Research memo

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My **research question**: Under what conditions will leaders in the developing countries negotiate the South-North Preferential Trade Agreements with required structural economic reforms?

Where to Fit in the Current Literature

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 preferential trade agreement 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. While there emerging studies of the potential economic benefits of the PTAs, the political purposes of the leaders in the developing countries to sign 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.

Government sign 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 this type of free trade agreement 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 in this paper.

**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 provision 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 sign a PTA with an emerging trade power, China or India, they will not anticipate this power partner to promote and enforce liberalizing reforms.

When the developing countries sign the deep PTAs, they anticipate a forthcoming structural economic transformation. The packages include privatization of the State-owned economies and the creation of a competitive environment for FDI. To comply with the provisions in the trade agreements, leaders in the developing countries are required to go through economic reforms across various sectors of the economy. Economic reforms here refer to institution-buildings that protect foreign direct investment, dismantle trade protection and privatize state-owned enterprises. However, domestic economic reforms usually provoke controversy and organized opposition, and under some conditions the ability of the leaders to implement the liberal reforms is limited. Such structural reforms will reduce the possibilities of rent-extracting activities of the current interest groups. Economic liberalization is very costly especially for leaders because the elites benefit from the clientelism will have important losses and hence strongly oppose it. PTA is an effective instrument for promoting economic reform. A credible international trade agreement with the leading economies has the potential to help facilitate this process.

The assumption is there is a misalignment between the interests of the leader and the opposition: a leader favours the economic reforms, and the opposition opposes to it. 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 sign the treaties. 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, repression, economic liberalization, and so on. Using one of these toolkits, economic reforms, 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 sign 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.

**Empirical strategies at this stage:**

**Unit of analysis: leader-spell.** The dataset covers the period 1995 to 2015. The number of observation is 497. I define *spell* as an uninterrupted period of a leader whose political effectiveness score remains unchanged. For example, there could be three entries for one particular leader in the dataset: in the first spell, he is secure; in the second spell, he experiences an insecure shock; and in the third spell, he is insecure.

This dataset has 371 leaders in the democratic regimes, 94 in the autocratic regimes and 32 leaders under no authority. There exist 263 insecure leader-spells, 193 secure leader-spells and 41 insecure shock leader-spells.

**Dependent variable**: Within a spell, the year a leader negotiates his first South-North PTA is coded as 1, otherwise 0.

**Independent variable**: the secureness of a leader during his tenure. This is a variable that is very hard to measure in the large-N data directly. I instead attempt to use two variables that are relatively easy to observe and of substantial political interests to capture the secureness of a leader in office: 1) the secureness of leaders at the beginning of their tenure, and 2) the secureness of the regime when the leaders hold office.

1. The secureness of leaders at the beginning of their tenure:
2. The secureness of leaders in non-democratic regimes at time 0: I use Svolik (2012)’s dataset that codes authoritarian leaders’ affiliation with their previous leaders. An authoritarian leader is 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 party, openly opposes the previous leader, or he is unaffiliated (defined as not openly oppose or support) with the preceding government (Svolik, 2012, p. 43). 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.
3. The secureness of leaders in democratic regimes at time 0: a democratically elected executive is insecure at time 0 when one opposition party has an absolute majority in House or Senate, or the party of the executive does not have an absolute majority in the houses that have lawmaking powers. Otherwise, he is coded as a leader who securely holds office when he starts his tenure if he has a united government or if he is re-elected.
4. The secureness of the regime over time t (measured as political effectiveness and stability of the regime):

I use political effectiveness score in the state fragility index to measure the secureness of a regime over time t. The index ranges from 0 to 3, 0 means the most secure, and 3 means insecure. I recorded the all regimes with score 0 and autocratic regime with score 0 and 1 as a secure regime in any given year; democratic regime with score 1 and above, and autocratic regime with score 2 and 3 as an insecure regime in any given year. I coded a lagged and extended three years of any changes of worsening security scores (for example, from 0 to 1) as a period of the regime experiencing an insecure shock. The maximum year of insecure shock is 6. For a leader whose tenure is less than 6 years, his whole tenure is coded as having the insecure shock.

Combining the two measurements of secureness (leaders’ characteristic at time 0 and the regime’s secureness over time), I re-code my independent variable as the following.

When the two measurements agree:

* When a leader is secure at time 0 and secure over time, he is defined as a secure leader.
* When a leader is insecure at time 0 and insecure over time, he is defined as an insecure leader.

When the two measurements do not agree, one may override the other in the dataset:

* In nondemocratic regimes, when a leader is insecure at time 0 (recall, this leader breaks from his previous leaders) and the regime is secure over time, he is an insecure leader.
* In nondemocratic regimes, when a leader is secure at time 0 (recall, this leader is politically affiliated with his previous leaders) and the regime is insecure over time, he is an insecure leader.
* In democratic regimes, when a leader is insecure at time 0 (the party of executive does not hold full houses) and the regime is secure over time, he is a secure leader.
* In democratic regimes, when a leader is secure at time 0 (the party of executive holds full houses) and the regime is insecure over time, he is an insecure leader.

In short, after recoding, there are five types of leaders in the dataset: 1) secure non-democratic leaders; 2) insecure non-democratic leaders; 3) secure democratic leaders; 4) insecure democratic leaders; 5) leaders with insecure shock.

**Research design (Quasi-experiment):**

My design compares the likelihoods of different types of leaders (secure leader, insecure leader and leader with insecure shocks) in different regime types to negotiate South-North PTAs. Also, for one leader who has negotiates with a South-North PTA, the likelihood for him to negotiate one at different spells of his power trajectories is also a question of interest.

**My hypothesis is**: The more insecure a leader is, the more likely and more quickly a leader negotiates a PTA as a tool to secure his power in office and overcome domestic opposition. Out of the three types of leaders, leaders who experience an insecure shock have the highest probabilities of negotiating a PTA. Secure leaders have the lowest probabilities of negotiating a PTA for political reasons, and the insecure leaders are in the middle.

**Preliminary Results**

1. All regime types:

I comparesecure leaders (263), insecure leaders (193) and leaders with insecure shock (41) regardless of their regime types. Holding leaders’ tenure constant, on average, an insecure leader’s probability of negotiating a PTA is 9.4%. Comparing to an insecure leader, a secure leader has 7.2% higher probability of negotiating a PTA. Comparing to an insecure leader, a leader with an insecure shock has 8.3% higher probability of negotiating a PTA.

1. Non-democratic regimes:

I comparesecure leaders (72), insecure leaders (32) and leaders with insecure shock (22) in non-democratic regimes.In nondemocracies, an insecure leader’s probability of negotiating a PTA is 9%. Comparing to an insecure leader, a secure leader in the non-democratic regime has 31.8% higher probability of negotiating a PTA. Comparing to an insecure leader, a leader with an insecure shock has 4.1% higher probability of negotiating a PTA.

1. Democratic regimes:

I comparesecure leaders (191), insecure leaders (161) and leaders with insecure shock (19) in democratic regimes.In democracies, an insecure leader has 7.1% of negotiating a PTA. Comparing to an insecure leader, a secure leader has 1.5% higher probability of negotiating a PTA. Comparing to an insecure leader, a leader with an insecure shock has 17.2% higher probability of negotiating a PTA.

*[Comments: closest to what I expected.]*