Votes, Vetoes & PTAs

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Why Sign PTAs?

- Close to 400 PTAs now, but could be over 20,000 if all countries joined

- Some join many, some join few.
  - Only Mongolia is not in a PTA now.

- Some join early, some later.
  - Asia had no PTAs till 2000

- What explains this variance in when countries form or join PTAs?

Why Sign PTAs?

- Economic causes
  - Economic gains. Do PTAs promote trade?
  - Economic gains, but world losses: protection for some sectors (G&H)
  - How important are these?
- What are leaders calculating when they negotiate & sign them?
  - POLITICS

Domestic Politics & PTAs

- Interest group arguments
  - Some interest groups prefer PTAs to WTO
    - PTAs and scale economies (Milner; Chase)
    - Increasing returns to scale within larger market as platform for greater exports worldwide
    - Strategic trade theory of 1980s and 1990s
  - MNCs and global production networks (Manger; Solis)
    - MNCs press for special trade arrangements with countries they ship goods into and out of

Domestic Politics & PTAs

- Our argument: political benefits & costs of PTAs
- Leaders vary (G&H), some captured by special interests who want protection
  - Publics don't know leaders' type & don't know trade policy
  - In bad economic times, they may oust leaders for rent seeking even if they didn't
  - All lose from this: competent leaders rejected and more protection likely

Our Argument

- Leaders sign PTAs to reassure publics
  - Commitment to lower protection than otherwise
  - Monitoring device for publics about leaders' compliance
- PTAs help leaders stay in office longer
  - Less likely to be ousted if bad times
  - Office seeking motivation is key
- Public gains
  - Less rent seeking & competent leaders retained

Empirical Implications

- The greater the possibility that leaders can be ousted by public, the more they are motivated to seek PTAs
  - More competitive political systems, more democracy, thus the more PTAs
    - PTAs should increase longevity, other things considered
    - More competitive autocracies should sign more PTAs
    - Left wing gov's that're more likely to face protectionist pressure should sign more PTAs
    - More democratic countries should sign deeper PTAs

Political Costs of PTAs

- Making an agreement is costly
  - Some groups lose and they oppose
- If political system has veto players that represent losers, then hard to sign PTA
  - Veto player=preferences + institutional capability to block
- The more veto players, the more likely losers are represented, the less likely is PTA

Two Main Hypotheses

- More democratic countries, more likely to sign PTAs

- More veto players, less likely to ratify PTAs

- Controls:
  - Economic factors (trade, GDP, etc)
  - Geography (distance, contiguity, etc)
  - International politics (hegemony, disputes, allies)
  - Diffusion pressures (other countries' behavior)
  - GATT/WTO

2 Key Variables

- Regime type
  - POLITY 1-21 point scale
    - Competitiveness of elections, leader selection
    - Political participation
    - Institutional limits on exec
  - Variations on it

- Veto players (institutions + preferences)
  - Polcon (Henisz) (0-1) spatial model: institutions plus balance of parties in leg
  - Checks (Beck, WB) institutions plus partisanship, 1975
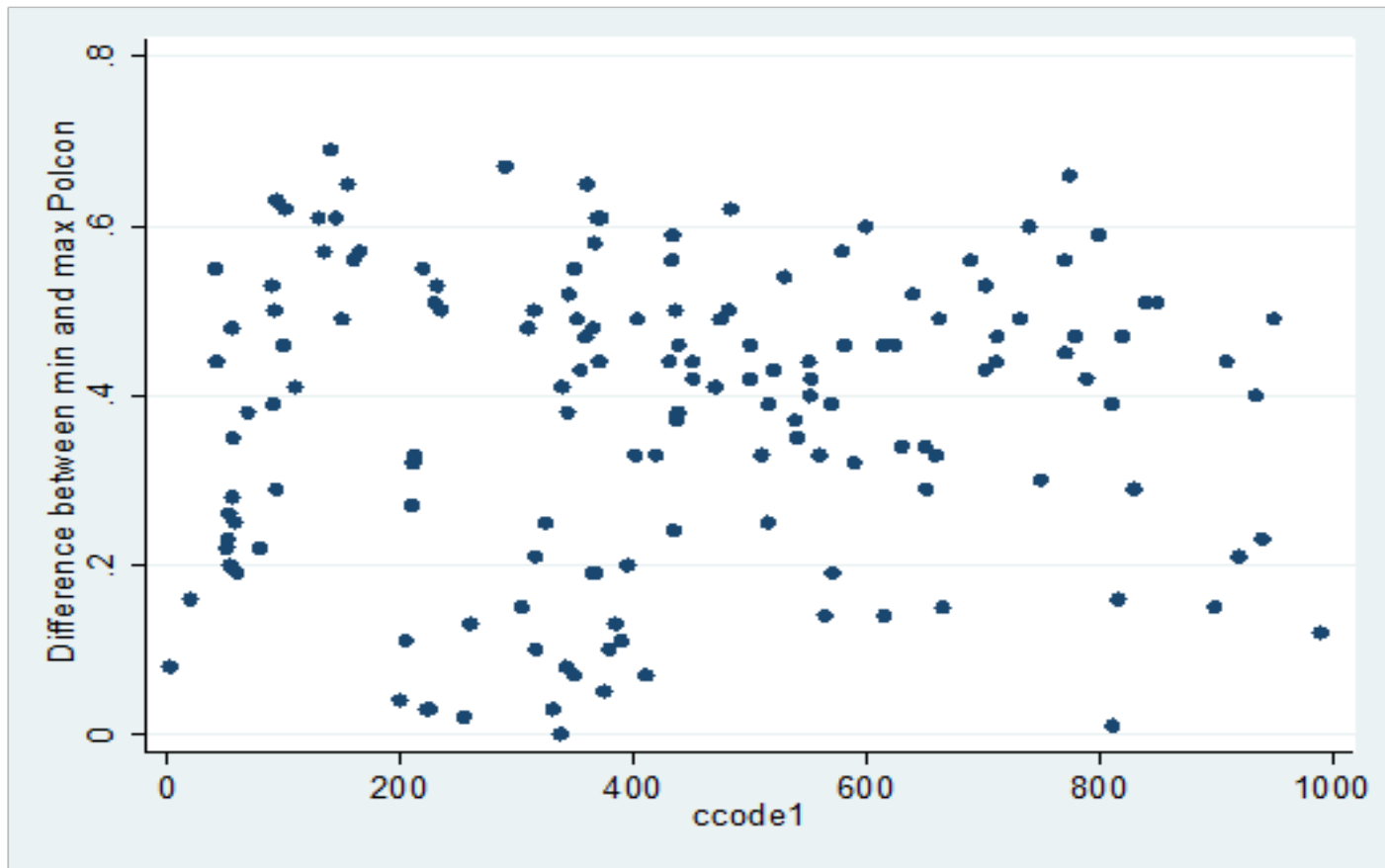
Variation in POLCON

Table 1. Summary Statistics

|	N	Mean	Std. Dev.
PTA Ratification	1246407	0.008	0.088
Regime Type	1077348	11.126	7.507
Veto Players	1178204	0.199	0.216
Checks	822886	2.445	1.688
Democracy (Polity >= 17)	1077348	0.374	0.484
ACLP democracy	1126239	0.426	0.494
Competitive election	1041036	0.383	0.486
Polity (excluding executive constraints)	1041036	-0.289	5.000
Trade (logged)	1212889	-2.404	4.978
GDP (logged)	1185246	16.888	2.099
ΔGDP (in $100 billion)	1171772	0.058	0.368
Dispute (PRIO)	1212889	0.001	0.031
Dispute (MID) (COW)	1136005	0.004	0.065
Alliance (ATOP)	1212889	0.097	0.296
Alliance (COW)	1048468	0.070	0.255
Former Colony	1246407	0.006	0.076
Contiguity	1170650	0.033	0.178
Distance (logged)	1203572	8.254	0.781
Hegemony	1212889	0.222	0.019
GATT/WTO	1212889	0.340	0.474
GDP ratio	1158018	2.374	1.792
Existing dyadic PTA	1246407	0.061	0.240
% dyads ratifying PTA	1246407	0.008	0.008
Regional PTA	1212889	0.624	0.785
Trade partner PTA	1212889	52.902	38.144
Post-Cold War (1989-2004)	1246407	0.457	0.498
GATT round in progress	1212889	0.553	0.497
Time since last GATT round	1212889	5.506	3.871
UN S score	1021264	0.703	0.274
Contagion	1056857	0.002	0.015

Table 2: The Estimated Effects of Regime Type, Veto Players, and other factors on PTA Ratification, 1951-2004.

	Base model	Dyadic fixed effects	Dyad&year fixed effects	All variables lagged t-1	COW alliance/MID
Regime Type	0.028***	0.051***	0.032***	0.008***	0.029***
	(0.003)	(0.004)	(0.004)	(0.003)	(0.003)
Veto Players	-0.575***	-1.115***	-0.977***	-0.240***	-0.578***
	(0.095)	(0.114)	(0.120)	(0.088)	(0.101)
Clusters	32307			32322	32154
Log-likelihood	-39109.006	-20778.351	-18117.637	-40541.243	-34020.249
N	1003363	182146	182146	1032040	915589

Note: Entries are logistic regression estimates with robust standard errors (clustered by dyad) in parentheses. Statistical significance is indicated as follows: *** $p < 0.01$; ** $p < 0.05$; * $p < 0.1$. All tests of statistical significance are two-tailed.

Control variables (not shown) include: Existing PTA, Trade (logged), GDP (logged), ΔGDP (in 100 billion), Dispute (PRIO), Dispute (COW), Alliance (ATOP), Alliance (COW), Former colony, Contiguity, Distance (logged), Hegemony, Post-Cold War (1989-), GDP ratio, % dyads ratifying PTA, GATT/WTO, and 7 region dummies.

Figure 4.1: The Effect of Regime Type on the Probability of PTA Formation
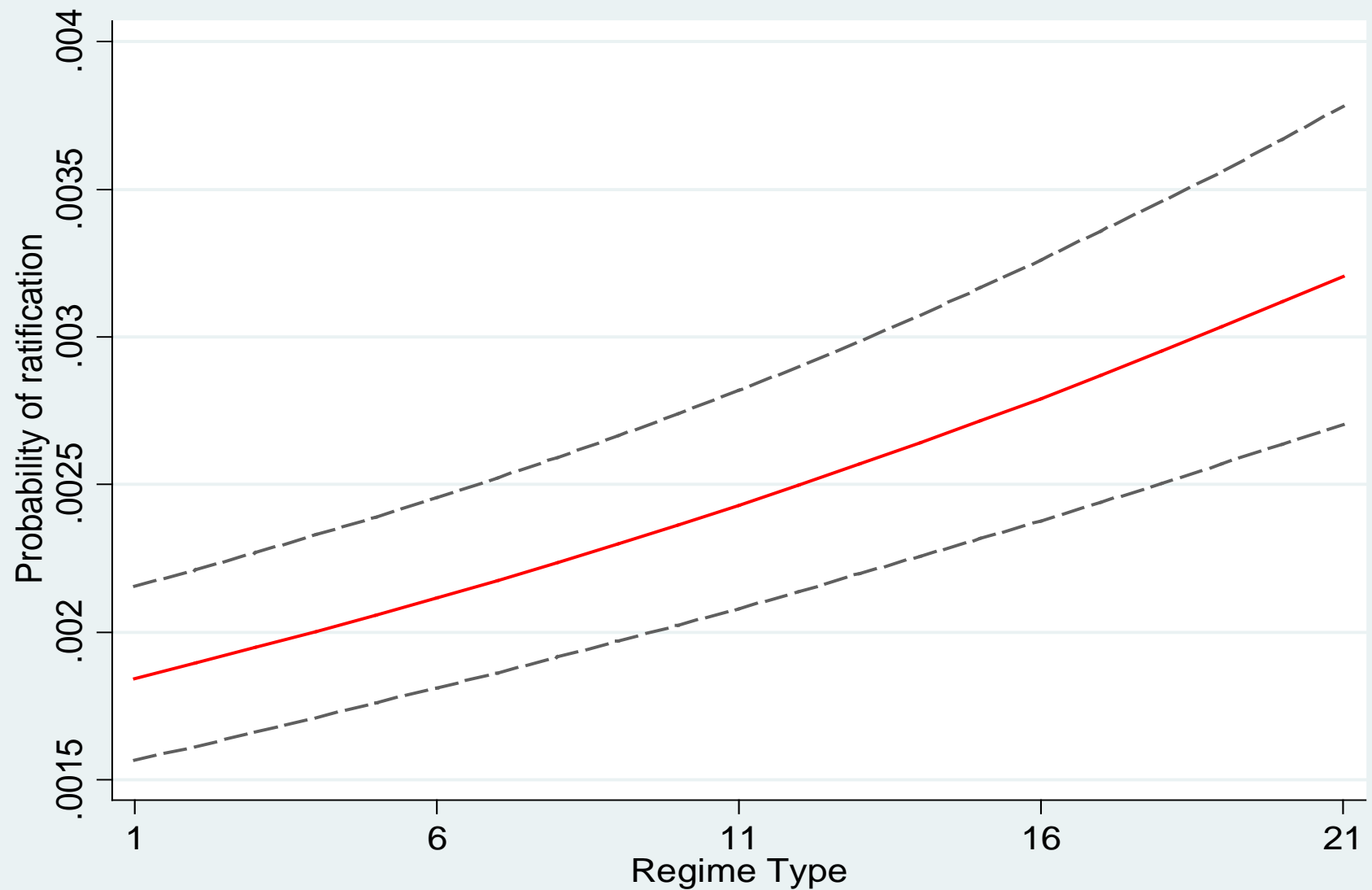
Note: To compute these predicted probabilities, we use the estimates in the first column of Table 4.2. The continuous variables are set to their medians. *Post-Cold War* is set to 1 and the remaining dichotomous variables are set to 0.

Figure 4.2: The Effect of Veto Players on the Probability of PTA Formation
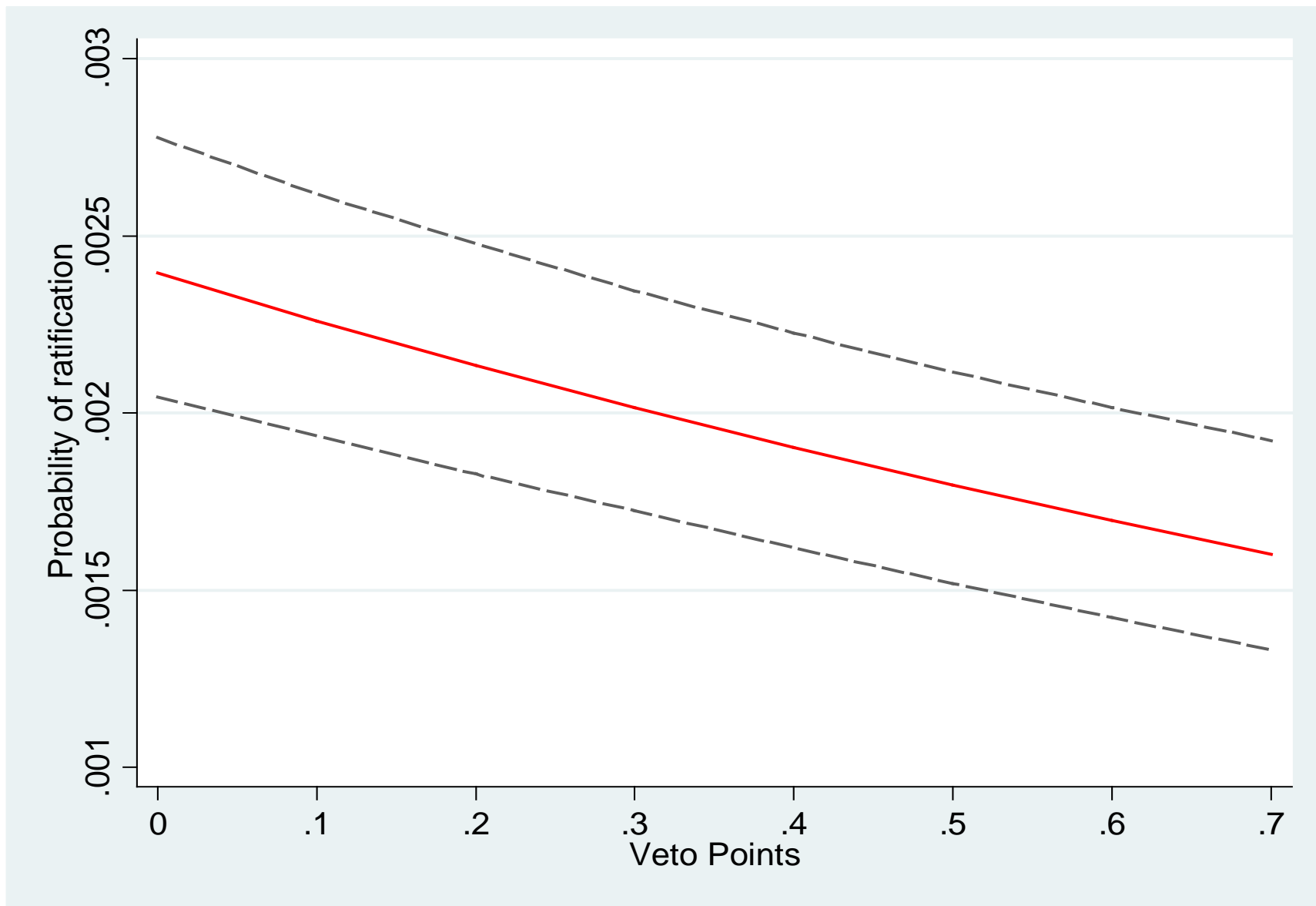
Note: To compute these predicted probabilities, we use the estimates in the first column of Table 4.2. The continuous variables are set to their medians. *Post-Cold War* is set to 1 and the remaining dichotomous variables are set to 0.

Table 3: Supplemental Tests of the Effects of Regime Type and Veto Players on PTA Ratification, 1951-2004.

	Regime Type		Veto Players	
	b	se	b	se
Checks (1975-2005)	0.029***	(0.003)	-0.109***	(0.012)
Competitive Election	0.239***	(0.038)	-0.221***	(0.082)
Competitive Election + Polity[a]	0.324***	(0.076)	-0.830***	(0.125)
Polity (excl. XCONST)	0.027***	(0.005)	-0.335***	(0.095)
Dem Dummy (Polity >= 17)	0.384***	(0.040)	-0.487***	(0.088)
ACLP democ.dummy	0.131***	(0.043)	-0.265***	(0.089)
No EC/EU	0.027***	(0.003)	-0.578***	(0.095)
Rare Events	0.028***	(0.003)	-0.575***	(0.095)
Only 1st PTA in Dyads	0.034***	(0.004)	-0.695***	(0.117)
Exclude Zero Trade	0.021***	(0.004)	-0.273**	(0.116)
WTI RTAs	0.026***	(0.003)	-0.479***	(0.093)

Note: Entries are logistic regression estimates with robust standard errors (clustered by dyad) in parentheses. Statistical significance is indicated as follows: *** $p < 0.01$; ** $p < 0.05$. The remaining variables from Table 2 are included when generating these estimates, but are omitted from the table to conserve space.

[a] This model includes both Competitive Election and Polity, as well as both dyad-specific and year-specific fixed effects. The estimated coefficient listed in the column labeled Regime Type is that of Competitive Election. The estimated coefficient of Polity is 0.011, and the corresponding standard error is 0.006.

Table 4: Effects of Regime Type and Veto Players on PTA Ratification, Controlling for Features of the GATT/WTO, 1952-2004.

	GATT/WTO	GATT Round	Time since GATT Round	All 3 GATT variables
Regime Type	0.028***	0.027***	0.026***	0.026***
	(0.003)	(0.003)	(0.003)	(.003)
Veto Players	-0.575***	-0.540***	-0.431***	-0.436***
	(0.095)	(0.095)	(0.094)	(0.094)
GATT/WTO	0.139***			0.161***
	(0.030)			(0.030)
GATT round in progress		0.155***		-0.105***
		(0.024)		(0.029)
Time since last GATT round			0.052***	0.060***
			(0.003)	(0.004)
Clusters	32307	32307	32307	32307
Log-likelihood	-39109.006	-39089.960	-38966.679	-38960.827
N	1003363	1003363	1003363	1003363

Note: Entries are logistic regression estimates with robust standard errors (clustered by dyad) in parentheses. Statistical significance is indicated as follows: *** $p < 0.01$. The remaining variables from table 2 are included when generating these estimates, but are omitted from the table to conserve space.

Table 5: Effects of Regime Type and Veto Players on PTA Ratification, Controlling for Diffusion, 1952-2004.

	Region PTA	Trade Partner PTA	Contagion	Contagion + Contagion squared
Regime Type	0.028***	0.029***	0.0317***	0.036***
	(0.003)	(0.003)	(0.003)	(0.004)
Veto Players	-0.594***	-0.637***	-0.607***	-0.625***
	(0.096)	(0.095)	(0.114)	(0.125)
Lag % dyads ratifying PTA	36.14***	36.32***		
	(1.358)	(1.349)		
Region PTA	0.055***			
	(0.021)			
Trade partner PTA		0.002***		
		(0.000)		
Contagion			-0.762	-3.540**
			(1.452)	(1.753)
Contagion^2				3.075***
				(0.866)
Clusters	32307	32307	29422	29422
Log-likelihood	-39106.107	-39091.591	-27933.82	-24686.882
N	1003363	1003363	875295	875295

Note: Entries are logistic regression estimates with robust standard errors (clustered by dyad) in parentheses. Statistical significance is indicated as follows: *** $p < 0.01$. The remaining variables from table 2 are included when generating these estimates, but are omitted from the table to conserve space.

Conclusions

- Politics matters for PTAs
- Political leaders have domestic politics reasons for PTAs
  - Political benefits
  - These benefits are higher in more competitive systems
- But there are domestic political costs of PTAs
  - More veto players
  - Does this say something about interest groups?

Mansfield-Milner PTAs

- Update and extension of two PTA databases used in Political Science
  - Data from 1946 to 2005
  - 389 agreements in database
- 3 important additions to PTA databases
  - 1) Improved and new date information
  - 2) Data on investment clauses
  - 3) Data on dispute settlement mechanisms

New Date Information, pt 1

- Most PTA databases have either signing or in force date
  - M-M database has both
- Also, collected exact signing and exact in force dates
  - Exact dates for 258 of the 389 agreements
    - Exact dates for 173/248 bilateral, 41/67 multilateral, and 44/74 spoke agreements
    - Average time between signing and in force date was 325 days with a median of 217 days
    - 13 agreements where time between signing and in force > 1000 days and 12 went into force when signed

New Date Information, pt 2

- Exact ratification dates
  - Date will vary for each country in agreement
- Dates collected from newspaper sources such as Factiva and Lexis-Nexis, from the UN Treaty Series, and from country websites
  - Exact dates for 277 bilateral partners and 285 multilateral partners
  - Another 136 multilateral and 72 bilateral agreements in force same year as signed
- Provides some indication of political process of PTAs

Investment Clauses

- Full text of all PTAs in database
- Coded 3 categories for investment clauses
  - 1) No investment clause
  - 2) Some mention of investment
  - 3) Meaningful investment provision (e.g., MFN status, sanctions)
- Of the 389 PTAs:
  - No information for 74 PTAs
  - 180 have no investment clause
  - 58 have some mention of investment
 - 77 have detailed investment provisions

Investment Clauses, pt 2

- More PTAs including investment clauses
  - 203/389 agreements signed 1995 or later
  - 28% of PTAs signed before 1995 had investment clause (some or detailed mention)
  - 41% of PTAs signed in 1995 or later had investment clause
  - After 2000, 59% had investment clause (96 agreements)

Dispute Settlement Clauses

- 3 categories
  - 1) No DSM
  - 2) DSM internal to PTA
  - 3) DSM with outside enforcement
- Almost all PTAs have some form of DSM
  - Missing information on 71 PTAs
  - 30 have no DSM (all but 2 signed before 1995)
  - 189 have internal DSM
  - 99 have DSM with outside enforcement

PTA information by 10-year periods
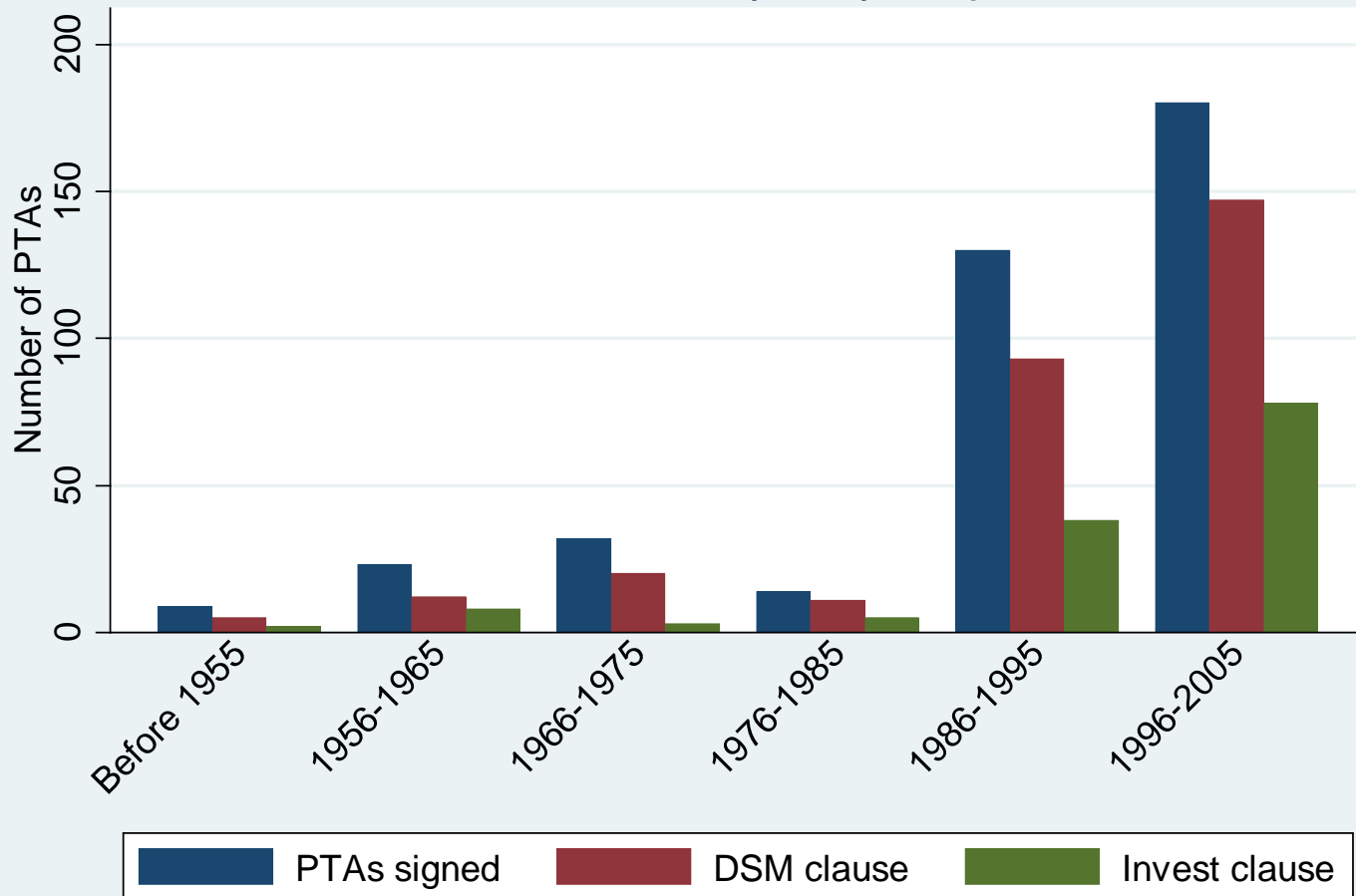
Future Directions

- Update data to the present
  - Included PTAs notified to WTO since 2005
  - Need to fill in ratification dates
- Code for more design features of PTAs
  - Labor, environment, finance, IPR, escape clauses, etc
  - Detailed or not?
  - Vary by major country (US vs EU vs China with Chile?)
- Go back in time?
  - Interwar trading blocs?