political motivations of leaders in developing countries to negotiate a specific type of treaty, 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 understanding 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 1994, Mandela won the first universal suffrage election, but his government was measured as one of the most unstable and insecure ones. He wanted to conduct economic reforms to restore the collapsing economies. However, this new government’s initiatives were strongly opposed by domestic opponents[[1]](#footnote-1). Mandela immediately started the negotiation of preferential trade agreement with the EU, which helped to undergo its transitioning economies smoothly.

This is a successful case for leaders in the developing countries to use the PTA to help pursue their economic reforms. Usually, we perceive PTA is costly because it requires member governments to make policy changes, which often provoke controversy and backfiring domestically. But what if leaders can use the PTA to achieve their reform-oriented goals? This empirical puzzle leads me to form the following research question.

Recognizing the PTA is a binding international agreement that imposes policy reforms and entails political cost, some leaders in the developing countries chose to negotiate it, 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?

Why is this an important question? One reason is the South-North PTA is popular. More and more leaders in the South and North have been recognizing the benefits of signing a bilateral trade agreement where both parties’ interests are easier to realize.

My answer to this question also contributes to a broader research debate: when leaders comply to the international agreement, is it because the agreement changes their behaviours or they were planning to do so anyway before the commitment? The South-North PTA negotiation that encompasses the power imbalances between the two negotiating parties illuminates why leaders commit to international agreement in general. Leaders from the South make a larger concession to play the rules of the game set by the North, so the leaders have chosen the most costly game by design. By studying the choices leaders make, we get a step closer to understand their motives.

**Context and Rationale**

One trend of the current literature on the PTA focuses on the effects, others on the cause, which is the theme that this paper speaks to. One of the gaps in this whole set of literature is scholars tend to treat the PTA as a unitary concept. They overlook the different degrees of policy changes embedded in the PTA designs. Few studies reach beyond trade liberalization to examine the role of the PTA in policy reform. I pick up on this and examine the subcategory of PTAs, the most costly one, and argue the leaders’ commitments to such agreement reflect their political purposes.

To explain why leaders sign trade agreements, the existing theoretical framework only focuses on the following domestic actors: median voters, interest groups or private sectors. Within these frameworks, leaders generally use the international trade agreements to signal the domestic audiences of their welfare-enhancing economic policy. I argue it is deficient to see their motivation as economically driven only. 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 the leader and the opposition.

My argument is, leader negotiates PTAs after **political crisis** 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.

**Economic reform as a political strategy**

To understand why this argument holds, I first lay out the basic set-up in a non-crisis situation. To accumulate power, a leader can either repress opposition or offers rents to buy off their loyalty. After taking rents, the opposition offers support for the regime in return. However, an upheaval from opposition may occur any time.

Suppose a shock to security occurs when opponents pose threatening demands. The threatening demands can take various forms, such as strikes, demonstrations, guerillas or civil war. The opponents attempt to depose the leader, but this group fails. The leader survives the shock. These opponents, in the leader’s eyes, are defectors.

The story focuses on what leaders behave in the post-crisis situation. What is the leader’s response after the opposition defect and pose threatening demands? The most intuitive response is the leader will punish them. Scholars mainly focus on the violent forms of punishment, political repression. I argue leader can use a different tactic, a non-violent form of punishment, which is economic reform. Prior to the crisis, all the opposition somehow benefit from the rent. After the crisis, it is time for the leader to rethink his pre-crisis rent distribution. Economic reforms can cut off the power bases of the elites who previously privileged from the political rent. The structural changes of economies also make the opposition’s future accumulation of rents and power harder. I **Economic reform is a powerful tactic to punish the defectors.**

**Why negotiating a PTA?**

**PTA as a signal.** PTAs negotiation sends a strong signal to the opposition that the current leader has won support from the major powers. While a leader’s announcement of economic reforms will probably induce backfiring by the opposition, the successful negotiation of PTA signals that the power of the current leader is strong. He has probably recovered from the previous crisis and has the capacity to conduct the reform. This can reduce the possibilities that the opposition overthrow the leader again after their previous failed attempt. Hence, PTA increases the chance of opposition’s cooperation with the reform.

**PTA as a mechanism to redistribute rent.** PTAs are expected to increase trade volumes and hence increase tax revenues, so the leader has more resources at his disposal. Economic reforms inevitably hurt all the opponents. Now with the PTA, a leader can use the increased trade revenues as a side payment to compensate the loyal opponents. Alternatively, leaders can further hit the disloyal opponents by deeper reforms in certain economic sectors. With the PTA, a leader not only uses economic reforms to target the disloyal opponents, but also reestablishes a coalition with loyal opponents to consolidate his power.

In sum, after being hit by a shock, a leader can choose economic reforms to punish the disloyal opposition. Leaders are more likely to implement economic reforms when the PTAs negotiation is in place.

My hypothesis is: **Negative shocks to a leader's security increase the probability of PTA negotiations.** My research design compares leaders with shocks to security and those without shocks.

**#Research design II**

Before getting into how to sort leaders based on a shock, I first use two indices to measure the security of a leader: 1) a leader's security before he starts his tenure at time ***0*** and 2) the security of the regime when the leader holds office at time ***t***.

At time 0, regime type matters. 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. Otherwise, he is insecure at time 0. Note that in democracies, a leader’s relation to his past is irrelevant; hence, he is assumed as a secure leader at time 0.

The security 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.

Here I develop two types of negative shocks to security. In type 1: a leader starts his tenure in an unstable and contested environment in which the leader is highly constrained by the opposition. In type 2: a leader has a worsening political effectiveness score during his tenure.

**Who are Treated?**

This two figures show six possible cases of measuring a leader’s security in my data. The x-axis is leader’s tenure. The y-axis is political effectiveness score. The index ranges from 0 to 3, 0 means the most secure, and 3 means the most insecure. The left figure 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 worsening political effectiveness score at different times. They are in treated group.

**Examples in dataset**

Here I want to walk you through an example to show you how I code my data. I have collected my data in two datasets. The first dataset’s unit of analysis is leader-year. According to a leader’s relationship to the past and the regime’s political effectiveness score, I collapsed a leader’s multiple data points into one data point in my main working dataset. For example, Fatas was the leader in Alabania in 1997 and 98, so in the main dataset here, his tenure is 2. His political effectiveness score changed from 0 to 1, which means he experienced a negative shock to security at time 2, so he was in the treated group. He didn’t negotiate any PTA in his tenure, so the dependent variable in the main dataset is 0.

**#Research design III** [May skip]

**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 negotiated one PTA with the provision of competition policy with a developed country at some point during this period.

I exclude leaders in the highest level of liberal democracies where the rule of law and constraints on the executives are respected most of the time. In a regime as such, not only shocks to security rarely happen but also leader turnovers are generally peaceful. Leaders’ reactions to such threats are also institutionalized. Furthermore, I remove leaders whose tenure is less than one year, in such case they have no time to pursue any substantial policy changes.

**The dependent variable is coded** if a leader in the South has ever negotiated a PTA with the North, then it is a 1, otherwise 0. A leader may negotiate a couple of PTAs, but only the first one will be only counted.

**The independent variable** is the hypothetical treatment of negative shock to security. [If a leader experienced either one 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 regime, GDP per capita, human rights conditions, 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 higher. The second one is economic recession. In a period when a country experiences poor economic performance, a leader in the South sees the potential economic benefits of the PTA with the South can help the economy to recover. 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.

**#Empirical Findings [~3 mins]**

[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. 64% of leaders in non-democracies in the treated group negotiated a South-North PTA, while 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, are substantially different. This suggests those leaders who have experienced a shock to security are different from those who have not in terms of the pre-treatment regime quality, human rights conditions, regime duration, GDP per capita, and political effectiveness score. After full matching using Rank-Based Mahalanobis distance, the treated and control groups are balanced on the covariates, so they are comparable.

Now, holding leaders’ mean tenure constant, after matching on the five covariates, when there is no economic recession, leaders who have experienced shock to security on average have 15% higher probability to negotiate a PTA than those without such “treatment”. Taking into account the data are clustered by country, I replaced the classical standard errors in the OLS by the clustered robust standard errors.

The coefficient for mean tenure is as expected because the longer a leader holds office, the probability of engaging in the PTA negotiation is higher, and the risks of being exposed to the shock to security is also higher.

However, the magnitude of my second confounder, economic decline, is negligible. As mentioned, current literatrue focuses on the economic effect of the PTA. In a period when a country experiences poor economic performance, a leader in the South see the potential economic benefits of the PTA with the North can help the economy to recover. So I expect economic hard time will trigger PTA negotiation. This is not the case when shock of security is taken into account in this model.

So far, some empirical evidences support my hypothesis. The main take-away is, after leaders in developing country experience a negative shock that creates political instability, they are more likely to negotiate a PTA with the provision of economic reforms 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. I will also use a multilevel analysis to further account for the nested structure of the data variability at different levels. I’ll end here for now and thank you very much for listening!

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