Can I Stay a BIT Longer? The Effect of Bilateral Investment Treaties on Political Survival*

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Abstract

Bilateral Investment Treaties (BITs) have proliferated throughout the international system. While ostensibly commercial in purpose, do BITs have domestic political ramifications? I argue that BITs affect a leader's tenure through their effect on the property rights environment in developing countries. BITs, by segmenting a country's property rights environment for foreign and domestic firms, reduce the incentive for foreign firms to lobby for property rights protections in the host country thus reducing the quality of the domestic property rights environment. In autocracies, a stagnating domestic property rights regime benefits domestic business elites who can continue to stymie small and medium enterprises (SMEs). For democracies, a stagnating property rights regime harms SMEs. Using a dataset of developing country leaders over the period 1960-2001, I find support for my hypothesis that BITs increase the tenure of autocrats and decrease the tenure of democrats. The results highlight the consequences of the legalization of global investment on the domestic political economy.

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1 Introduction

What are the domestic political consequences of international treaties? Recently, scholars have begun investigating the domestic impacts of preferential trade agreements (PTAs) in areas such as human rights, leader tenure, domestic regulations, and domestic economic reform (Hafner-Burton, 2005; Hollyer and Rosendorff, 2012; Baccini and Kim, 2012; Baccini and Urpelainen, 2013, 2014). Yet PTAs are not the only legal instruments that govern international economic cooperation. Over the past 40 years, the coverage of Bilateral Investment Treaties (BITs) has exploded as a result of the competition among states for global investment (Elkins, Guzman, and Simmons, 2006). Following this path, the vast majority of scholarly attention on BITs focuses on the intended effect of BITs on foreign direct investment (FDI)–namely, through the way in which BITs potentially substitute for a country's domestic property rights environment (Kerner, 2009; Tobin and Busch, 2010; Tobin and Rose-Ackerman, 2011; Rosendorff and Shin, 2012; Lee and Johnston, N.d.). But if BITs are primarily designed to remedy a country's domestic political institutions such as its court system, rule of law, and control of corruption, then aside from economic consequences, we should also expect domestic political ramifications to these treaties.

What are the domestic consequences of BITs? I argue that BITs affect a leader's time in office, but in different ways depending on a country's institutional context. This effect is linked to the Multinational Corporation's (MNC) profit incentive. In capital-scarce (developing) countries, MNCs can expect high rates of return on their investment provided the political climate is favorable for private enterprise. To reduce political risk, MNCs expend a significant amount of resources lobbying host governments for various public goods related to property rights protections and enforcement (Luo, 2001; Henisz, 2002*b*; Desbordes and Vauday, 2007; Malesky, 2009; Jensen et al., 2012; Markus, 2012; Weymouth, 2012; Bastiaens, 2013). Such extensive activities inside of developing countries are quite costly. When MNCs have access to BITs, however, they can rely on the high-quality, third party courts afforded to them by these treaties to settle any disputes over a host government's handling of an MNC's investments (Neumayer and Spess, 2005; Elkins, Guzman, and Simmons, 2006; Tobin, 2007; Rosendorff and Shin, 2012).

Importantly, the property rights institutions enshrined in BITs are only available to MNCs. By separating a country's property rights environment for foreign and domestic investors, BITs reduce the incentive for multinational corporations (MNCs) to lobby for domestic institutional reform. Should an MNC have a grievance against a host state that has BITs in force, it can seek recourse through international tribunals rather than domestic courts (Neumayer and Spess, 2005; Elkins, Guzman, and Simmons, 2006; Tobin, 2007; Kerner, 2009; Tobin and Busch, 2010; Tobin and Rose-Ackerman, 2011; Rosendorff and Shin, 2012) where they can expect to win (Simmons, 2014). Ironically, BITs may improve the property rights environment for MNCs but they can simultaneously contribute to a stagnation in the property rights afforded to domestic investors because MNCs have less cause to lobby for reform when they have access to BITs(Ginsburg, 2005; Tobin, 2007; Lee and Johnston, N.d.).

Changes in a country's property rights regime differentially impact segments of the population. For those autocratic countries where leader's are selected by a small business elite, a stagnating domestic property rights environment enhances the ability of these elites to conduct "business as usual" and block any new competitors from entering the market (Acemoglu and Verdier, 1998; Acemoglu, Johnson, and Robinson, 2001; Glaeser, Scheinkman, and Schleifer, 2003; Sonin, 2003; Morck, Wolfenzon, and Yeung, 2005; Braguinsky and Myerson, 2007). In democracies, where national leaders are selected by a relatively broad swath of the population, a stagnating or worsening property rights environment diminishes the ability of small and medium investors (SMEs) to engage in productive economic activity (Bueno De Mesquita et al., 2004; Frye, 2004). Given these effects, I argue that autocratic leaders benefit from BITs while democrats may get punished by voters.

My theory argues that BITs should either help or hurt national leaders depending on the country's institutional context. Using survival analysis, I empirically test my theory on a data set of up to 602 developing country leaders from 1960 to 2001. I find that autocrats who have more BITs in force extend their tenure in office while democrats who have more BITs in force reduce their time in office. These results hold controlling for a battery of economic and political variables including natural resource rents, foreign direct investment (FDI), international financial institution (IFI) involvement, and veto players as well as accounting for potential selection bias. Moreover, my results remain robust even when instrumenting for a country's number of BITs using the number of BITs signed by that country's export competitors (Elkins, Guzman, and Simmons, 2006). Thus, my findings provide evidence for a robust correlation between BIT signing and political survival.

Broadly speaking, my results contribute to the literature on the impact of international treaties. While treaties are generally designed to engender international cooperation or domestic reform, a number of studies, most notably in the human rights literature, highlight how these treaties may have unintended consequences (Hathaway, 2002; Hill Jr., 2010; Hollyer and Rosendorff, 2011). In this paper, I note the impact that investment treaties have on a country's domestic political economy. Like Hollyer and Rosendorff (2012) who find that PTAs provide indirect political benefits to leaders, I find that investment treaties also alter the domestic political landscape by changing the incentive of politically influential actors to lobby for reform.

This paper proceeds as follows. Section 2 highlights the relationship between foreign investment and property rights. Section 3 traces how, in the eyes of foreign investors, BITs substitute for a country's domestic property rights institutions. Section 4 argues that by substituting for important domestic property rights protections, BITs reduce the incentive for MNCs to lobby for reform, which differentially impacts the welfare of domestic business elites and small and medium enterprises (SMEs). This subsequently impacts a leader's tenure in office depending on that country's regime type. In Section 5, I empirically test my argument using survival analysis in addition to providing a number of robustness checks. Section 6 concludes with the contributions of this study to scholars as well as policy-makers.

2 Foreign Investment and the Role of Property Rights

Why do corporations invest in some countries but not others? To answer this, we must establish the importance of property rights to MNCs. Dunning (1988, 1993) outlines three important factors in a firm's decision to invest abroad: (1) ownership-specific advantages, (2) internalization advantages, and (3) location-specific advantages. Unpacking this logic of foreign investment should elucidate the reasons for how a firm's investment decisions are guided by its perceptions of the property rights environment in a given country.

The first set of advantages, ownership-specific advantages, are intrinsically linked to a robust property rights regime. These advantages include the ownership rights over tangible and intangible assets as well as organizational structure and governance. It is important to point out is that the degree of an MNC's ownership-specific advantages depend on the extent to which these assets are available to other firms. That is, the MNC must be confident that its property rights over these tangible and intangible assets will be respected by the host country. Furthermore, the host country must be willing to clearly delineate these rights and uphold them through a fair system of courts should any disputes emerge.

Dunning posits that the second set of advantages lies in internalization advantages. Internalization refers to the degree to which an MNC is able to exert hierarchical control over its value chain as opposed to simply trading or licensing out these goods and services. In countries where transaction costs are high as a result of hold-up problems and property rights violations by suppliers, firms have an incentive to vertically integrate with these suppliers. Where these internalization advantages are high, firms have an incentive to vertically integrate their value chains across borders.

Finally, Dunning refers to the role that individual countries play in a firm's decision to engage in international production in his description of locational advantages. These advantages can include a country's labor pool, human capital, and natural resources. In addition, foreign governments can affect locational advantages through favorable government regulation, taxation of foreign firms, and intellectual property protections.

Though Dunning's framework for a MNC's calculus to invest in a country is a useful starting point, it does not explicitly get at the notion of political risk–a concept that is also important to a firm's decision to invest in a given country (Simon, 1984; Henisz, 2000). By political risk, I mean the political factors that can detract from the value of a firm's assets in a given country. This political risk is fundamentally a product of the obsolescing bargaining problem (Truitt, 1970; Vernon, 1971; Bergsten, Horst, and Moran, 1978; Henisz, 2000; Jensen, 2003, 2008; Li and Resnick, 2003; Kerner, 2009). Once a firm invests in a country, it is difficult for the host state to credibly commit to refrain from direct or indirect expropriation because a firm's assets are immobile in the short-run. While host governments have an incentive to provide favorable investment terms when an MNC seeks to invest abroad, conditions may arise in the future that give host governments an incentive to renege on its contracts with that MNC and transfer a greater share of the firm's value to the state. As a result, potential host states have a deep time inconsistency problem when dealing with foreign investors.

What factors are associated with a country's level of political risk? A significant portion of the literature on political risk identifies the ways in which a country's institutional context can exacerbate or mitigate political risk. The evidence suggests that democratic institutions lower the risk of expropriation (Jensen, 2003, 2006; Li, 2009; Jensen et al., 2013*a*). What precisely is it about democratic institutions that lowers political risk? Henisz (2000, 2004) contend that this democratic advantage is rooted in the presence of veto players. Countries with more veto players face more credible checks and balances thereby enjoying greater policy stability. Jensen and McGillivray (2005) and Jensen (2006) find that federal political structures mitigate political risk because states within a country must compete for foreign investment thus raising the costs of reneging on contracts with MNCs. In sum, the evidence indicates that foreign investors seek to invest in countries where their property rights are more secure *ceteris paribus*.[1]

[1] This does not necessarily mean that the property rights of other domestic firms must be secure–a point that I shall return to later.

Taken together, Dunning's framework as well as a political risk explanation of MNC activity depend on the robustness of a potential host government's property rights regime. But domestic institutional change can often be quite costly. How can MNCs mitigate the political risk inherent within a low quality property rights environment? In the next section, I describe the mechanisms through which BITs can potentially fill this gap in a country's domestic institutions for MNCs.

2.1 BITs and Property Rights

BITs are intrinsically designed to address a country's property rights institutions. In their seminal article, Elkins, Guzman, and Simmons (2006) argue that developing countries rushed to sign BITs because of the competitive pressures among potential hosts for the property rights protections that MNCs sought when investing abroad. Jandhyala, Henisz, and Mansfield (2011) show how the diffusion of these treaties came in three distinct waves: (1) the 1960s where BITs followed the competitive diffusion logic of Elkins, Guzman, and Simmons (2006), (2) the 1980s and 90s where BITs became a global standard for investment, and (3) a reversion in the 2000s back to competitive diffusion. Undergirding all of these waves of treaty signings was the rational or normative desire of states to conform–albeit to varying degrees–to the Western model of property rights protections. By design, not all investors enjoy the benefits of BITs (Salacuse, 1990; UNCTAD, 2004). Foreign investors are the only non-state actors that have legal standing under BITs while domestic investors in the host country must operate within their own country's property rights systems.

Legally, BITs have three main pillars. First, BITs ensure that foreign investors from the home country are treated at least as well as investors from the host country otherwise known as national treatment. Second, BITs guarantee Most Favoured Nation status to foreign investors covered under the treaty. Third and perhaps most importantly for this study, BITs protect against uncompensated expropriation. Should the host state violate any of these pillars, then the investor has the right to sue the host government in front of a third-party party panel such as the International Centre for the Settlement of Investment Disputes (ICSID) or an ad hoc panel under the United Nations Commission on International Trade Law (UNCITRAL).[2] If the host government is found to be in violation of its obligations under the BIT to protect a foreign investors assets, then the host government must pay a sum that is determined by the investor or a 3rd-party panel.

Allee and Peinhardt (2014) note that there is considerable variation in the depth and breadth of BITs. Some BITs allow for arbitration under an ad hoc panel that follows UNCITRAL rules while others allow for arbitration through a more systematized process such as ICSID or the International Court of Arbitration of the International Chamber of Commerce. Moreover, BITs also vary on the number of avenues through which MNCs can resolve disputes. The more dispute resolution options available to investors, the greater the ability for investors to "forum shop" and find the dispute resolution option that will maximize their expected benefits (Busch, 2007). While variation in the depth and breadth of BITs is, of course, important to the study of international institutions, MNCs strictly prefer any of these international options to domestic courts that often times exhibit legal bias against foreign investors (Schreuer, 2005; Franck, 2007; Rosendorff and Shin, 2012) and because MNCs international courts exhibit a pro-complainant bias (Simmons, 2014). Thus, I argue that the institutions enshrined in the vast majority of BITs are weakly better than a developing country's domestic institutions.

How exactly do BITs help ensure that host states will respect the property rights of MNCs? Scholars have mainly focused on two mechanisms: signaling and commitment effects (Neumayer and Spess, 2005; Elkins, Guzman, and Simmons, 2006; Büthe and Milner, 2008; Kerner, 2009; Haftel, 2010; Allee and Peinhardt, 2011; Rosendorff and Shin, 2012; Allee and Peinhardt, 2014; Simmons, 2014; Büthe and Milner, 2014) While this study does not take a position on which mechanism is truly at work, both mechanisms can help explain why MNCs

[2]Other arbitration options include the International Court of Arbitration of the International Chamber of Commerce, the Arbitration Institute of the Stockholm Chamber of Commerce, the Cairo Regional Centre for Commercial Arbitration, the Arab Investment Court, and the Permanent Court of Arbitration (Hague).

have an incentive to reduce lobbying efforts aimed at host country institutional change.

The signaling story argues that BITs provide information to potential investors about a host country's willingness to offer friendly conditions for investment (Tobin and Rose-Ackerman, 2011). Neumayer and Spess (2005) argue that the more BITs a country signs, the more precise the signal becomes. But as is the case with any signaling game, the signal (BIT) must have some sort of *ex ante* cost associated with it so that it can help distinguish the types of governments that are truly favorable to foreign investment from those that are merely signing these treaties to seem as if they are favorable to MNC activity (Fearon, 1997). Haftel (2010) adds an important layer to the signaling mechanism. To enjoy increased FDI inflows, governments must ratify these agreements entailing non-negligible costs. These include costs such as limiting a policy-maker's regulatory discretion as well as reducing domestic business elites' competitive advantage in cases where the domestic legal system is underdeveloped or politically charged (Kerner, 2009). When leaders sign and ratify these treaties, they provide potentially useful information to foreign investors about a given government's willingness to respect foreign investments.

The commitment effect story argues that BITs help resolve a government's time-inconsistency problem by "tying their hands". As previously discussed, leader's face a time-inconsistency problem once a MNC deploys its investments into a host country. While leader's may initially encourage investments into their country, there may come a time in the future where an exogenous change in the country's political or economic situation makes the benefits of direct or creeping expropriation greater than the costs. BITs, thereby, increase the *ex post* costs of property rights violations thus allowing governments that sign these agreements to credibly commit to securing an MNCs investments in that country (Elkins, Guzman, and Simmons, 2006; Büthe and Milner, 2008, 2014; Simmons, 2014).

Specifically, Elkins, Guzman, and Simmons (2006) and Simmons (2014) argue that these *ex post* costs entail sovereignty, arbitration, and reputational costs. By allowing international law to supplant domestic law, leader's must submit to an international institution should they violate a foreign investor's property rights. In addition, BITs leave the arbitration process up to 3rd-party international courts such as ICSID and UNCITRAL panels. Should a government be found in violation of its commitments under a BIT, then the arbitration process imposes, oftentimes, heavy monetary fines on a government that reneges on its commitments. Recent cases such as AMCO v. Republic of Indonesia ($3.2 Million), Deutsche Bank AG v. Democratic Socialist Republic of Sri Lanka ($60.4 Million), and France Telecom v. Lebanon ($266 Million). While most treaty awards are in the millions, some can go into the billions as in the recent case of Occidental Petroleum v. Republic of Ecuador ($1.7 Billion). Governments, when taken to court by foreign investors, have their reputation on the line. If a country is taken to ICSID or UNCITRAL, it can expect losses in FDI precisely because it has tarnished its reputation for doing business (Allee and Peinhardt, 2011). Together, these sovereignty, arbitration, and reputational costs can allow governments to credibly commit to protect an MNCs investments ameliorating the time-inconsistency problem inherent to FDI.

BITs, by signaling a government's willingness to respect a foreign investors property rights or credibly committing governments to an MNC's property rights, can help to either clarify or remedy a country's property rights institutions. Both of these mechanisms, at the margins, help to ensure MNCs that their property rights will be safe when investing into a potential host country. As a result, BITs can change the incentives that MNCs face to efficiently mitigate political risk. This, as I demonstrate later, changes the domestic political economy of the host country in a way that can affect a leader's tenure in different ways depending on the underlying regime type of that country.

3 The Politics of Leader Tenure

A leader's primary objective is to stay in power (Bueno De Mesquita et al., 2004; Bueno De Mesquita and Smith, 2010). Leaders, in order to stay in office, must balance the interests of politically influential groups. The types of interests that are considered politically influential are determined by a country's institutional environment (Bueno De Mesquita et al., 2004).

There are two key institutional features that describe how leaders stay in office: (1) the selectorate and (2) the winning coalition (Bueno De Mesquita et al., 2004). The selectorate refers to the pool of citizens that actually have the ability to choose the leader. The winning coalition, a subset of the selectorate, is the minimum number of citizens that a leader must satisfy in order to win or retain office. In the case where a leader's coalition falls beneath that minimum threshold needed for a winning coalition, then the leader faces an elevated risk of deposition. Both of these factors shape the incentives for leaders to provide private benefits that assist a narrow elite or public goods that benefit a wide-range of citizens. Private benefits can include direct payments, legal impunity, non-competitive contracts, corruption, and protective tariffs. Public goods, conversely, consist of property rights protections, the rule of law, national defense, personal freedom, and sound economic policies.

How do these institutional characteristics affect political and economic outcomes? Because governments face scarce resources, the size of the winning coalition is a key factor in determining the precise mix of private benefits and public goods that a leader will provide to her citizens. In large winning coalition systems like democracies, leaders have an incentive to provide more public goods. This is because the base of supporters that leaders must satisfy is greater than small winning coalition systems. Given a leader's scarce resources, it is more efficient to provide public goods rather than to distribute private benefits to each and every member of the winning coalition. In small coalition systems like autocracies, it is more efficient for leaders to provide private benefits to members of their winning coalition than to expend resources on public goods. Leaders, in order to maximize their chances of retaining office, must satisfy members of the winning coalition, but must do so in the most efficient way possible.

There is a fair degree of empirical support for the Selectorate Theory. Scholars have found that democracies provide more public goods like health, education, and infrastructure than their autocratic counterparts (Dreze and Sen, 1989; Lake and Baum, 2001; Brown and Hunter, 2004; Bueno De Mesquita et al., 2004; Stasavage, 2005; Ansell, 2008; Gerring, Thacker, and Alfaro, 2012). Moreover, there is also significant evidence that shows that democracies tend to provide better protection of property rights (Olson, 1982; North and Weingast, 1989; Leblang, 1996; Clague et al., 1996; Acemoglu, Johnson, and Robinson, 2001; Li and Resnick, 2003; Jensen, 2003, 2008; Biglaiser and Staats, 2012). Taken together, the evidence suggests that leaders choose policies that respond to politically influential interests as determined by the underlying institutional characteristics.

4 A Theory of BITs and Political Survival

Given the institutional context of a country, leaders respond to the interests of politically organized actors. In developing countries, a central source of political conflict lies between the interests of the entrenched business elite and SMEs. While MNCs, as I show, can be a key ally for SMEs in this conflict, the presence of international institutions can reshape the incentives that MNCs face to engage in this conflict against the entrenched business elite. In this section, I show how changes in the distribution of power across these various interest groups affect a leader's probability of retaining office.

In developing countries, politically relevant business interests have much to gain or lose from a robust property rights regime. Mainly, I focus on the preferences of the following three actors: (1) domestic business elites, (2) SMEs, and (3) MNCs. These preferences over the strength of a country's property rights regimes determine the incentives for the various actors to lobby for or against property rights protections. In addition, these preferences will also help to identify welfare outcomes for each actor over changes in the level of property rights protections and enforcement.

Entrenched business elites generally tend to benefit from weak systems of property rights. For the business elite, formal and informal political connections such as kinship and ethnic ties as well as "revolving door" type relationships substitute for formal sets of property rights to protect their investments (Fisman, 2001; Johnson and Mitton, 2003; Haber, Maurer, and Razo, 2003; Faccio, 2006; Bai, Lu, and Tao, 2006; Leuz and Oberholzer-Gee, 2006; Faccio and Parsley, 2009; Chong and Gradstein, 2010; Choi and Thum, 2009; Faccio, 2010; Carden and Verdon, 2010; Richter, 2010; de Vaal and Ebben, 2011; Wang, 2013). By lobbying for weak property rights rules and enforcements, entrenched business elites can help stifle new firms that might harm the profits of the elite from entering the market in lesser developed countries (Acemoglu and Verdier, 1998; Acemoglu, Johnson, and Robinson, 2001; Glaeser, Scheinkman, and Schleifer, 2003; Morck, Wolfenzon, and Yeung, 2005; Braguinsky and Myerson, 2007). In essence, political connections and cronyism can substitute for property rights for business elites.

Qualitative and quantitative evidence suggests that business elites rely extensively on these formal and informal relationships with government. Fisman (2001) finds that, upon receiving news of Suharto's poor health, those firms most connected to the Suharto regime in Indonesia did, on average, worse those firms not connected with the regime indicating that business elites rely on political connections to increase firm value. Such benefits extend far beyond the case of Indonesia. Scholars have found evidence that politically connected firms enjoy increased firm value (Faccio, 2006; Ferguson and Voth, 2008; Goldmann, Rocholl, and So, 2009; Cooper, Gulen, and Ovtchinnikov, 2010; Desai and Olofsgård, 2011; Dube, Kaplan, and Naidu, 2011), preferential access to finance (Khwaja and Mian, 2005; Bai, Lu, and Tao, 2006; Claessens, Feijen, and Laeven, 2008; Faccio, 2010), favorable regulations (Stigler, 1971; Johnson and Mitton, 2003), favorable litigation outcomes (Lu, Pan, and Zhang, 2013), and corporate bailouts (Faccio, Masulis, and McConnell, 2006; Blau, Brough, and Thomas, 2013). Given these benefits, business elites should have an incentive to oppose a robust system of property rights protections and enforcement because it would undermine the aforementioned benefits and deteriorate their competitive advantage in the market.

Unlike entrenched business elites, SMEs stand to gain from a robust system of property rights. Better systems of property rights tend to allow these firms to make productive investments (North and Weingast, 1989; North, 1990; Acemoglu, Johnson, and Robinson, 2001; Stasavage, 2002; De Soto, 2003; World Bank, 2005; Acemoglu and Johnson, 2005). Moreover, SMEs do not have the benefits that their business elite counterparts do through informal relationships such as familial connections to political elites. Of course, SMEs could potentially rely on formal political connectivity. This, however, can be expensive. In developing countries, small or newly started firms are generally capital-scarce thus making the marginal cost of gaining and retaining political connections relatively high to the marginal benefits. As a result, SMEs disproportionately benefit from property rights because of its public-good nature. In order to fully reap the benefits of any investments made especially when they cannot rely on formal and informal political connections, SMEs should have an incentive to lobby for improvements in the property rights system and the business environment (Frye, 2004). Yet, because of the public-good nature of property rights, SMEs may face collective action problems in lobbying for these features.

MNCs can potentially be an important ally to SMEs in lobbying for better property rights institutions. As previously discussed, MNCs, when deciding where to invest, prefer countries with lower levels of political risk all else equal. Given the relationship between the quality of a country's property rights institutions and the level of political risk, MNCs should have an incentive to lobby for reform. Several studies highlight how MNCs engage with a host country's political processes to mitigate political risk (Luo, 2001; Henisz, 2002*b*; Desbordes and Vauday, 2007; Malesky, 2009; Jensen et al., 2012; Weymouth, 2012; Bastiaens, 2013). Moreover, Markus (2012) provides evidence that MNCs form a crucial alliance with SMEs in lobbying for better property rights protections. This incentive, however, hinges on the availability of substitutes for domestic property rights institutions–namely, the coverage of BITs within a host country.

While MNCs and SMEs may have cause to ally together in pushing for a for a robust set of property rights institutions, BITs can lead MNCs to abandon this alliance. For MNCs, BITs serve as substitutes–albeit imperfect ones–for strong property rights protections. One of the key components of a high-quality property rights regime is the presence of fair and impartial courts to uphold contracts (North and Weingast, 1989; Milgrom, North, and Weingast, 1990; Frye, 2004). BITs provide MNCs with an alternative, and arguably, better source for recourse should a government fail to uphold its obligations to foreign investors: 3rd-party international courts such as ICSID and UNCITRAL. These arbitration panels more credibly protect an MNCs property rights than domestic courts (Neumayer and Spess, 2005; Elkins, Guzman, and Simmons, 2006; Tobin, 2007; Rosendorff and Shin, 2012). Moreover, investors can also expect to win when they file a claim under a BIT (Van Harten, 2012; Simmons, 2014).[3] Because BITs are only available to foreign investors with legal standing in a host country, I argue that, at the margins, MNCs have less of an incentive to lobby for strong property rights protections as a country's coverage of BITs increases (Salacuse, 1990; UNCTAD, 2004).

As more BITs come into ratification, this changes the saliency of the pro-reform camp versus the status quo camp to leaders. MNCs have less of an interest in reforming the business environment in developing countries that have signed BITs because they can seek recourse for any disputes through international arbitration. As a result, leaders shift their policies to benefit the business elites who's voice has now become relatively louder than SMEs in the lobbying process. Tobin (2007) finds evidence in favor of this causal mechanism. Using firm-level data from the World Bank, Tobin (2007) finds that foreign investors perception of a host country's property rights environment increases as the coverage of BITs increases. For SMEs, Tobin (2007) finds evidence that their perception of the business environment is decreasing in the number of BITs in force.

The above distributional effects have varying implications for leader's chances of retain-

[3]While MNCs from capital-exporting states tend to win cases under BITs, investors do have difficulty in securing compensation from a host state that violated its obligations under a BIT (Johnston, 2013; Graham, Johnston, and Kingsley, 2013). Allee and Peinhardt (2011) as well as Jensen et al. (2013*b*) find, however, that MNCs punish states that expropriate by withholding future investment. Such actions can potentially improve ensure compliance with panel decisions. Furthermore, the litigation process itself can also be costly and time-consuming for developing countries making it more attractive for such states to either settle or comply.

ing office depending on the types of groups that are empowered by a host country's political institutions. For autocracies where leaders are selected by the entrenched business elite, a stagnating property rights regime enhances the elite's competitive advantage over new competitors in the marketplace. Conversely in democracies, where leaders must respond to the interests of both business elites and SMEs, a stagnating property rights environment should reduce a democrat's probability of surviving in office because SMEs can punish leader's at the ballot box.

This leads me to my main hypotheses:

H1: *If autocrats sign more BITs, then they increase their probability of surviving in office.*

H2: *If democrats sign more BITs, then they decrease their probability of surviving in office.*

5 Empirical Evidence

In this section, I use the semi-parametric Cox Proportional Hazards model to test my main hypothesis that an autocrat's probability of surviving in office increases in the number of BITs put into force while a democrat's probability of surviving in office decreases in the number of BITs put into force. To test my theory, I use leader data from Bueno De Mesquita et al. (2004), data on BITs in force from Tobin and Busch (2010), and additional covariates from various datasets (Henisz, 2002*a*; Feenstra, Inklaar, and Timmer, 2013; World Bank, 2014; Hollyer, Rosendorff, and Vreeland, 2014). My basic unit of observation is the leader-year. I test whether the hazard rate for each leader in each year is decreasing in the number of BITs and if the direction of the effect is conditional on the level of democracy.

5.1 Data

The main dependent variable of this study is a leader's time in office.[4] To measure time in office, I use the difference between the date the leader entered office and the current date. My analysis covers a wide range of leader-year observations over 602 leaders, 107 developing countries, and 40 years. Though the data is also left and right-censored, potentially introducing bias into my estimates, I mitigate this problem by adjusting for censoring in my estimates.[5]

My key independent variable of interest is the log of North-South BITs that go into operation for each given leader. I exclude South-South BITs from my analysis in order to assess the effect that MNCs from capital-exporting states have on a country's political institutions and thus better isolate the hypothesized causal mechanism. I recode the data from Tobin and Busch (2010) so that the observation is the leader-year. I then create a count measure of BITs that reflects the total number of BITs currently in force under each leader. To limit the amount of lost data, I take the log(total BITs+1).[6] By taking the log of the number of BITs in force, I account for diminishing marginal returns from the number of BITs signed.[7]

There exists substantial variation in the number of BITs that go into force under a leader's tenure. While the median leader does not have any BITs come into force under its tenure, leaders such as Deng Xiaoping of China, Alberto Fujimori of Peru, and Nelson Mandela of South Africa have had over a dozen BITs come into force while they were in office. I argue that this variation helps explain why some leaders stay in office longer than

[4] In my main analyses, I include leaders who died in office of natural death as well. Assuming that the probability of dying in office is independently and identically distributed across all leaders, my estimates should not be affected by the inclusion of these leaders. While including these leaders provides us with relevant information, removing leaders who died in office from my analysis does not qualitatively change my results.

[5] Leaders that entered into office before 1960 do not enter into the likelihood function until 1960. Similarly, a number of leaders stay in office past 2001 even though the likelihood function ends after 2001.

[6] The log of zero is undefined. Because most leaders do not have a North-South BIT go into force in a given year, I would lose a substantial amount of data leading to biased and/or inconsistent estimates.

[7] The use of the Cox Proportional Hazards model should also account for diminishing marginal returns by accounting for time dependency.

their peers.

My key hypothesis is that the effect of BITs on leader survival is conditional on a leader's level of democracy.[8] To test this proposition, I use the Polity II measure of democracy–a subjective measure of a country's level of democracy (Marshall, Jaggers, and Gurr, 2013). In my analyses, I use the cumulative democracy score, Polity II, which ranges from -10 (completely autocratic) to 10 (completely democratic).[9] Specifically, I interact the Polity II index with the log of number of BITs in force to test my hypothesized conditional relationship.

Besides the standard economic control variables such as real GDP per capita (purchasing power parity, constant 2005 international $, logged), the lagged growth rate of real GDP (percent), and population size (logged), I also account for a number of other potentially confounding variables. The inclusion of these variables should help to eliminate alternative hypotheses that may account for my results.

First and foremost, I control for the amount of FDI (% of GDP) a country receives. After all, BITs are specifically designed to bring FDI into the host country (Elkins, Guzman, and Simmons, 2006). Ahmed (2012) and Bueno de Mesquita and Smith (2009) find that free resources in the form of foreign aid, oil rents, and remittances enhance an autocrat's ability to survive in office. FDI may certainly be another form of resources that leaders can appropriate to reward their base of support.

At the same time, Stolper-Samuelson logic implies that domestic capital elites might be opposed to inflows of foreign capital that may result from BITs. If autocrats strictly garner their power from domestic capital, then it may be the case that autocrats actually should get punished by their winning coalition. Frieden (1991) argues, however, that there is vast heterogeneity within domestic capital over their preferences for or against FDI in-

[8] Arias, Hollyer, and Rosendorff (2014) find a similar effect of BITs on leader survival. They argue that the BITs affect political survival through their effect on FDI. Yet, theory suggests that the effect of FDI on political survival is ambiguous and the evidence presented in this paper demonstrates that the effect of FDI is not robust.

[9] Cheibub, Gandhi, and Vreeland (2010) point out a number of problems with the Polity II index. I use the Polity II in my main models because Hollyer and Rosendorff (2012) serves as my baseline model. My main results hold when using the Cheibub, Gandhi, and Vreeland (2010) index as well.

flows. Moreover, many foreign firms often work in conjunction with domestic capital as well through linkages, technology transfers, and joint-ventures (Jensen et al., 2012; Bastiaens, 2013; Markusen and Venables, 1999). In effect, competition between foreign and domestic capital may not be so severe thus making the welfare effect from increased foreign investment ambiguous for business elites.

How might democrats be harmed by FDI? Given the literature on democracy and FDI, it is not at all apparent why democrats would get punished by bringing in more FDI. At the macro-level, foreign investors look favorably upon democratic institutions because they reduce political risk (Henisz, 2000, 2002*b*; Jensen, 2003; Jensen and McGillivray, 2005; Jensen, 2006; Li, 2009; Jensen et al., 2013*a*). From the perspective of democratic leaders, FDI can increase employment, wages and economic growth–all desirable effects for democrats.

Openness to trade and investment may, however, harm local communities and the environment (Rudra, 2011; Rudra and Joshi, 2012). If there is a sizable population that suffers from the negative externalities to FDI, it is reasonable to suggest that they might blame incumbents. These externalities, however, generally disproportionally affect the poorest members of the society who also happen to face high barriers to collective action (Olson, 1971; Deyo, 1989; Weyland, 1995, 1996; Rudra, 2002, 2004; Ross, 2006). Thus, those most harmed by FDI–the poorest and least organized members of society–may be the least able to exert political influence and punish democratic leaders. As a result, I argue that BITs have an effect on political survival that is independent of the potential FDI mechanism. Nevertheless, I test whether my results are being driven by the effect of BITs on FDI inflows using data from Penn World Table 8.0 and the World Development Indicators (Feenstra, Inklaar, and Timmer, 2013; World Bank, 2014).

I also control for other free resources that have been identified in the literature to affect political survival. It may be the case that leaders in countries with highly specific assets such as oil may ratify BITs in order credibly commit to upholding an MNCs investments in that sector. As a result, I include a categorical variable for whether a country is a major oil exporter as this variable has been associated with a higher probability of retaining office (Ross, 2001; Jensen and Wantchekon, 2004; Smith, 2004, 2008; Bueno De Mesquita and Smith, 2010; Ahmed, 2012). It may also be the case that capital-exporting states may use foreign policy tools such as foreign aid to encourage capital-scarce countries to sign BITs with them. Because foreign aid has been found to be associated with political survival, I include it in all of my models (Knack, 2004; Smith, 2008; Kono and Montinola, 2009; Bueno De Mesquita and Smith, 2010; Ahmed, 2012).

Political risk, a factor important to MNCs, might also simultaneously affect BIT signing and leader survival. To account for this, I include a number of variables to reduce these concerns. First, I include the level of democracy as measured by a country's Polity II score because it has been shown to reduce political risk (Jensen, 2003; Jensen and McGillivray, 2005; Jensen, 2006; Li, 2009; Jensen et al., 2013*a*) and is related to political survival (Bueno De Mesquita et al., 2004; Kono and Montinola, 2009; Ahmed, 2012). Second, I include an index of economic transparency created by Hollyer, Rosendorff, and Vreeland (2014) because Rosendorff and Shin (2012) find that less transparent countries sign more BITs.

Involvement with international financial institutions such as the IMF and World Bank may also be another set of confounding factors. It might be the case that developing countries that are involved with these institutions may be pressured to sign these treaties in order to demonstrate a commitment to market liberalization. I include whether a country is under an IMF program as interaction with the IMF has been found to be positively correlated with BIT signing (Elkins, Guzman, and Simmons, 2006) and potentially leader survival through their effect on a leader's budget constraint (Smith and Vreeland, 2006; Nooruddin and Vreeland, 2010; Caraway, Rickard, and Anner, 2012) or his or her perceived competence (Dreher and Gassebner, 2012). I also include the number of World Bank programs that a country has concluded within a given year as well given its relationship to the probability that a government undergoes a crisis (Dreher and Gassebner, 2012).

Because I am interested in the effect of BIT ratification on political survival, I must also account for factors that might simultaneously affect the determinants of ratification and leader tenure. Several studies find that the number of veto players influences the timing of ratification (Haftel, 2010; Baccini and Urpelainen, 2013; Haftel and Thompson, 2013). As such, I include Henisz (2002*a*)'s measure of veto players to account for this effect.

5.2 Empirical Strategy

Given the nature of my hypothesis, large-N survival analysis is the most appropriate tool to test my theory. Particularly, I use a Cox Proportional Hazards model to evaluate the hypothesized relationship among BITs, regime type, and survival in office. Compared to other survival models such as the Weibull or exponential distributions, the Cox model allows me to make less restrictive assumptions about the shape of the survival curve. In addition, the Cox model enables me to implicitly model time dependence in the effects of my explanatory variables.

I test my key hypothesis that autocrats survive longer in office as more BITs come into force under that autocrat's tenure as compared to democrats and find evidence in support of this proposition. Yet a valid criticism of my estimation strategy is that it suffers heavy model dependence–that is, my econometric model does not take into account endogenous selection of leaders into BITs. While the first best option would be to use an instrumental variables approach to mitigate problems of endogeneity, it is not apparent that an instrument exists that satisfies the exclusion restriction required to produce consistent estimates (Angrist, Imbens, and Rubin, 1996).[10] Because of the lack of a valid instrument, I caution the reader to interpreting these findings causally. Rather, the results show a robust correlation between BIT signing and leader survival.

[10] A potential instrument could be the number of BITs signed by that country's economic competitors (Elkins, Guzman, and Simmons, 2006). However, the theoretical justification is tenuous. The number of BITs signed by competitors can lead to FDI outflows from the country of interest, which can have a plausible effect on a leader's probability of surviving in office especially if the competitive pressures to sign a BIT are particularly acute for the leader. Other potential instruments such as international organization membership and treaty signing have been shown to have effects on leader survival (Mansfield and Pevehouse, 2006; Hollyer and Rosendorff, 2011, 2012; Poast and Urpelainen, Forthcoming).

Following Hollyer and Rosendorff (2012), I use matching methods to mitigate problems of endogenous treaty selection. Using propensity score matching, I pre-process the data to match "non-signers" and "signers" on observable covariates thus creating hypothetical control and treatment groups (Simmons and Hopkins, 2005; Ho et al., 2007). Even when accounting for this source of selection bias, I still find evidence for my hypothesis. While matching methods do not completely solve the selection problem as treaty signing could be driven by unobservable factors, they do provide an encouraging robustness check to my main estimates.

5.3 Results

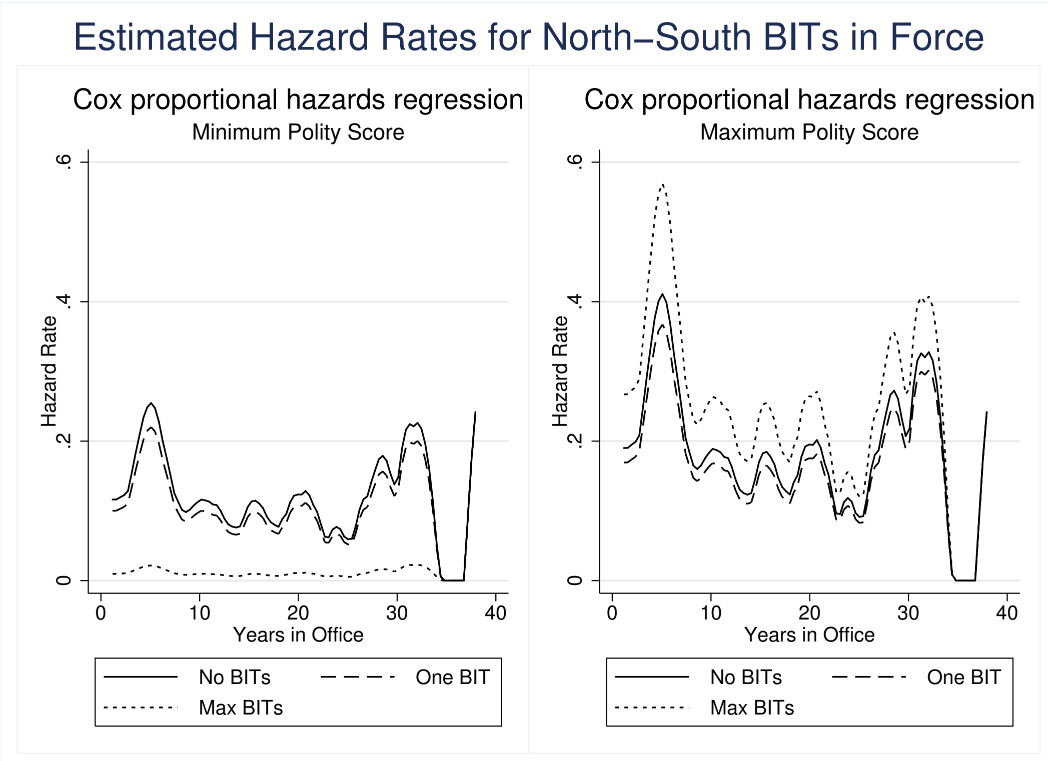
Table 1: A Model of Political Survival

	(1) Model 1: Baseline	(2) Model 2: Free Resources	(3) Model 3: Political Risk	(4) Model 4: IFI Involvement	(5) Model 5: Ratification
BITs (Logged)	-0.244**	-0.287*	-0.298*	-0.290*	-0.292*
	(0.0851)	(0.129)	(0.130)	(0.131)	(0.131)
Polity II	0.0340**	0.0346*	0.0318	0.0346	0.0457*
	(0.0106)	(0.0173)	(0.0181)	(0.0181)	(0.0212)
BITs (Logged)*Polity	0.0396***	0.0410**	0.0424**	0.0400**	0.0403**
	(0.0106)	(0.0147)	(0.0149)	(0.0150)	(0.0149)
Real GDP per Capita (2005 PPP, Logged)	-0.0387	-0.183	-0.194	-0.182	-0.174
	(0.0633)	(0.0974)	(0.105)	(0.103)	(0.104)
Population (Logged)	0.0899**	0.0265	0.0193	0.0585	0.0692
	(0.0336)	(0.0542)	(0.0562)	(0.0773)	(0.0840)
Growth Rate (Lagged)	0.0640	0.182	0.222	0.177	0.179
	(0.0571)	(0.528)	(0.558)	(0.537)	(0.542)
FDI (% of GDP)		-0.0759**	-0.0755**	-0.0745**	-0.0726**
		(0.0250)	(0.0259)	(0.0272)	(0.0271)
FDI*Polity		-0.000781	-0.00108	-0.00105	-0.000909
		(0.00349)	(0.00351)	(0.00350)	(0.00353)
Oil Exporter		-0.103	-0.0815	-0.139	-0.173
		(0.173)	(0.185)	(0.205)	(0.204)
Foreign Aid (% of GDP)		-5.771**	-5.953**	-5.145*	-5.140*
		(1.984)	(2.012)	(2.003)	(2.002)
HRV Transparency Index			0.418	0.470	0.525
			(0.617)	(0.602)	(0.613)
Under IMF Program				-0.208	-0.204
				(0.133)	(0.133)
World Bank Programs				-0.0252	-0.0263
				(0.0237)	(0.0242)
POLCONIII					-0.528
					(0.615)
Observations	3622	1845	1845	1845	1844

Standard errors clustered by country in parentheses
* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

In all specifications of my models, I find evidence for the effect of BITs on leader survival.

Figure 1: Survival Estimates



Note: Estimates derived from Model 5 in Table 1

In general, Table 1 shows that BITs increase the probability of staying in office. The coefficient on the log of North-South BITs in force is negative and statistically significant across all models (p<0.001). A negative coefficient implies that the hazard rate (the probability of being thrown out of office) decreases with an increase in the number of BITs coming into force. In developing countries where business elites may be one of the most powerful interest groups, it seems that leaders are indeed rewarded by this set of actors when ratifying BITs.

In line with my theory, Table 1 shows that the coefficient on the key interaction term is positive and statistically significant across all models. However, the mere presence of statistical significance of an interaction term is neither necessary nor sufficient for there to be a substantively meaningful interaction effect (Brambor, Clark, and Golder, 2006).[11] Figure 1 shows that the BITs decrease the probability of being thrown out of office for

[11]Statistical significance on the constituent components of the interaction term are not enough either (Braumoeller, 2004).

an autocrat while it increases the hazard rate faced by democrats. Though business elites generally seem to reward leaders for signing BITs, this effect diminishes the less influential that these actors become (i.e., the more democratic a country is). Even when controlling for a variety of alternative hypotheses such as FDI, natural resource abundance, foreign aid, international financial institution involvement, political risk, and political constraints, my results hold suggesting that this is a robust correlation.

While increased levels of FDI have a positive and statistically significant impact on a leader's time in office, my main independent variables remain in the expected direction and reach statistical significance. FDI may provide political benefits to leaders by increasing employment, wages, economic growth, or the level of appropriable resources for leaders. My results do not indicate evidence, however, that the ability of leaders to harness the political benefits depends on the country's regime type.

In all models, the growth rate surprisingly does not have a statistically significant impact on leader survival. This may be because growth rates are exhibit a great degree of variation from year to year. It may be the case that negative growth shocks or economic crises are not adequately captured by a year to year growth rate measure. Additionally, the level of development as measured by real GDP per capita does not have a statistically significant impact on political survival as well. Population, however, does have a significant impact on political survival in Model 1 with greater population levels decreasing the probability of surviving in office in line with Bueno De Mesquita et al. (2004)'s Selectorate Theory.

Model 2 adds in the effect of free resources such as FDI, oil rents and foreign aid. Oil exporter status does not seem to have a statistically significant impact on leader survival in any of the models. In line with Bueno De Mesquita and Smith (2010) and Ahmed (2012), foreign aid increases a leader's probability of retaining office and is statistically significant in all models.

Model 3 shows that a country's level of political risk as proxied by economic transparency does not have a statistically significant impact on leader survival. Future research may benefit from exploring whether economic transparency has a conditional effect on political survival.

Model 4 fails to provide evidence that IMF and World Bank programs significantly affect political survival. There is, of course, heterogeneity in the types of IMF and World Bank programs, which may be masking any potential effects of IFI involvement on political survival. Future research may benefit from disaggregating these variables and exploring any heterogenous treatment effects.

Finally, Model 5 shows that one of the main factors leading to BIT ratification as identified by Haftel and Thompson (2013), the presence of veto players, does not have a statistically significant effect on political survival. Encouragingly, my results hold with the inclusion of this variable providing evidence that my findings are not driven by the processes that lead to treaty ratification.

5.4 Robustness Checks

5.5 Relaxing the Proportional Hazards Assumption

My results might be driven by the proportional hazards assumption. The Grambsch-Therneau test rejects globally the proportional hazards assumption while Harrell's rho test indicates that Polity scores exhibits non-proportionality by both shifting the hazard function and changing its shape. To counter-act this problem, I interact my main independent variables with time as well as the natural log of time. My main results remain robust to relaxing the proportional hazards assumption as seen in Models 1 and 2 in Table 2.

Interestingly when allowing for non-proportional hazards, the coefficient on FDI and its interaction with Polity II loses statistical significance at conventional levels. Thus, the models suggest that BITs must affect political survival through mechanisms unrelated to FDI. In contrast to Dreher and Gassebner (2012), the IMF program variable becomes statistically significant and has a negative impact on the probability that a leader is removed from office while the World Bank programs variable remains statistically insignificant. This effect may

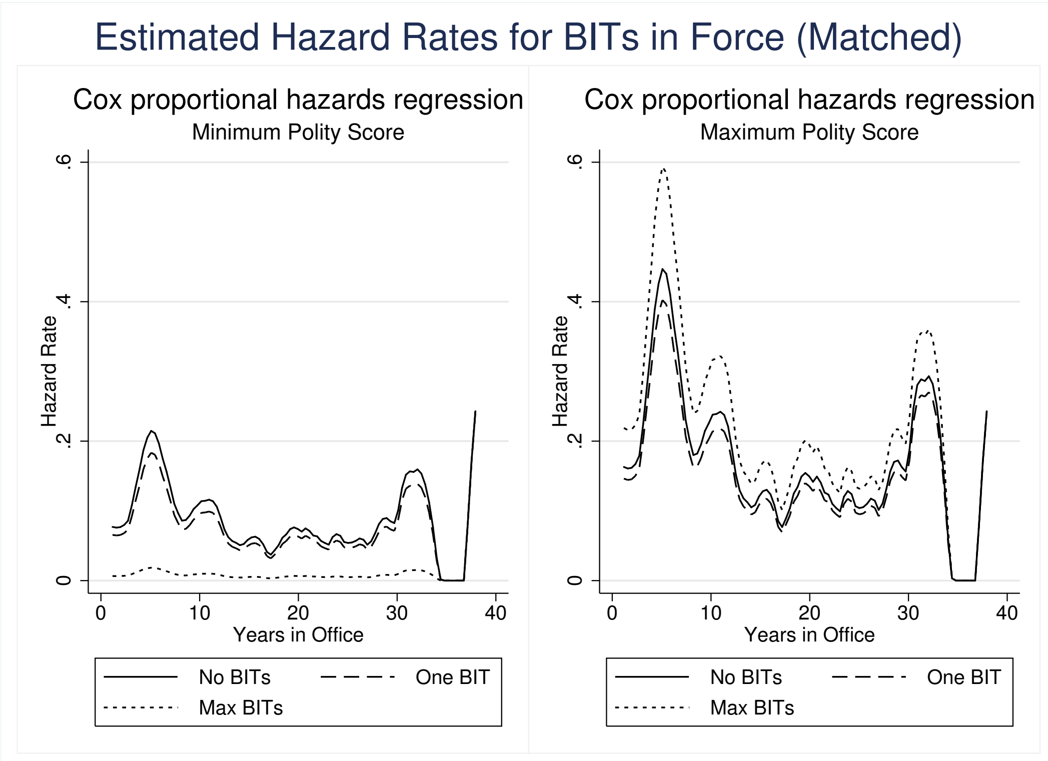
Table 2: Non-Proportional Hazards Model

	(1) Model 1: Time	(2) Model 2: Log(Time)
BITs (Logged)	-0.379*	-0.240*
	(0.164)	(0.119)
Polity II	0.0161	0.0465**
	(0.0204)	(0.0167)
BITs (Logged)*Polity	0.0483*	0.0283*
	(0.0194)	(0.0142)
Real GDP per Capita (2005 PPP, Logged)	-0.0676	-0.0672
	(0.0827)	(0.0799)
Population (Logged)	0.153*	0.159*
	(0.0653)	(0.0649)
Growth Rate (Lagged)	0.0149	0.0168
	(0.0246)	(0.0251)
FDI (% of GDP)	-0.00462	-0.00465
	(0.00847)	(0.00842)
FDI*Polity	-0.00117	-0.00133
	(0.00215)	(0.00209)
HRV Transparency Index	-0.0742	-0.122
	(0.383)	(0.373)
Foreign Aid (% of GDP)	0.493	0.568
	(0.964)	(0.895)
Under IMF Program	-0.276*	-0.288*
	(0.120)	(0.120)
World Bank Programs	-0.0324	-0.0322
	(0.0210)	(0.0203)
POLCONIII	-0.396	-0.413
	(0.518)	(0.531)
Interacted with Time		
BITs (Logged)	0.0245	0.0308
	(0.0148)	(0.0443)
Polity II	0.00795**	0.0176**
	(0.00298)	(0.00619)
BITs (Logged)*Polity	-0.00235	0.00112
	(0.00225)	(0.00591)
Observations	2737	2737

Standard errors in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Figure 2: Survival Estimates using Propensity Score Matching



Note: Estimates derived from Model 5 in Table 1

be driven by the potential "scapegoat" function of the IMF (Vreeland, 2003).

5.6 Propensity Score Matching

It may be the case that the leaders who sign BITs are significantly different from leaders who do not on observable and unobservable characteristics. To mitigate this problem, I follow the method used by (Simmons and Hopkins, 2005) and match "signers" and "non-signers" on observable characteristics. I then estimate a propensity score using a Gaussian-Kernel estimator for each leader and re-weight my sample to improve covariate balance.[12]

When accounting for the (observable) selection of leaders into BITs, I still find robust evidence for my hypothesis. Figure 2 shows that the interaction effect is still present. Again,

[12]My results remain robust to changes in the bandwidth used to match leaders as well as to changes in the modeling specification used to derive the propensity score.

democrats face a significantly higher probability of being thrown out of office as more BITs come into force under their tenure. Autocrats, as the theory predicts, can expect to stay in office longer as more BITs come into force. Even when accounting for selection into BITs on observables, there is still evidence in support of my theory.

5.7 Endogeneity Concerns

While matching techniques provide evidence that my results are not being driven by selection on observable variables, there is always the question of endogeneity. While a first-best approch would be to find a suitable instrument to wash out the potentially endogenous portion of BIT ratification, there are, unfortunately, no apparent instruments that plausibly satisfy the exclusion restriction. Rosendorff and Shin (2012) suggest using United Nations Educational, Scientific, and Cultural (UNESCO) non-economic convention signing as an instrument for BIT signing because UNESCO convention signing is a proxy for a state's propensity to sign BITs. This, however, does not satisfy the exclusion restriction. If UNESCO convention signing is a proxy for a state's propensity to sign international treaties, then it is also the case that the treatment (UNESCO conventions) can also affect whether states sign other treaties that can have consequences for leader survival such as human rights treaties and PTAs. When faced with a paucity of satisfying instruments, it is appropriate to turn to theory to make this identification problem at least partially tractable.

I argue that because leaders signed BITs in three distinct waves, these signings can be treated as partially exogenous to the time that a leader has spent in office. (Jandhyala, Henisz, and Mansfield, 2011). While countries were slow to adopt these treaties during the 1960s through the 1970s, Jandhyala, Henisz, and Mansfield (2011) provide evidence that countries rushed to sign these treaties as it became a global norm in the late 1980s and the 1990s. As such, the development of this normative rush to sign BITs can be seen as a partially exogenous shock. Particularly, the precise time at which it became fashionable to sign these treaties can be seen as unrelated to amount of time that leaders were in office during the development of this norm. This gives us empirical leverage over the endogeneity problem because the timing of the treatment–a substantial amount of the BITs signed thus far–can be seen as-if it were random. Because the global norm that resulted in the rush for developing countries to sign BITs is seemingly exogenous to the amount of time that leaders spent in offices at the time, I argue that there is cause to believe that my results are not being driven by an endogenous relationship between time in office and BIT signing.

Moreover, Poulsen (2013) and Poulsen and Aisbett (2013) argue using econometric evidence as well as interview evidence that the signing of BITs is best understood using a bounded rationality framework. Leaders, at the time that it became the norm to sign these treaties, did not necessarily have all the relevant information and necessary foresight to anticipate the effects that these treaties had outside of bringing in FDI. Therefore, during the late 1980s and the 90s, the leaders that signed these treaties were not able to make the entire set of political calculations needed to predict the effect that these treaties would have on the domestic political economy.

Given these two factors–the timing of the normative rush to sign BITs and leader's inability to calculate indirect costs and benefits of BITs, I argue that BIT signing and ratification can be seen as, at least, partially exogenous to political survival. Thus, my results provide evidence that the relationship may indeed be causal rather than merely correlational.

6 Conclusion

What are the political consequences of Bilateral Investment Treaties? In this paper, I provide a theory of how BITs affect a leader's prospects of surviving in office. Specifically, I argue that these treaties shape the incentives for MNCs and governments to create and maintain a strong business environment (Tobin, 2007). Using survival analysis, I provide robust evidence that these treaties have a conditional effect on the likelihood that a leader survives in office.

Theory suggests that my findings are not driven by endogeneity between BITs and political survival (Jandhyala, Henisz, and Mansfield, 2011; Poulsen, 2013; Poulsen and Aisbett, 2013). For leaders who rely on satisfying a small business elite to maintain office, a reduction in the level of property rights benefits business elites thus increasing the probability that an autocrat stays in office. Unfortunately for leaders who rely on a relatively large set of citizens to stay in office, such a reduction in the business environment harms SMEs. In turn, SMEs can potentially punish through the ballot box decreasing the probability that a democrats survives in office.

My findings provide evidence as to how these institutions have unintended consequences. Ostensibly, BITs are strictly related to FDI. Yet, it is important to note that BITs are primarily an international institution that governments use when they lack such institutions at home. When the benefits of these institutions are only available to actors that reside outside of that country's borders, this shifts the incentives that both MNCs and governments face. As a result, these treaties may end up empowering autocrats and punishing democrats.

While scholars have pointed to several potential mechanisms that explain why autocrats sign more BITs including political risk (Rosendorff and Shin, 2012) or through multilateral negotiations (Lupu and Poast, 2013), my results point to an alternative mechanism that may explain this empirical regularity. Further research into the precise mechanisms at work could prove a fruitful avenue for future research.

This study also has implications for those interested in poverty and economic development. Strong property rights institutions have long been considered the centerpiece of economic growth and development (North and Weingast, 1989; Acemoglu, Johnson, and Robinson, 2001; De Soto, 2003; Acemoglu and Johnson, 2005). BITs, ironically, undermine these by reducing the incentive for MNCs to push for a broader system of domestic institutions. By empowering autocrats, BITs may also perpetuate bad economic policies that may harm long-term economic growth as well as government spending in areas such as health and education that are essential to reducing poverty (Dreze and Sen, 1989; Lake and Baum, 2001; Bueno De Mesquita et al., 2004). While BITs may potentially bring in more FDI, which may help the poor in developing countries, they also have unintended consequences for the broader domestic political economy by empowering autocrats.

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