

# 6. *Trade and Investment Treaties*

- *6.1 The Politics of FDI*
- *6.2 Investment Treaties*
  - *Purpose*
- *6.3 Trade Agreements*
  - *Purpose*
  - *Consequences*

# 6. TRADE AND INVESTMENT TREATIES

## 6.1. THE POLITICS OF FDI

- *FDI and Economic Development*
  - *FDI and Host Countries*
    - ➔ *Patterns of Investment and Host Country*
      - *Motives of Investment – Ownership/Market/Internalization*
      - *Production – Vertical integration vs. Horizontal integration*
  
- *Foreign Investment Promotion and Regimes*
  - *Democratic advantages*
    - ➔ *Policy stability (⇔ Veto players, Audience costs),*
    - ➔ *hospitality economic competence*
    - ⇔ *Policy opposition*
      - ➔ *antimonopoly, indiscriminate spending and tax incentives, labor protection (⇔ Autocracy)*
  
- *Foreign Investment Consequences*
  - *Risk of expropriation*
  - *Development*
    - ➔ *Human rights, human resources, etc. (➔ Foreign Aid/Lecture 11)*

# 6. TRADE AND INVESTMENT TREATIES

## 6.2 INVESTMENT TREATIES

### ○ Historical Context

#### ○ Host Country Hold-up vs. Due Process

- Protection against -- unequal, unfair treatment/arbitrary policy/performance criteria/expropriation (Calvo Doctrine)
- non-discriminatory, prompt, adequate, effective compensation (Hull Rule 1938)

#### ○ Three Waves

- 1960s~/late 1980s and 1990s/2001~
- ➔ Time inconsistency problem/global standard for legitimacy and acceptance/return to the initial problem

### ○ Purpose

#### ○ Host Country

- Capital competition (≈ capital liberalization)
- Domestic commitment and credibility
  - “tying ones hands” and “sunk costs”/“hold-up problem

#### ○ Investor Country

- Dispute settlement (➔ ICSID clause ⇔ Calvo Doctrine)
- Effect of treaty violation
  - Loss of investment ➔ taken before ICSID < losing ICSID

# 6. Trade and Investment Treaties

## 6.3 Trade Agreements

- *Trade and Democracy*

- *Democratization* ⇔ *single party autocracies, or markets?*
- *Asymmetrical affects (open among develop/NTB protection against LDC)*

- *Trade Agreements*

- *Purpose* (⇔ Lectures 4 &5)

- *Economic Motives* (→ *Market Opening*)
- *Political Motives*
  - *Economic Integration and Domestic Reform*
  - *the opposing effects of Democracy/Veto players*
  - *Dispute Settlement*

- *Consequences*

- *Effect on trade agreement expansion*
  - *The logic*
    - *Trade creation/trade diversion (Viner: GATT/WTO XXIV)*
    - *Third party alternative to trade diversion* → *join / counter / sanctions / WTO*
    - *FTA expansion* → *openness/size similarity/political and economic similarity*
- *Effect on investment*
- *Effect on political survival (?)*

## 6.1 Foreign Investment Democratic advantages

**TABLE 2.** *The economic and political determinants of FDI (cross-section)*

Variables	Model 1	Model 2	Model 3	Model 4
MARKET SIZE	0.200 (1.463)	0.183 (1.198)	0.268* (1.705)	0.259 (1.629)
DEVELOPMENT LEVEL	0.088 (0.351)	-0.124 (-0.340)	-0.358 (-0.945)	-0.336 (-0.874)
GROWTH	-0.2857*** (-2.857)	-0.266** (-2.465)	-0.321*** (-3.243)	-0.317*** (-3.176)
TRADE	0.030*** (7.151)	0.031*** (6.673)	0.034*** (10.048)	0.034*** (8.883)
NATURAL RESOURCES	6.623*** (3.114)	6.365*** (2.792)	5.217*** (2.701)	5.234*** (2.731)
GOVERNMENT CONSUMPTION	-0.076** (-2.441)	-0.091*** (-2.797)	-0.044 (-1.189)	-0.043 (-1.145)
BUDGET DEFICIT	-0.116** (-2.111)	-0.125** (-2.267)	-0.117** (-2.428)	-0.118** (-2.399)
DEMOCRACY	0.057** (2.208)	0.053* (1.902)	0.060** (2.156)	0.100 (0.804)
HUMAN CAPITAL		0.149 (1.289)	0.203* (1.893)	0.205* (1.880)
DEMOCRACY SQUARED				-0.002 (-0.339)
FDI INFLOWS CONTROLS			-1.839*** (-3.597)	-1.798*** (-3.357)
Constant	-6.857** (-2.500)	-5.305 (-1.511)	-6.316** (-2.014)	-6.374*** (-2.014)
N	78	71	68	68
R <sup>2</sup>	0.68	0.70	0.75	0.75

Note: All regressions are ordinary least squares (OLS) cross-sectional regressions using net FDI inflows as a percentage of GDP averaged from 1990-98 as the dependent variable.  
\*\*\*p < .01, \*\*p < .05, \*p < .10.

**TABLE 4.** *Panel analysis*

Variables	Model 10	Model 11	Model 12
LAGGED FDI	0.364*** (5.059)	0.358*** (4.952)	0.361*** (5.006)
MARKET SIZE	-0.554 (-1.236)	-0.206 (-0.438)	-0.516 (-1.121)
DEVELOPMENT LEVEL	0.834* (1.868)	0.419 (0.886)	0.803* (1.762)
GROWTH	0.024*** (2.961)	0.024*** (2.897)	0.024*** (2.867)
TRADE	0.006 (1.249)	0.006 (1.402)	0.006 (1.330)
BUDGET DEFICIT	-0.023** (-2.187)	-0.024** (-2.272)	-0.024** (-2.261)
GOVERNMENT CONSUMPTION	-0.039** (-2.357)	-0.041** (-2.444)	-0.042** (-2.508)
CAPITAL CONTROLS		0.054** (2.441)	
FDI INFLOWS CONTROLS			0.002 (0.014)
DEMOCRACY	0.021*** (2.606)	0.021*** (2.358)	0.019** (2.224)
Time dummies	Yes	Yes	Yes
Country dummies	Yes	Yes	Yes
Observations	1630	1609	1609
Countries	114	113	113
R <sup>2</sup>	0.72	0.72	0.72

Note: All regressions are ordinary least squares (OLS) regressions using annual net FDI inflows as a percentage of GDP as the dependent variable.  
\*\*\*p < .01, \*\*p < .05, \*p < .10.

**TABLE 3.** *Robustness of democracy and FDI (cross-section)*

Variables	Model 5	Model 6	Model 7	Model 8	Model 9
MARKET SIZE	0.243 (1.445)	0.246 (1.521)	0.185 (1.162)	0.260 (1.514)	0.219 (1.344)
DEVELOPMENT LEVEL	-0.271 (-0.764)	-0.173 (-0.493)	0.160 (0.517)	-0.135 (-0.389)	0.033 (0.117)
GROWTH	-0.361*** (-3.561)	-0.338*** (-3.329)	-0.277*** (-3.205)	-0.307*** (-3.296)	-0.293*** (-3.149)
TRADE	0.033*** (11.363)	0.034*** (11.389)	0.033*** (10.886)	0.034*** (11.053)	0.033*** (11.139)
NATURAL RESOURCES	5.861*** (3.352)	6.130*** (3.382)	6.025*** (3.171)	6.255*** (3.208)	6.137*** (3.100)
GOVERNMENT CONSUMPTION	-0.040** (-1.134)	-0.042 (-1.167)	-0.257 (-0.734)	-0.038 (-1.043)	-0.036 (-0.916)
BUDGET DEFICIT	-0.114** (-2.523)	-0.111** (-2.413)	-0.112** (-2.430)	-0.120** (-2.493)	-0.115** (-2.329)
DEMOCRACY	0.076*** (3.536)	0.068*** (2.922)	0.084*** (3.669)	0.080*** (3.488)	0.080*** (3.454)
GOVERNMENT REPUTATION	0.198 (1.552)				
EXPROPRIATION		0.165 (1.210)			
CORRUPTION			-0.159 (-1.288)		
RULE OF LAW				0.106 (0.836)	
BUREAUCRATIC QUALITY					-0.017 (-0.128)
FDI INFLOWS CONTROLS	-1.816*** (-3.943)	-1.918*** (-3.643)	-1.840*** (-3.504)	-1.813*** (-3.583)	-1.841*** (-3.579)
N	69	69	69	69	69
R <sup>2</sup>	0.76	0.76	0.76	0.75	0.75

Note: All regressions are ordinary least squares (OLS) cross-sectional regressions using net FDI inflows as a percentage of GDP averaged from 1990-98 as the dependent variable.  
\*\*\*p < .01, \*\*p < .05, \*p < .10.

*Democracy and FDI: 1970-97 (Jensen 2003)*

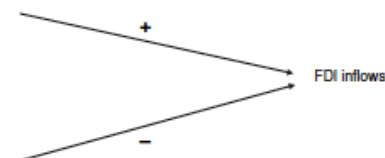
## 6.1 Foreign Investment Democratic advantages

TABLE 1. Effect of democratic institutions on FDI inflows to developing countries 1982–95

	Model 1	Model 2	Model 3	Model 4
DEMOCRACY-RELATED PROPERTY RIGHTS PROTECTION			0.0757** (1.67)	0.0761** (1.67)
DEMOCRACY-EXCLUDED PROPERTY RIGHTS PROTECTION			0.0435*** (3.01)	0.0437*** (3.08)
PROPERTY RIGHTS PROTECTION	0.0522*** (3.16)	0.0519*** (3.33)		
LEVEL OF DEMOCRACY	-0.0878*** (3.45)		-0.0943*** (3.48)	
SELECTION		-0.0714 (0.72)		-0.0798 (0.77)
CONSTRAINT		-0.0935 (1.05)		-0.0921* (1.33)
COMPETITION		-0.0896 (1.06)		-0.0976 (1.17)
JOINT F-TEST		28.5***		42.2***
REGIME DURABILITY	0.0229*** (2.53)	0.0230*** (2.93)	0.0232*** (2.62)	0.0230*** (2.97)
POLITICAL INSTABILITY	-0.0172 (0.90)	-0.0201 (1.00)	-0.0163 (0.82)	-0.0184 (0.89)
LABOR COST CHANGE	-0.0007 (0.30)	-0.0007 (0.28)	-0.0019 (0.76)	-0.0019 (0.73)
ECONOMIC SIZE	1.0299*** (3.61)	1.0289*** (3.72)	1.0775*** (3.68)	1.0759*** (3.76)
ECONOMIC DEVELOPMENT	-0.0973 (0.34)	-0.0858 (0.32)	-0.0047 (0.02)	0.0074 (0.02)
ECONOMIC GROWTH	0.0227** (1.82)	0.0240** (1.87)	0.0189* (1.51)	0.0195* (1.54)
EXCHANGE-RATE VOLATILITY	-0.0001** (2.24)	-0.0001*** (2.12)	-0.0001** (2.05)	-0.0001** (1.95)
CAPITAL FLOW RESTRICTIONS	-0.0854** (1.88)	-0.0877** (1.95)	-0.0801** (1.69)	-0.0815** (1.72)
WORLD FDI INFLOWS	0.0036*** (3.81)	0.0037*** (4.05)	0.0037*** (3.32)	0.0037*** (3.42)
Constant	-25.3194*** (4.58)	-24.1824*** (4.72)	-27.3675*** (4.82)	-26.1584*** (4.96)
Observations	483	483	458	458
R <sup>2</sup>	0.21	0.22	0.22	0.22

Note: OLS estimates and t-statistics in parentheses are based on panel-corrected standard errors (PCSE) with AR(1) correction.  
 \*\*\*p < .01.  
 \*\*p < .05.  
 \*p < .10.

Jensen's democratic governance theory\* (measured by Polity III).

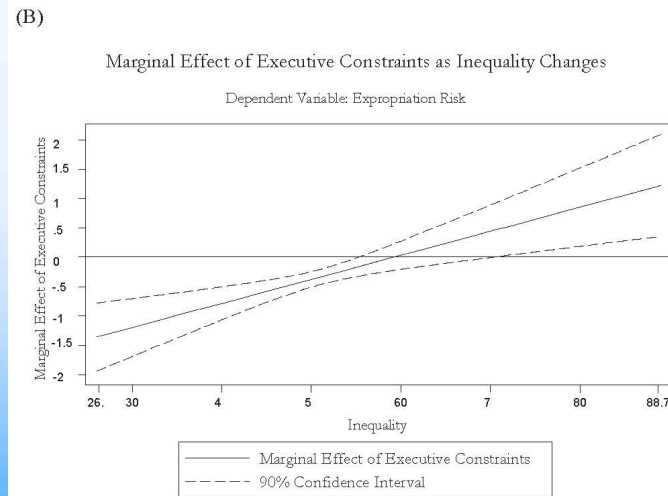
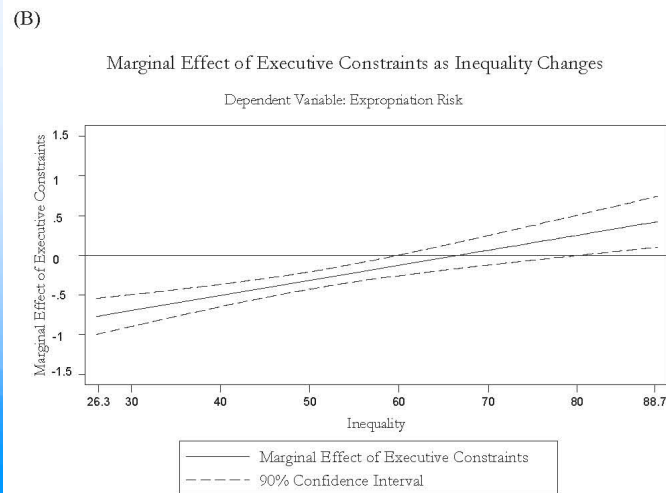
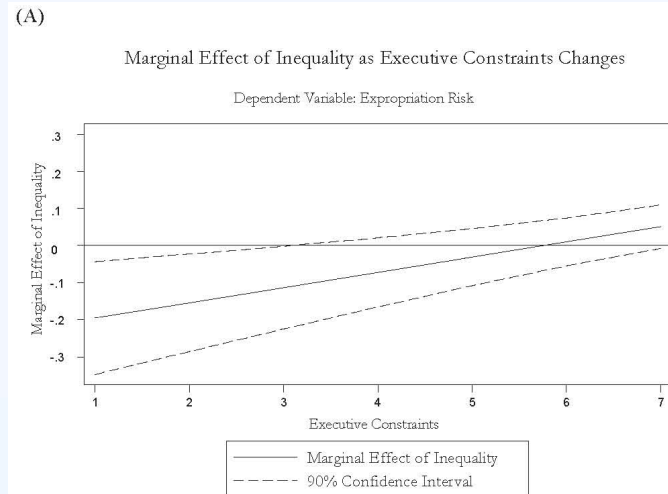
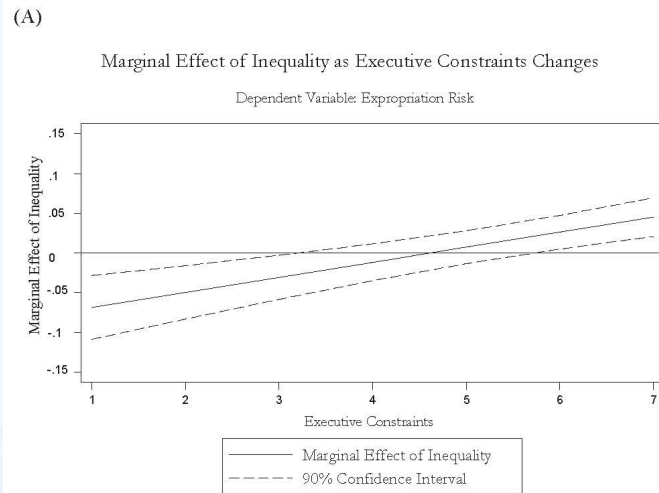


Li and Resnick's democratic institutions theory\*\* (measured by Polity IV).

FIG. 1. Jensen's Democratic Governance Theory, Li and Resnick's Democratic Institutions Theory, and Their Measurements.

Note: \* Jensen stresses two kinds of democratic constraints: veto players and audience costs.  
 \*\* Li and Resnick emphasize three kinds of democratic restrictions: limiting the oligopolistic or monopolistic behaviors of multinational corporations, facilitating indigenous businesses to pursue protection against international investment, and constraining the host government's ability to offer generous financial and fiscal incentives to international investors.

# 6.1 Foreign Investment Expropriation risks



## 6.1 Foreign Investment Consequences

TABLE 1 FDI, Human Rights, and Human Capital (Life Expectancy)

Variables	Model 1 DV = FDI	Model 2 DV = Human Rights	Model 3 DV = Life Expectancy
Human Rights	.81* (.12)	—	.37* (.19)
Life Expectancy	.05* (.01)	—	—
FDI	—	.20* (.05)	—
Market Size	.15* (.06)	—	—
Development	-.44* (.15)	-.03 (.03)	9.60* (.18)
Economic Growth	.07* (.01)	-.01* (.01)	—
Trade Openness	1.30* (.19)	.001 (.10)	—
Government Consumption	-.05* (.01)	—	—
Resource Wealth	.01* (.003)	—	—
Democracy	.01 (.01)	.02* (.004)	.13* (.04)
Internal Conflict	—	-.96* (.06)	—
External Conflict	—	-.12 (.09)	—
Population	—	-.16* (.02)	1.05* (.12)
Observations	1,717	1,717	2,260
R <sup>2</sup>	.23	.20	.58

Note: Cells contain slope coefficients, with robust (Huber-White) standard errors in parentheses. First two models are two-stage regression; third is OLS regression.

\*indicates significance at the .05 level (two-tailed test).

TABLE 2 FDI, Human Rights, and Human Capital (Education)

Variables	Model 4 DV = FDI	Model 5 DV = Human Rights	Model 6 DV = Education
Human Rights	.98* (.15)	—	1.43* (.49)
Education	.02* (.004)	—	—
FDI	—	.18* (.04)	—
Market Size	.20* (.07)	—	—
Development	-.51* (.15)	-.04 (.03)	22.90* (.50)
Economic Growth	.08* (.01)	-.01* (.01)	—
Trade Openness	1.28* (.21)	.02 (.09)	—
Government Consumption	-.07* (.01)	—	—
Resource Wealth	.01* (.003)	—	—
Democracy	.01 (.01)	.02* (.004)	.43* (.07)
Internal Conflict	—	-.95* (.06)	—
External Conflict	—	-.19* (.10)	—
Population	—	-.16* (.02)	1.10* (.30)
Observations	1,536	1,536	2,000
R <sup>2</sup>	.23	.25	.61

Human rights and FDI (Blanton and Blanton 2007)



## 6.2 Investment Treaties Domestic causes

Table 2. Random-effects estimation results (logged FDI flows in 1996, in dollars)

	I	II	III	IV	V
BITs	0.015 (5.34)***	0.031 (3.79)***	0.012 (2.17)**	0.020 (3.66)***	0.020 (3.96)***
ln GDP p.c.	0.548 (5.53)***	0.265 (1.68)*	0.238 (1.50)	0.294 (1.86)*	0.245 (1.64)*
ln population	0.506 (10.27)***	0.594 (6.98)***	0.626 (7.24)***	0.610 (7.08)***	0.625 (7.96)***
Economic growth	1.195 (2.52)**	1.683 (2.42)**	1.553 (2.19)**	1.602 (2.25)**	1.597 (2.26)**
Inflation	-0.0001 (2.07)**	-0.0001 (1.73)*	-0.0001 (1.46)	-0.0001 (1.65)*	-0.0001 (1.64)
Resource rents	0.025 (4.34)***	0.030 (3.61)***	0.023 (2.76)***	0.022 (2.62)***	0.021 (2.59)***
Bilateral trade agreements	0.343 (1.83)*	0.278 (1.34)	0.160 (0.72)	0.344 (1.56)	0.288 (1.34)
WTO membership	0.212 (1.98)**	-0.018 (0.12)	-0.024 (0.16)	0.066 (0.44)	0.137 (0.92)
POLCON	0.350 (1.17)				
BITs * POLCON	0.012 (1.78)				
Composite political risk		0.011 (1.81)*			
BITs * composite political risk		-0.0002 (1.73)*			
Investment profile			0.091 (2.16)**		
BITs * investment profile			0.001 (1.08)		
Government stability				0.091 (2.34)**	
BITs * government stability				-0.001 (0.77)	
Law and order					0.247 (3.56)***
BITs * law and order					-0.001 (0.87)
Observations	2,767	1,346	1,369	1,368	1,367
Countries	120	91	91	91	91
Period	1970-2001	1984-2001	1984-2001	1984-2001	1984-2001
R-squared (overall)	0.46	0.49	0.50	0.49	0.51
Hausman test	28.58	72.11	68.46	73.93	90.24
	0.8659	0.0000	0.0000	0.0000	0.0000

Notes: Absolute *t*-values in parentheses. Year-specific time dummies included, but coefficients not reported. The Hausman test is asymptotically  $\chi^2$  distributed with *p*-values in brackets.

\* Significant at the 0.1% level.  
 \*\* Significant at the 0.05% level.  
 \*\*\* Significant at the 0.01% level.

Table 3. Fixed-effects estimation results (logged FDI flows in 1996, in dollars)

	I	II	III	IV	V
BITs	0.016 (4.23)***	0.033 (3.68)***	0.015 (2.93)***	0.025 (4.52)***	0.020 (3.98)***
ln GDP p.c.	1.916 (4.04)***	3.771 (4.37)***	3.304 (3.60)***	4.052 (4.47)***	3.691 (4.21)***
ln population	-1.344 (2.66)***	-4.942 (5.21)***	-4.513 (4.51)***	-5.176 (5.19)***	-5.033 (5.24)***
Economic growth	1.134 (1.81)*	2.372 (3.35)***	2.366 (3.13)***	2.343 (3.12)***	2.464 (3.24)***
Inflation	-0.0001 (3.16)***	-0.0001 (2.36)***	-0.0001 (2.18)**	-0.0001 (2.41)**	-0.0001 (2.48)**
Resource rents	0.030 (3.63)***	0.036 (2.96)***	0.031 (2.41)**	0.031 (2.47)**	0.028 (2.16)**
Bilateral trade agreements	0.532 (2.17)**	0.119 (0.66)	0.061 (0.32)	0.289 (1.44)	0.199 (1.02)
WTO membership	0.218 (1.98)**	-0.081 (0.52)	-0.111 (0.73)	-0.047 (0.31)	0.027 (0.18)
POLCON	0.233 (0.71)				
BITs * POLCON	0.011 (1.29)				
Composite political risk		0.014 (2.05)**			
BITs * composite political risk		-0.0003 (2.17)**			
Investment profile			0.117 (2.84)***		
BITs * investment profile			-0.000 (0.01)		
Government stability				0.128 (2.88)***	
BITs * government stability				-0.001 (2.12)**	
Law and order					0.290 (4.13)***
BITs * law and order					-0.002 (1.14)
Observations	2,767	1,346	1,369	1,368	1,367
Countries	120	91	91	91	91
Period	1970-2001	1984-2001	1984-2001	1984-2001	1984-2001
R-squared (within)	0.22	0.30	0.30	0.30	0.30

Notes: Absolute *t*-values in parentheses. Year-specific time dummies included, but coefficients not reported. Robust standard errors.

\* Significant at the 0.1% level.  
 \*\* Significant at the 0.05% level.  
 \*\*\* Significant at the 0.01% level.

BITs and Domestic Substitutes (Neumayer and Spess 2005)

## 6.2 Investment Treaties Regional competition

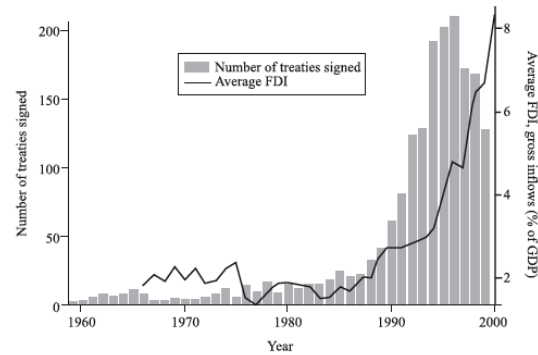
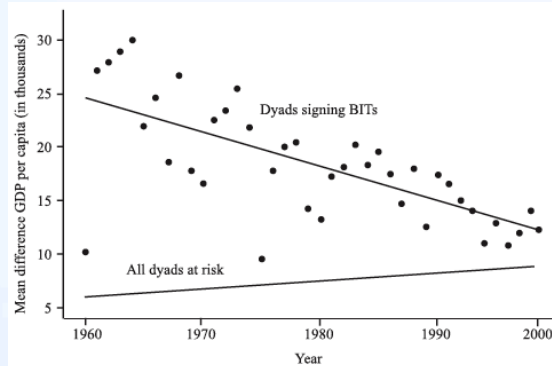
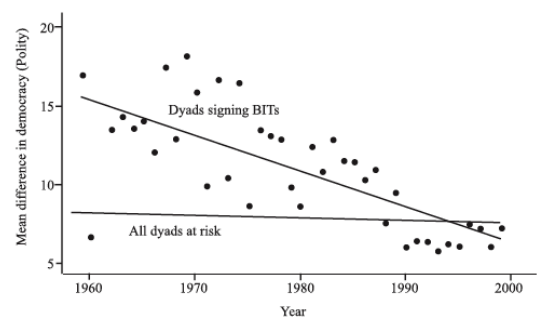


FIGURE 1. Number of bilateral investment treaties signed and mean global foreign direct investment as a proportion of GDP, by year, 1959–99



Note: Data points shown are for dyads signing BITs.

FIGURE 2. Mean difference in GDP per capita between dyad members



Note: Universe consists of states with more than 1 million inhabitants between 1960 and 1999. Data points shown are for dyads signing BITs.

FIGURE 3. Mean difference in democracy between dyad members

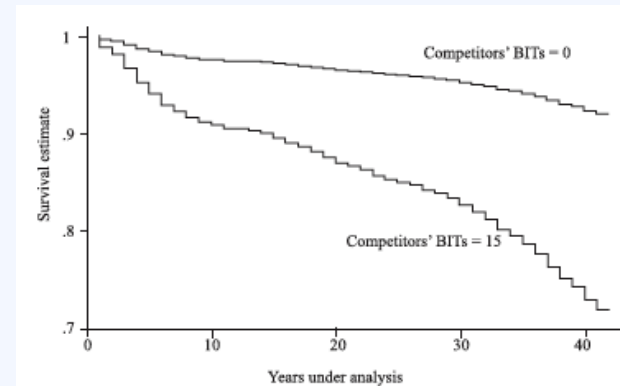
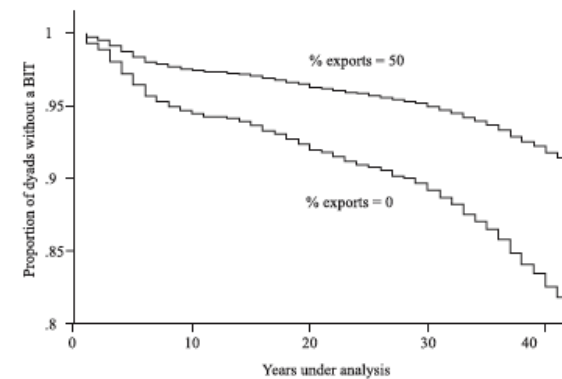


FIGURE 7a. Survival estimates according to the average number of BITs of host's competitors (measured by export product similarity)



Note: Estimates derived from Model 2 in Table 2. BIT = bilateral investment treaty.

FIGURE 7b. Survival estimates according to host's percent of exports in extractive industries

BIT signatories (Elkins, Guzman and Simmons 2006)

## 6.2 Investment Treaties Regional competition

TABLE 2. A model of BIT signings: Cox proportional hazard model

Explanatory variables	Model 1	Model 2	Model 3
<i>Competitive theory</i>			
BITS AMONG EXPORT MARKET COMPETITORS	1.05*** (0.01)		
BITS AMONG EXPORT PRODUCT COMPETITORS		1.11*** (0.04)	
BITS AMONG INFRASTRUCTURE COMPETITORS			1.04 (0.02)**
AVERAGE ANNUAL GLOBAL FDI FLOWS	1.32*** (0.12)	1.53*** (0.14)	1.46*** (0.13)
HOST EXTRACTIVE INDUSTRIES/EXPORTS	0.73** (0.09)	0.73** (0.09)	0.72*** (0.09)
PERCEPTIONS OF HOST CORRUPTION	1.03 (0.04)	1.01 (0.04)	1.01 (0.04)
HOST LEGAL TRADITION (COMMON LAW)	0.66*** (0.05)	0.65*** (0.05)	0.66*** (0.05)
<i>Alternative diffusion explanations</i>			
BITS AMONG THOSE WITH SAME RELIGION	0.99 (0.01)	0.98 (0.01)	0.99 (0.01)
BITS AMONG THOSE WITH SAME LANGUAGE	1.01 (0.06)		
BITS AMONG THOSE WITH SAME COLONIZER	0.99 (0.04)		
LEARNING FROM SUCCESS	1.85** (0.42)	1.83* (0.61)	2.13* (0.94)
COERCION: HOST USE OF IMF CREDITS	1.44*** (0.12)	1.39*** (0.11)	1.43*** (0.12)
<i>Host control variables</i>			
HOST GDP (LN)	1.07* (0.04)	1.03 (0.04)	1.04 (0.04)
HOST GDP/CAPITA	1.00 (0.03)	1.00 (0.03)	0.99 (0.03)
HOST GDP GROWTH	0.97*** (0.01)	0.97*** (0.01)	0.97*** (0.01)
HOST NET FDI INFLOWS (% OF GDP), T-1	1.01 (0.01)	1.01 (0.01)	1.01 (0.01)
HOST ILLITERACY RATE	0.34*** (0.06)	0.30*** (0.05)	0.30*** (0.06)
HOST CAPITAL ACCOUNT/GDP	1.01 (0.01)	1.01** (0.01)	1.01** (0.01)
HOST LAW AND ORDER	1.34*** (0.05)	1.39*** (0.05)	1.38*** (0.05)
HOST DEMOCRACY	0.99 (0.01)	0.99 (0.01)	0.99 (0.01)
HOST DIPLOMATIC REPRESENTATION	1.01*** (0.00)	1.01*** (0.00)	1.01*** (0.00)
HOST PRIVATIZATION RECORD	1.05*** (0.02)	1.06*** (0.02)	1.06*** (0.02)
<i>Home control variables</i>			
HOME NET FDI OUTFLOWS (% OF GDP)	1.13*** (0.02)	1.14*** (0.02)	1.14*** (0.02)

(continued)

TABLE 2. Continued

Explanatory variables	Model 1	Model 2	Model 3
<i>Dyadic control variables</i>			
DYADIC TRADE (% OF HOST'S GDP)	1.59* (0.35)	1.61 (0.56)	1.64 (0.57)
COMMON COLONIAL HERITAGE	0.41*** (0.09)	0.40*** (0.09)	0.41*** (0.09)
COMMON LANGUAGE	1.57*** (0.19)	1.55*** (0.19)	1.54*** (0.19)
ALLIANCE	1.18* (0.10)	1.20* (0.11)	1.18 (0.14)
<i>Common "shocks"</i>			
COLD WAR	0.37*** (0.08)	0.31*** (0.06)	0.32*** (0.06)
NUMBER OF BITS GLOBALLY, BY YEAR	1.03 (0.03)	1.00 (0.03)	1.01 (0.03)
<i>Observations</i>			
Number of country pairs analyzed	206,766	208,610	201,073
Number of BITS	6,781	6,831	6,828
Log likelihood	1,125	1,140	1,137
	-8723.114	-8858.474	-8823.590

Notes: Standard errors are in parentheses.

\*\*\* Significant at 1%; \*\* significant at 5%; \* significant at 10%.

## 6.2 Investment Treaties Institutions and Ratification

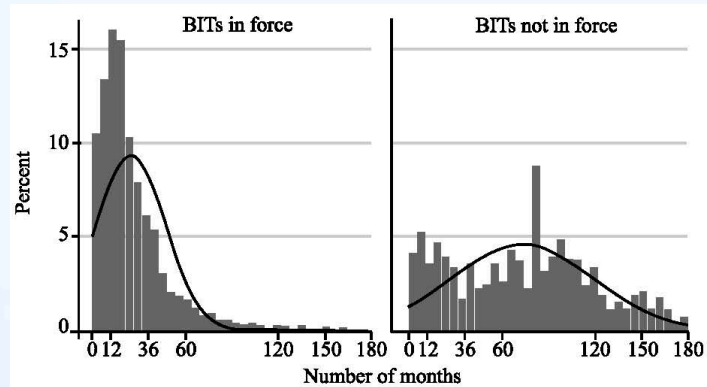


FIGURE 1. Distribution of ratification spell by BIT status

TABLE 1. Cox nonproportional hazard estimates—legislative hurdles

	Model 1	Model 2	Model 3	Model 4	Model 5
LEGISLATIVE HURDLES	0.419*** (-5.06)	0.806*** (-4.33)	0.375*** (-5.80)	0.350*** (-5.01)	0.339*** (-5.91)
DEMOCRACY	1.015*** (3.37)	1.022*** (5.07)	1.023*** (5.60)	1.020*** (4.31)	1.021*** (4.66)
RATIFICATION RATIO	2.139* (1.79)	1.214 (1.62)	2.616** (2.11)	1.227 (1.52)	1.184 (1.30)
LAW AND ORDER				0.949 (-0.44)	0.901 (-0.94)
GDP	1.128*** (5.31)	1.134*** (5.66)	1.130*** (5.53)	1.129*** (4.63)	1.137*** (4.99)
GOVERNMENT EXPENDITURE	1.012* (1.79)	1.018*** (2.64)	1.014** (2.06)		
COMMON LANGUAGE	0.994 (-0.05)	1.176 (1.35)	1.044 (0.36)	0.731 (-0.60)	1.316** (2.12)
COLONIAL TIES	0.924 (-0.22)	0.625*** (-3.60)	0.696*** (-2.81)	0.957 (-0.08)	0.827 (-0.50)
ALLIANCE	1.236*** (3.15)				
AFFINITY UN		10.121*** (5.51)		8.573*** (4.22)	
DEVELOPMENT GAP	1.082*** (3.06)	1.075*** (2.82)	1.078*** (3.02)	1.068** (2.26)	1.070** (2.43)
LEFT IN OFFICE			1.107* (1.82)		1.745** (2.30)
HOST FDI/GDP	1.008 (1.08)	1.003 (0.53)	1.004 (0.81)	1.000 (0.08)	1.002 (0.31)
HOME FDI/GDP	1.015 (1.48)	1.001 (0.11)	0.997 (-0.27)	1.003 (0.31)	1.002 (0.21)
COMMON LAW	1.891*** (2.93)	2.670*** (4.55)	1.682** (2.45)	2.974*** (4.10)	2.253*** (3.31)
COLD WAR	1.465*** (4.09)	1.492*** (3.55)	1.488*** (3.76)	1.612*** (3.47)	1.704*** (4.33)
$\chi^2$	200.9***	205.7***	203.5***	225.2***	215.6***
N	1,559	1,722	1,767	1,367	1,424

Notes: Figures in parentheses are z statistics. Numbers are hazard ratio; numbers > 1 indicate higher risk of termination; numbers < 1 indicate lower risk of termination. All models are tested for the proportional hazard assumption with the Schoenfeld test. Variables that violate the assumption are interacted with the logged function of TIME FORCE. \*  $p < .1$ ; \*\*  $p < .05$ ; \*\*\*  $p < .01$  (two-tailed test).

## 6.2 Investment Treaties Consequences

TABLE 1. Effects of BITs on FDI

Variable	Model 1a OLS (Std. Err.)	Model 1b OLS (Std. Err.)	Model 2a 2SLS (Std. Err.)	Model 2b 2SLS (Std. Err.)	Model 3 2SLS (Std. Err.)	Model 4 2SLS (Std. Err.)	Model 5 2SLS (Std. Err.)
FBI (lag)	0.402*** (0.073)	-0.008 (0.016)	65.180*** (0.411)	-0.032* (0.019)	-0.029 (0.019)	-0.049** (0.024)	-0.034* (0.020)
BIT	-22.364 (26.992)	0.288 (0.615)	620.144** (274.635)	17.061** (6.821)	14.582** (5.921)	13.886* (7.889)	18.887** (7.718)
Other BITs (3 year avg of new BITs)	9.627 (12.699)	0.413** (0.200)	250.539*** (0.074)	8.565*** (2.026)	4.618*** (1.590)	5.229*** (1.703)	1.931 (3.475)
Democracy	0.912*** (0.341)	0.008 (0.010)	1.475*** (0.420)	0.027** (0.012)	0.001 (0.016)	0.016 (0.014)	0.028** (0.013)
Democracy × Other BITs					0.049* (0.029)		
1997						-18.386*** (6.398)	
1997 × Other BITs						17.603*** (5.964)	
Savings (lag)	-1.433*** (0.543)	0.052** (0.024)	-0.062 (0.891)	0.096*** (0.033)	0.105*** (0.034)	0.163*** (0.048)	-0.069 (0.098)
Savings (lag) × Other BITs							0.362* (0.219)
Polcon	-136.098** (56.638)	0.692 (1.342)	-371.988*** (100.887)	-6.847*** (2.496)	-6.167*** (2.289)	-5.272** (2.549)	-7.690*** (2.792)
Trade (lag)	0.024 (0.276)	-0.004 (0.010)	1.077** (0.440)	0.031** (0.015)	0.029** (0.015)	0.029* (0.017)	0.054** (0.024)
PTA	185.795*** (66.801)	0.934 (1.115)	-139.767 (141.378)	-8.769*** (3.154)	-7.396*** (2.674)	-17.524*** (6.330)	-8.509*** (3.254)
Log Source GBP (lag)	1136.020*** (275.890)	9.334* (5.168)	1334.151*** (293.640)	16.917*** (6.325)	17.311*** (6.244)	11.710 (7.255)	15.873** (6.617)
log GBP (lag)	153.749*** (47.124)	-1.050 (1.203)	64.809 (60.776)	-4.268** (1.746)	-4.791*** (1.815)	-7.268*** (2.651)	-4.044** (1.872)
World Growth Rate	21.547*** (4.928)	0.080 (0.135)	21.452*** (5.627)	0.101 (0.162)	0.138 (0.159)	0.160 (0.201)	0.079 (0.171)
CAOI (lag)	4.719 (4.059)	-0.117 (0.108)	-15.144** (7.352)	-0.784*** (0.211)	-0.723*** (0.192)	-0.683*** (0.230)	-0.795*** (0.222)
N	7691	7691	7691	7691	7691	7691	7691
F Statistic	17.72	4.890	13.140	4.660	4.890	3.350	4.090
first stage F BIT			26.440	26.380	24.720	18.860	20.340
first stage F Other BIT			49.080	48.090	47.110	57.190	40.460
First stage interaction term					36.990	9.920	25.820
Hansen J p-value			0.720	0.384	0.230	0.758	0.585

Significance levels: \* 10% \*\* 5% \*\*\* 1%.

**Hypothesis 1:** *Bilateral Investments Treaties work by amassing ex post costs into an effective hands tying mechanism. They should encourage investment from investors that are protected by BITs.*

**Hypothesis 2:** *Bilateral Investment Treaties work by marshaling ex ante costs into a widely received, credible signal that a country will not expropriate from foreign investors. They should encourage investment regardless of whether or not the investors are protected by the treaty.*

**Hypothesis 3:** *Correcting for endogeneity should reveal a stronger relationship between FDI and BITs than would otherwise be evident.*

## 6.2 Investment Treaties Dispute Settlement

TABLE 3. Ordered Probit Results for the Decision to Delegate Dispute Settlement to ICSID

	<i>Coefficient</i>	<i>Robust SE</i>
Factors that shift home government preferences		
Domestic interests in home country		
Presence of MNCs in home (+)	1.65	(0.712)***
Rule of law in home (+)	0.086	(0.041)**
Legal and political institutions in host country		
Rule of law in host (-)	0.007	(0.039)
Durability of host regime (-)	-0.002	(0.003)
Political constraints on executive in host (-)	0.400	(0.192)
Closeness of ties between home and host		
Alliance ties (-)	-0.113	(0.081)*
Colonial ties (-)	-0.152	(0.114)*
Factors that shift host government preferences		
Sovereignty costs for host country		
Host recently independent (-)	-0.250	(0.104)***
Unfavorable economic position of host country		
Economic growth (-)	0.0002	(0.005)
Trade dependence (+)	0.0047	(0.0022)**
Reliance on foreign aid (+)	0.726	(0.391)**
“Tying hands” motivations		
Right-wing government in host (+)	-0.017	(0.084)
Relative bargaining power between home and host		
Ratio of home to host economic power	0.675	(0.156)***

(Notes.  $N = 1,032$ . Bilateral Investment Treaties; Wald  $\chi^2$  test (16 df) = 79.99 (.00); Hypothesized effects in parentheses, \* $p < .10$ , \*\* $p < .05$ , and \*\*\* $p < .01$ , one-tailed.)

## 6.2 Investment Treaties Treaty Violation

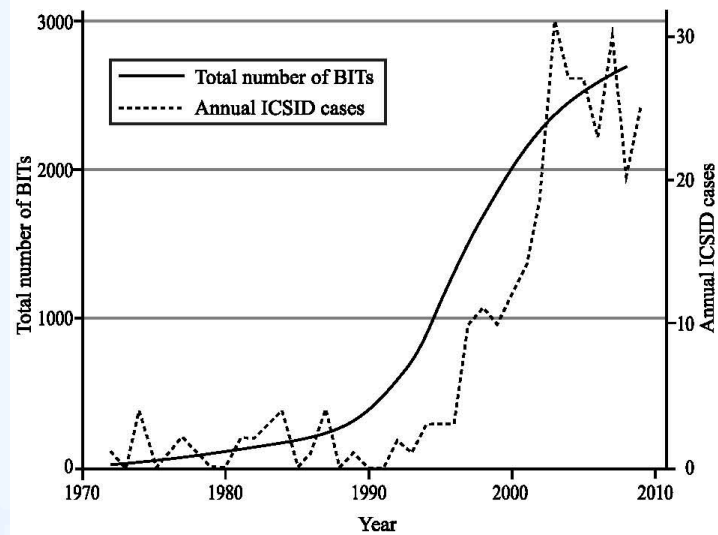


FIGURE 1. The growth of BITs and ICSID cases

*H1: Governments will attract greater FDI flows as they sign a greater number of BITs with partner countries, ceteris paribus.*

*H2: Governments whose behavior is challenged via ICSID arbitration will experience reduced FDI flows, ceteris paribus.*

*H3: Governments who lose disputes via ICSID arbitration will experience reduced FDI flows, ceteris paribus.*

TABLE 3. Substantive effects of BITs and ICSID filings on FDI inflows

Control variables	3.1	3.2	3.3	3.4
BILATERAL INVESTMENT TREATY	21.30	23.11	23.24	23.83
PENDING ICSID DISPUTE		-55.04		
ICSID DISPUTE FILED AGAINST (past 2 years)			-85.93	
ICSID DISPUTE FILED AGAINST (past 5 years)				-60.27

Note: Amounts show increases (decreases) in FDI inflows in millions of real US dollars.

TABLE 5. Substantive effects of BITs and ICSID losses on FDI inflows

Control variables	5.1	5.2	5.3	5.4	5.5
BILATERAL INVESTMENT TREATY	23.59	25.63	22.80	24.05	24.39
ICSID RULING LOST (past 2 years)	-791.85				-710.64
ICSID RULING LOST (past 5 years)		-663.78			
ICSID DISPUTE LOST OR SETTLED (past 2 years)			-349.58		
ICSID DISPUTE LOST OR SETTLED (past 5 years)				-312.80	
PENDING ICSID DISPUTES					-31.57

Note: Amounts show increases (decreases) in FDI inflows in millions of real US dollars.

## 6.3 Trade Agreements Trade and Democracy

TABLE 3. *Tariff rates*

Dependent variable	Tariff rates					
	(1)	(2)	(3)	(4)	(5)	(6)
REGIME	-0.347*** (0.108)	-0.317*** (0.108)	-0.331*** (0.110)			-0.302*** (0.117)
DEM				-1.369 (1.374)		
DICTATOR					-0.880*** (0.245)	
SGL PARTY						-4.629** (2.020)
MILITARY						1.740 (1.571)
LN POP	31.08*** (6.278)	35.02*** (6.447)	31.74*** (7.255)	25.71*** (7.181)	26.27*** (6.955)	32.37*** (7.120)
GDP PC	0.001** (0.000)	0.001*** (0.000)	0.002*** (0.001)	0.002*** (0.000)	0.002*** (0.000)	0.002*** (0.001)
EC CRISIS	-0.623 (0.686)	-0.469 (0.688)	-0.688 (0.755)	-0.661 (0.712)	-0.663 (0.720)	-0.703 (0.744)
BP CRISIS	0.823 (0.719)	0.775 (0.719)	0.434 (0.710)	0.652 (0.702)	0.559 (0.673)	0.436 (0.704)
IMF	0.139 (0.375)	0.140 (0.372)	0.141 (0.393)	-0.018 (0.403)	-0.156 (0.392)	0.131 (0.388)
OFFICE	-0.185*** (0.057)	-0.183*** (0.057)	-0.199*** (0.061)	-0.134** (0.061)	-0.207*** (0.060)	-0.179*** (0.061)
AV TARIFF	.091** (.042)		0.128*** (0.047)	0.131*** (0.047)	0.111** (0.047)	0.123*** (0.047)
GATT		2.275** (1.159)	2.395** (1.174)	2.810** (1.088)	2.356** (1.088)	2.424** (1.163)
FDI			0.418** (0.175)	0.414** (0.175)	0.402** (0.169)	0.400** (0.173)
FIVE OPEN		-1.566 (1.585)				
US HEG		22.537 (18.177)				
Constant	2,538*** (246.82)	2,665*** (338.3)	2,902*** (315.6)	2,957*** (284.5)	2,903*** (277.5)	3,007*** (306.9)
Observations	694	694	694	681	681	649
Country	97	97	89	98	98	89
R <sup>2</sup>	0.80	0.80	0.80	0.79	0.80	0.80
Wald chi <sup>2</sup>	4430	791	4255	15024	2161	783
Prob > chi <sup>2</sup>	0.00	0.00	0.00	0.00	0.00	0.00

Note: OLS with panel-corrected standard errors in parentheses. Country fixed effects, AR1 correction, and time trend are included but are not shown. All right-hand-side variables are lagged one period.  
 \*\*\* significant at 1%; two-tailed tests.  
 \*\* significant at 5%; two-tailed tests.  
 \* significant at 10%; two-tailed tests.

TABLE 2. *Tariff rates*

Dependent variable	Tariff rates					
	(1)	(2)	(3)	(4)	(5)	(6)
POLITY	-0.264*** (0.096)	-0.247** (0.096)	-0.262*** (0.101)	-0.262*** (0.096)	-0.251*** (0.096)	-0.249*** (0.096)
GDP PC	0.000** (0.000)	0.001*** (0.000)	0.001*** (0.000)	0.000** (0.000)	0.000*** (0.000)	0.000*** (0.000)
LN POP	36.24*** (5.106)	32.50*** (5.433)	34.99*** (6.222)	36.37*** (5.162)	36.61*** (4.976)	36.72*** (5.084)
EC CRISIS		-0.777 (0.670)				
BP CRISIS			0.709 (0.672)			
IMF				0.248 (0.375)		
US HEG					21.515 (15.769)	
FIVE OPEN						-1.646 (1.523)
Constant	2,781*** (203.9)	2,762*** (194.9)	2,821*** (239.2)	2,798*** (209.3)	2,830*** (195.7)	2,581*** (304.3)
Observations	774	765	738	765	774	734
Countries	101	100	98	101	101	101
R <sup>2</sup>	0.79	0.79	0.79	0.79	0.79	0.80
Wald chi <sup>2</sup>	3724	4996	1312	1454	635	767
Prob > chi <sup>2</sup>	0.00	0.00	0.00	0.00	0.00	0.00

Note: OLS with panel-corrected standard errors in parentheses. Country fixed effects, AR1 correction, and time trend are included but are not shown. All right-hand-side variables are lagged one period.  
 \*\*\* significant at 1%; two-tailed tests.  
 \*\* significant at 5%; two-tailed tests.  
 \* significant at 10%; two-tailed tests.

$$\begin{aligned}
 \text{tradepolicy}_{i,t} = & \beta_0 + \beta_1 \text{REGIME}_{i,t-1} + \beta_2 \text{IMF}_{i,t-1} + \beta_4 \text{OFFICE}_{i,t-1} \\
 & + \beta_5 \text{GDPPC}_{i,t-1} + \beta_5 \text{LNPOP}_{i,t-1} + \beta_6 \text{ECCRISIS}_{i,t-1} \\
 & + \beta_7 \text{BPCRISIS}_{i,t-1} + \beta_8 \text{AVOPEN}_{t-1} + u_i + \varepsilon_{i,t}
 \end{aligned}$$



## 6.3 Trade Agreements Trade and Democratization

TABLE 5. Sachs-Warner trade liberalization

Dependent variable	Sachs-Warner openness			
	(1)	(2)	(3)	(4)
REGIME	0.332*** (0.104)	0.332*** (0.118)	0.367*** (0.129)	0.521*** (0.147)
LN POP	43.425*** (8.802)	49.808*** (10.545)	69.062*** (15.040)	29.559** (14.293)
GDP PC	-0.000 (0.001)	-0.001 (0.002)	-0.000 (0.002)	-0.004* (0.003)
EC CRISIS	-0.652 (0.987)	-0.496 (1.050)	-0.531 (1.108)	-1.563 (1.423)
BP CRISIS	-0.271 (0.653)	-0.395 (0.715)	-0.019 (0.775)	-0.505 (0.957)
IMF		-0.465 (0.614)	-0.780 (0.641)	-0.197 (0.773)
OFFICE		-0.078 (0.105)	-0.083 (0.102)	-0.050 (0.095)
GATT		-4.771*** (1.675)	-4.900*** (1.650)	-5.111*** (1.746)
US HEG			-55.151** (24.594)	-18.073 (28.659)
AV OPEN				39.132*** (14.251)
FDI				-0.038 (0.408)
FIVE OPEN			-2.632 (1.826)	
Observations	982	872	872	829
LR $\chi^2$	955	862	869	834
Prob > $\chi^2$	0.00	0.00	0.00	0.00
Log likelihood	-43.85	-37.93	-34.33	-27.74

Note: Conditional logit with country fixed effects and decade fixed effects. A natural spline function with three knots was estimated, as was the time since last opening occurred; all these were used to correct for serial dependence. All right-hand-side variables are lagged one period. Asymptotic z-statistics are in parentheses.

\*\*\* significant at 1%; two-tailed tests.

\*\* significant at 5%; two-tailed tests.

\* significant at 10%; two-tailed tests.

TABLE 6. Sachs-Warner trade liberalization

Dependent variable	Sachs-Warner openness			
	(1)	(2)	(3)	(4)
REGIME	0.523*** (0.143)			0.558*** (0.156)
DEM		5.820*** (1.579)		
DICTATOR			0.864*** (0.259)	
SGL PARTY				-10.074 (129)
MILITARY				2.268 (2.030)
LN POP	27.296** (11.563)	31.539** (13.183)	25.071** (12.465)	31.670** (12.758)
GDP PC	-0.001 (0.002)	-0.002 (0.002)	-0.002 (0.002)	-0.001 (0.002)
EC CRISIS	-1.639 (1.411)	-2.847** (1.339)	-2.518** (1.265)	-1.386 (1.371)
BP CRISIS	-0.309 (0.905)	-0.955 (0.988)	-0.974 (0.966)	-0.123 (0.891)
IMF	-0.016 (0.740)	-0.806 (0.724)	-0.732 (0.698)	0.090 (0.750)
OFFICE	-0.062 (0.103)	-0.082 (0.079)	-0.068 (0.076)	-0.088 (0.139)
GATT	-5.060*** (1.661)	-6.950*** (1.948)	-6.623*** (1.888)	-5.246*** (1.731)
AV OPEN	38.688*** (12.093)	41.083*** (12.324)	40.566*** (12.381)	35.492*** (12.237)
Observations	872	913	913	872
LR $\chi^2$	879	931	927	881
Prob > $\chi^2$	0.00	0.00	0.00	0.00
Log likelihood	-29.22	-29.84	-31.63	-28.52

Note: Conditional logit with country fixed effects and decade fixed effects. A natural spline function with three knots was estimated as was the time since last opening occurred; all these were used to correct for serial dependence. All right-hand-side variables are lagged one period. Asymptotic z-statistics are in parentheses.

\*\*\* significant at 1%; two-tailed tests.

\*\* significant at 5%; two-tailed tests.

\* significant at 10%; two-tailed tests.

Democratization and openness (Milner and Kubota 2005)

## 6.3 Trade Agreements Trade and Non-democracies

**Hypothesis 1a:** *Authoritarian regimes with larger selectorates (that is, multiparty and, to a lesser extent, single-party autocracies) will have more liberal trade policies than smaller selectorate authoritarian regimes (that is, monarchies, non-party dictatorships, and military juntas), other things equal.*

**Hypothesis 1b:** *More stable authoritarian regimes will have more liberal trade policies than less stable authoritarian regimes, other things equal.*

TABLE 3. Results of the Average Statutory Tariff Models

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
Variable	Random Effects with ARI Correction (N = 544, 84 countries)	Random Effects with ARI Correction (N = 422, 69 countries)	Random Effects with ARI Correction (N = 544, 84 countries)	Random Effects with ARI Correction (N = 544, 84 countries)	Random Effects with ARI Correction (N = 463, 64 countries)	Random Effects with ARI Correction (N = 526, 82 countries)	OLS with Panel Corrected Standard Errors and LDV (N = 342, 67 countries)
Monarchy	2.77 (4.35)			3.65 (4.21)	0.020 (5.08)	1.03 (4.33)	-0.097 (1.27)
Military	7.95 (1.68)***			7.91 (1.68)***	7.85 (1.96)***	5.68 (1.92)***	1.53 (0.730)**
Single Party	5.20 (2.11)**			5.47 (2.08)***	4.03 (2.35)*	4.75 (2.09)**	2.64 (0.841)***
No Party	0.282 (2.36)			0.282 (2.36)	0.979 (2.42)	0.300 (2.28)	4.44 (1.59)***
Single-Party Wright		-6.08 (2.74)**					
Party Number CGV			-2.00 (0.661)***				
Regime Duration	-0.174 (0.102)*		-0.041 (0.098)	-0.141 (0.090)	-0.120 (0.116)	-0.190 (0.104)*	-0.028 (0.025)
Regime Duration Wright		-0.082 (0.048)*					
Leadership Duration	0.064 (.137)		0.023 (0.135)		0.056 (0.155)	-0.069 (0.139)	0.043 (0.070)
Leader Duration Archigos				-0.052 (0.057)			
Leftist Government	2.49 (1.66)	5.46 (2.65)**	2.10 (1.64)	2.33 (1.64)	0.999 (1.87)	1.39 (1.73)	0.365 (0.645)
Lagged Energy Production					-0.755 (0.728)		
Lagged Polity						-0.472 (0.142)***	
Lagged lnGDP	1.11 (0.641)*	0.685 (0.858)	1.05 (0.673)	0.993 (0.639)	1.55 (1.04)	1.49 (0.642)**	0.103 (0.253)
Lagged Δ Exchange Rate	-0.092 (0.070)	-0.113 (0.204)	-0.088 (0.070)	-0.089 (0.070)	-0.070 (0.069)	-0.081 (0.069)	-0.096 (0.020)***
Lagged GDP per capita	-0.001 (0.0002)***	-0.001 (0.0002)***	-0.001 (0.0002)***	-0.001 (0.0002)***	-0.001 (0.0003)***	-0.001 (0.0002)***	-0.0001 (0.00005)**
Lagged Aid as a % of GNI	-0.081 (0.058)	-0.111 (0.095)	-0.086 (0.058)	-0.086 (0.059)	-0.042 (0.062)	-0.037 (0.057)	-0.073 (0.055)
Lagged Mean Statutory Tariff in Region	0.130 (0.049)***	0.110 (0.057)*	0.138 (0.048)***	0.130 (0.049)***	0.130 (0.050)***	0.134 (0.048)***	0.007 (0.038)
R <sup>2</sup>	0.368	0.267	0.299	0.362	0.345	0.389	0.906

(Notes. \*\*\*p < .01, \*\*p < .05, \*p < .10. All tests are two-tailed. Standard errors are in parenthesis.)

## 6.3 Trade Agreements Trade and Non-democracies

TABLE 4. Results of the Trade Openness, IDCR, and Open Models

Variable	Model 8	Model 9	Model 10	Model 11	Model 12	Model 13
	Trade Openness ECM with RE and Robust SE (N = 2098, 112 countries)	Trade Openness ECM with RE and Robust SE (N = 1664, 93 countries)	IDCR ECM with RE and Robust SE (N = 934, 89 countries)	IDCR ECM with RE and Robust SE (N = 806, 76 countries)	Open Panel Logit with Decade FE (N = 1508, 92 countries)	Open Panel Logit with Decade FE (N = 1336, 83 countries)
Monarchy	-2.71 (1.28)**		0.101 (0.334)		-6.32 (2.96)**	
Military	-1.20 (0.431)***		0.368 (0.225) <sup>1</sup>		-1.30 (0.597)**	
Single Party	-1.98 (0.572)***		0.774 (0.305)**		-4.54 (0.928)***	
No Party	-0.307 (0.800)		0.046 (0.278)		0.089 (1.35)	
Single-Party Wright		0.996 (0.479)**		-0.015 (0.217)		1.76 (0.947)*
Regime Duration	0.079 (0.026)***		-0.008 (0.009)		-0.085 (0.056)	
Regime Duration Wright		0.008 (0.009)		-0.003 (0.001)**		0.024 (0.013)*
Leadership Duration	0.018 (0.029)		0.012 (0.013)		0.107 (0.058)*	
Leftist Government	0.361 (0.497)	-0.269 (0.473)	-0.248 (0.287)	-0.176 (0.266)	-1.60 (0.903)*	-1.72 (1.29)
Lagged lnGDP	-0.392 (0.219)*	-0.052 (0.196)	-0.063 (0.075)	-0.028 (0.066)	0.684 (0.288)**	1.75 (0.478)***
Δ lnGDP	2.35 (7.60)	3.81 (7.57)	0.101 (2.95)	0.800 (3.17)		
Lagged Δ Exchange Rate	0.005 (0.001)***	0.004 (0.001)***	0.001 (0.0004)**	0.0007 (0.0004)*	-0.006 (0.033)	-0.002 (0.027)
Lagged GDP per capita	0.0002 (0.0001)**	0.0001 (0.00006)**	0.00003 (0.00002)	0.000005 (0.00002)	0.0004 (0.0003)	-0.0004 (0.0004)
Δ GDP per capita	-0.00002 (0.0006)	0.0001 (0.0006)	0.0002 (0.0002)	0.00008 (0.0002)		
Lagged Aid as a % of GNI	0.022 (0.037)	0.031 (0.054)	-0.002 (0.016)	-0.001 (0.017)	0.026 (0.025)	0.045 (0.026)*
Δ Aid as a % of GNI	0.252 (0.065)***	0.378 (0.100)***	-0.206 (0.049)***	-0.166 (0.042)***		
Lagged Average Trade Policy in Region	-0.007 (0.015)	0.003 (0.021)	0.033 (0.020)*	0.060 (0.024)**	0.048 (0.025)*	0.083 (0.031)***
Δ Average Trade Policy in Region	0.770 (0.108)***	0.703 (0.109)***	0.225 (0.080)***	0.220 (0.080)***		
R <sup>2</sup>	0.098	0.096	0.047	0.032	N/A	N/A

(Notes. IDCR, import duty coverage ratio.

\*\*\* $p < .01$ , \*\* $p < .05$ , \* $p < .10$ , <sup>1</sup> $p = .101$ . All tests are two-tailed. Standard errors are in parenthesis.)

## 6.3 Trade Agreements Asymmetric consequences

FIGURE 1 Conditional Effects of Democracy on Trade Openness

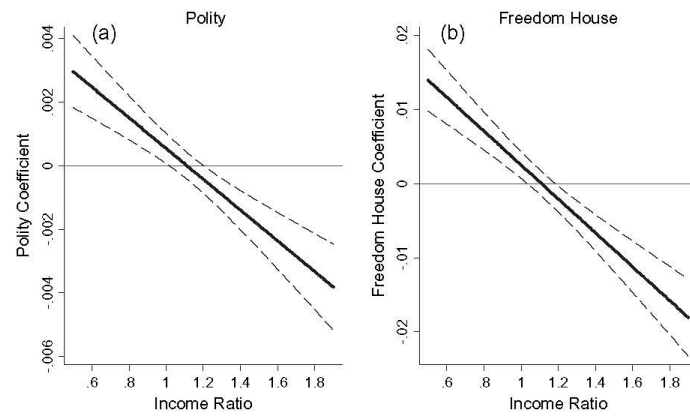
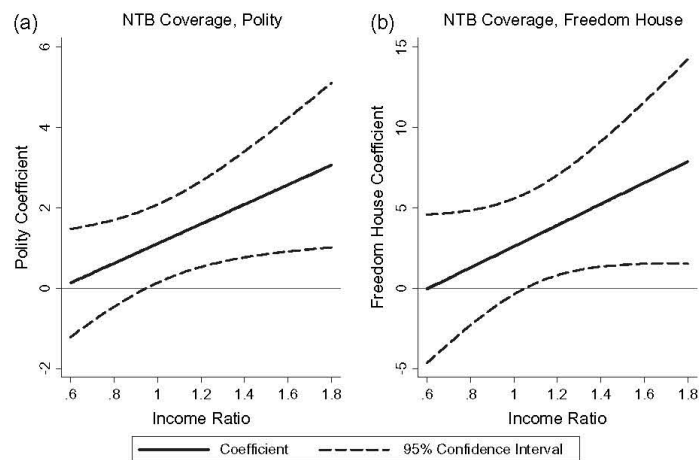


FIGURE 2 Conditional Effects of Democracy on Nontariff Barriers



## 6.3 Trade Agreements Trade and economic institutions

*H1:* Dyads with stronger market-protecting institutions will have more trade than dyads that afford less protection of the market, *ceteris paribus*.

*H2:* Democratic institutions will have a positive impact on the level of dyadic trade only when market-protecting institutions within that dyad are strong.

$$\begin{aligned} \ln \text{Trade}_{ijt+1} = & \beta_0 + \beta_1^* \ln(\text{GDP}_i^* \text{GDP}_j) \\ & + \beta_2^* \ln(\text{GDPPC}_i^* \text{GDPPC}_j) \\ & + \beta_3^* \ln \text{Distance}_{ij} \\ & + \beta_4^* \text{Market Protecting Institutions} \\ & + \beta_5^* \text{Democracy} \\ & + \beta_6^* \text{Market-Democracy Interaction} \\ & + \beta_7^* \text{Allies} + \beta_8^* \text{Fatal MID} \\ & + \beta_9^* \text{Language} \\ & + \beta_{10}^* \text{Regional Trade Agreement} + u \end{aligned}$$

**TABLE 2** Regression Analysis of Market Institutions and Dyadic Trade Flows, 1960-1999

	Model 1a: Base Model	Model 1b: Full Model
Market Protecting Institutions (MPI)		.532** (.115)
Democracy	.017** (.002)	-.018** (.009)
MPI*Democracy		.043** (.012)
Allies	.038 (.041)	-.057 (.046)
Fatal MID	-.280** (.083)	-.222** (.117)
Ln(Distance)	-1.47** (.020)	-1.530** (.022)
Ln(Gross Domestic Product)	.884** (.007)	.873** (.008)
Ln(GDP Per Capita)	.272** (.013)	.360** (.014)
Common Language	.552** (.043)	.593** (.045)
Regional Trade Agreement	.209** (.056)	.252** (.059)
Constant	-25.096** (.342)	-25.989** (.370)
N	96844	77815
R <sup>2</sup>	0.412	0.446

\*\* = p-value less than .05.

Panel-corrected standard errors reported in parentheses.

## 6.3 Trade Agreements

### Trade agreements and regimes

TABLE 1. Effects of regime type, GDP, the change in GDP, trade, military disputes, colonial relations, alliances, distance, the GATT, and hegemony on PTA formation, 1951–1992

Variable	(1)	(2)	(3)	(4)
Intercept	7.315** (11.85)	7.223** (11.64)	6.847** (11.82)	7.212** (11.54)
REG <sub>i</sub>	0.038** (8.89)	0.038** (8.80)	0.035** (8.84)	0.038** (8.93)
REG <sub>j</sub>	0.035** (8.47)	0.035** (8.40)	0.032** (8.15)	0.035** (8.51)
GDP <sub>i</sub>	$-4.84 \times 10^{-10}$ ** (-3.29)	$-3.29 \times 10^{-10}$ ** (-3.47)	$-7.75 \times 10^{-10}$ ** (-4.26)	$-4.89 \times 10^{-10}$ ** (-3.34)
GDP <sub>j</sub>	$-3.84 \times 10^{-10}$ * (-2.39)	$-2.26 \times 10^{-10}$ * (-2.16)	$-6.94 \times 10^{-10}$ ** (-4.17)	$-3.88 \times 10^{-10}$ * (-2.43)
ΔGDP <sub>i</sub>	$4.72 \times 10^{-9}$ (1.28)		$6.41 \times 10^{-9}$ (1.55)	$4.63 \times 10^{-9}$ (1.26)
ΔGDP <sub>j</sub>	$4.85 \times 10^{-9}$ (1.71)		$6.88 \times 10^{-9}$ * (2.04)	$4.77 \times 10^{-9}$ (1.69)
TRADE <sub>ij</sub>	$-1.21 \times 10^{-7}$ (-1.53)	$-1.23 \times 10^{-7}$ (-1.56)		$-1.18 \times 10^{-7}$ (-1.52)
DISPUTE <sub>ij</sub>	-0.740 (-1.91)	-0.734 (-1.89)	-0.620 (-1.64)	
COL <sub>ij</sub>	1.338** (8.74)	1.327** (8.73)	1.356** (8.62)	1.324** (8.45)
ALLY <sub>ij</sub>	0.665** (9.70)	0.663** (9.69)	0.645** (9.34)	0.673** (9.73)
DISTANCE <sub>ij</sub>	-0.731** (-17.51)	-0.730** (-17.47)	-0.681** (-20.20)	-0.717** (-16.62)
GATT <sub>ij</sub>	0.391** (6.05)	0.389** (6.03)	0.376** (5.79)	0.396** (6.12)
HEGEMONY	-53.75** (-14.92)	-53.07** (-14.73)	-52.29** (-14.68)	-53.84** (-14.93)
χ <sup>2</sup>	1915.28**	1906.12**	1866.84**	1911.48**
Log likelihood	-7146.54	-7147.73	-7173.51	-7149.97

Note: These parameters are estimated using logistic regression, after including a natural spline function with three knots. Figures in parentheses are asymptotic z-statistics computed using Huber standard errors. In each model,  $N = 223,568$ .

\*\* $p \leq .001$ . Two-tailed tests are conducted for all estimates.

\* $p \leq .05$ . Two-tailed tests are conducted for all estimates.

$$\begin{aligned}
 PTA_{ij} = & \beta_0 + \beta_1 REG_i + \beta_2 REG_j + \beta_3 GDP_i + \beta_4 GDP_j + \beta_5 \Delta GDP_i & (4) \\
 & + \beta_6 \Delta GDP_j + \beta_7 TRADE_{ij} + \beta_8 DISPUTE_{ij} + \beta_9 COL_{ij} \\
 & + \beta_{10} ALLY_{ij} + \beta_{11} DISTANCE_{ij} + \beta_{12} GATT_{ij} \\
 & + \beta_{13} HEGEMONY + \epsilon_{ij}
 \end{aligned}$$

## 6.3 Trade Agreements

### Trade agreements and regimes

**Table 2.** The impact of Democratization (PR) on the formation of preferential trade agreements. Frailty Cox Proportional Hazard Model (multi spells) clustered by dyads

Covariates	Model (1) All dyads	Model (2) North–South dyads	Model (3) South–South dyads
Democratization (PR)	0.020*** (.05)	0.51*** (.08)	0.09 (.05)
Ln(Trade)	0.03 (.02)	0.04 (.03)	0.04** (.02)
GDPpc	–0.02* (.01)	–0.01 (.01)	–0.02 (.01)
Ln(GDP)	0.24*** (.02)	0.34*** (.03)	0.13*** (.02)
GDP Growth	–0.01* (.004)	–0.04** (.01)	–0.002 (.004)
SIM	–0.03* (.01)	–0.05** (.02)	–0.01 (.02)
Alliance	0.42*** (.05)	.24** (.09)	0.44*** (.06)
Ln(Distance)	–1.01*** (.02)	–1.29*** (.05)	–0.94*** (.03)
Trade Dispute	0.06 (.06)	0.33** (.10)	–0.18 (.09)
WTO	0.25*** (.05)	0.84** (.11)	0.09 (.06)
WTO Round	0.78*** (.09)	–0.20 (.16)	1.25*** (.13)
Contiguity	–0.62*** (.08)	–1.86** (.26)	–0.35** (.09)
Island	–0.17** (.09)	0.06 (.15)	–0.17 (.11)
Colony	0.23*** (.06)	–0.83*** (.18)	0.42*** (.06)
Language	0.16** (.07)	–1.06*** (.39)	0.20** (.07)
Religion	0.13** (.05)	0.13 (.09)	0.12** (.06)
Diffusion	0.01*** (.001)	–0.01*** (.003)	0.01*** (.001)
South–South	0.10* (.06)		
No. Observations	234,258	72,342	161,916
No. of PTAs	2227	699	1528

Notes: robust standard errors are in parentheses. \*\*\* significant at 1 percent, \*\* significant at 5 percent, \* significant at 10 percent.

**Table 3.** The impact of Democratization (XRCOMP) on the formation of preferential trade agreements. Frailty Cox Proportional Hazard Model (multi spells) clustered by dyads

Covariates	Model (4) All dyads	Model (5) North–South dyads	Model (6) South–South dyads
Democratization (XRCOMP)	0.076*** (.08)	0.95*** (.10)	0.21 (.20)
Ln(Trade)	0.05** (.02)	–0.02 (.04)	0.10** (.03)
GDPpc	–0.03** (.01)	–0.02* (.01)	–0.03* (.01)
Ln(GDP)	0.21*** (.02)	0.33*** (.04)	0.09** (.03)
GDP Growth	–0.001 (.004)	–0.03** (.01)	–0.01 (.01)
SIM	–0.02 (.01)	–0.04 (.03)	–0.01 (.02)
Alliance	0.43*** (.05)	0.27** (.09)	0.47*** (.07)
Ln(Distance)	–1.02*** (.03)	–1.26*** (.05)	–1.01*** (.03)
Trade Dispute	0.02 (.07)	0.24** (.11)	–0.18 (.10)
WTO	0.28*** (.06)	0.61*** (.11)	0.20** (.07)
WTO Round	0.75*** (.09)	0.13 (.16)	0.93*** (.11)
Contiguity	–0.65*** (.09)	–1.67*** (.27)	–0.48** (.10)
Island	–0.39*** (.12)	–0.25 (.19)	–0.42** (.16)
Colony	0.20*** (.06)	–0.97*** (.21)	0.41*** (.07)
Language	0.27*** (.07)	–1.19*** (.59)	0.24** (.08)
Religion	0.12** (.05)	0.13 (.10)	0.14 (.07)
Diffusion	0.001 (.002)	–0.02** (.003)	0.01*** (.002)
South–South	0.20** (.07)		
No. Observations	181,042	53,444	127,598
No. of PTAs	1,840	579	1,261

Notes: robust standard errors are in parentheses. \*\*\* significant at 1 percent, \*\* significant at 5 percent, \* significant at 10 percent.

## 6.3 Trade Agreements economic interests

TABLE 3. Definition of variables for NAFTA lobbying

Variable	Measurement	Sign
NAFTA LOBBYING	1 if lobbied in support 0 if did not lobby -1 if lobbied in opposition	DV
ECONOMIES OF SCALE	Elasticity of value added per worker with respect to plant size	+
REGIONAL INTRAFIRM TRADE	Intrafirm trade of U.S. corporations with affiliates in Mexico and Canada divided by U.S. sales	+
OFFSHORE ASSEMBLY	Foreign content of imports from Mexico and Canada under HTS Chapter 9802 divided by U.S. sales	+
IMPORT COMPETITION	Imports divided by U.S. consumption	-
LABOR INTENSITY	Wages divided by value added	-
EXPORT DEPENDENCE	Exports divided by U.S. sales	+
INTRA-INDUSTRY TRADE	Index of intra-industry trade	+

TABLE 4. Ordered probit estimates for NAFTA lobbying

Variable	Model 1	Model 2	Model 3
ECONOMIES OF SCALE		4.177*** (1.193)	4.228*** (1.197)
REGIONAL INTRAFIRM TRADE		10.787* (4.299)	
OFFSHORE ASSEMBLY			39.792** (15.104)
IMPORT COMPETITION	-2.217* (0.889)	-2.465** (0.949)	-2.579** (0.953)
LABOR INTENSITY	-3.267** (1.090)	-2.006 (1.152)	-2.497* (1.162)
EXPORT DEPENDENCE	4.339** (1.660)	3.791* (1.755)	4.164* (1.728)
INTRA-INDUSTRY TRADE	0.224 (0.463)	0.362 (0.484)	0.392 (0.485)
THRESHOLD 1	-1.894*** (0.498)	-1.215* (0.577)	-1.476* (0.586)
THRESHOLD 2	-0.665 (0.481)	0.110 (0.567)	-0.122 (0.573)
Log likelihood	-128.28	-119.75	-118.03
Model $\chi^2$	34.10***	51.17***	54.59***
Pseudo $R^2$	0.117	0.176	0.188

Note: Cell entries are maximum likelihood estimates obtained using ordered probit analysis. Numbers in parentheses are asymptotic standard errors,  $N = 134$ .  
 \*\*\* $p < .001$ .  
 \*\* $p < .01$ .  
 \* $p < .05$ .

		Regional production sharing	
		High	Low
Returns to Scale	Large	(1) <b>Intense lobbying</b> for trading blocs Support: 61.1% Oppose: 5.1%	(2) <b>Moderate lobbying</b> for trading blocs Support: 40.6% Oppose: 13.2%
	Small	(4) <b>Moderate lobbying</b> for trading blocs Support: 28.3% Oppose: 21.8%	(3) <b>No lobbying</b> for trading blocs Support: 13.7% Oppose: 39.8%

Note: Cell entries are predicted probabilities from Model 3, Table 4, minus and plus one standard deviation of economies of scale and offshore assembly, holding all other independent variables constant at their mean values.

FIGURE 2. Business group lobbying for trading blocs: hypotheses and results

TABLE 6. OLS regression results for NAFTA tariff phasing

Variable	Model 1	Model 2
ECONOMIES OF SCALE	-0.606* (0.253)	-0.620* (0.256)
REGIONAL INTRAFIRM TRADE	-2.766*** (0.841)	
OFFSHORE ASSEMBLY		-5.280* (2.534)
IMPORT COMPETITION	0.704*** (0.200)	0.670*** (0.202)
LABOR INTENSITY	0.165 (0.274)	0.206 (0.279)
EXPORT DEPENDENCE	-0.854* (0.382)	-0.976* (0.382)
INTRA-INDUSTRY TRADE	-0.152 (0.105)	-0.171 (0.106)
INDUSTRIAL CONCENTRATION	0.398** (0.141)	0.351* (0.140)
GEOGRAPHIC CONCENTRATION	0.435 (0.231)	0.449 (0.235)
Constant	-0.312 (0.199)	-0.317 (0.203)
F-ratio	9.24***	8.62***
Adjusted $R^2$	0.332	0.314

Note: Cell entries are ordinary least squares (OLS) regression coefficients, with standard errors in parentheses.  $N = 134$ .  
 \*\*\* $p < .005$ .  
 \*\* $p < .01$ .  
 \* $p < .05$ .



## 6.3 Trade Agreements

### Trade agreement and institutions

TABLE 2 *The Effects of Veto Players on PTA Formation, 1950–99*

Variable	Base Model	Includes Hub and Spokes	FTAs/CUs/CMs/EUs	CUs/CMs/EUs
<i>Veto Players<sub>i</sub></i>	-1.608** (0.244)	-0.718** (0.174)	-1.538** (0.252)	-1.965** (0.331)
<i>Veto Players<sub>j</sub></i>	-1.698** (0.244)	-0.724** (0.170)	-1.657** (0.250)	-2.381** (0.320)
<i>Regime Type<sub>i</sub></i>	0.049** (0.006)	0.044** (0.005)	0.050** (0.006)	0.055** (0.008)
<i>Regime Type<sub>j</sub></i>	0.040** (0.006)	0.041** (0.004)	0.042** (0.006)	0.051** (0.007)
<i>Trade<sub>ij</sub></i>	-0.006 (0.008)	0.047** (0.006)	-0.007 (0.008)	-0.012 (0.009)
<i>GDP<sub>i</sub></i>	-0.208** (0.020)	-0.201** (0.015)	-0.215** (0.020)	-0.286** (0.024)
<i>GDP<sub>j</sub></i>	-0.183** (0.019)	-0.179** (0.015)	-0.199** (0.020)	-0.241** (0.024)
<i>AGDP<sub>i</sub></i>	$6.94 \times 10^{-10}$ ( $1.14 \times 10^{-9}$ )	$-1.63 \times 10^{-9}$ ( $8.87 \times 10^{-10}$ )	$9.11 \times 10^{-10}$ ( $1.14 \times 10^{-9}$ )	$-6.94 \times 10^{-9**}$ ( $2.26 \times 10^{-9}$ )
<i>AGDP<sub>j</sub></i>	$3.64 \times 10^{-10}$ ( $1.01 \times 10^{-9}$ )	$-2.15 \times 10^{-9**}$ ( $7.97 \times 10^{-10}$ )	$9.42 \times 10^{-10}$ ( $9.56 \times 10^{-10}$ )	$-6.08 \times 10^{-9**}$ ( $1.47 \times 10^{-9}$ )
<i>Dispute<sub>ij</sub></i>	-0.484 (0.274)	-0.377 (0.248)	-0.444 (0.281)	-0.732* (0.337)
<i>Ally<sub>ij</sub></i>	1.269** (0.083)	0.726** (0.063)	1.210** (0.087)	1.203** (0.100)
<i>Former Colony<sub>ij</sub></i>	-0.813 (0.717)	0.660** (0.192)	-†	-†
<i>Contiguity<sub>ij</sub></i>	-0.170 (0.119)	-0.383** (0.101)	-0.231 (0.124)	-0.193 (0.143)
<i>Distance<sub>ij</sub></i>	-0.910** (0.050)	-0.819** (0.036)	-0.934** (0.053)	-0.903** (0.061)
<i>Hegemony</i>	-18.033** (1.989)	-18.199** (1.361)	-17.852** (2.103)	-16.016** (2.253)
<i>GATT<sub>ij</sub></i>	0.326** (0.057)	0.387** (0.042)	0.389** (0.058)	0.626** (0.065)
Constant	11.404** (0.842)	12.064** (0.605)	11.768** (0.884)	12.601** (0.952)
Log-likelihood	-11,389.03	-16,869.78	-10,824.14	-7,662.21
<i>N</i>	339,910	341,073	339,774	339,091

Note: Parameters are estimated using logistic regression, after including a cubic spline function with no knots. Entries in parentheses are Huber standard errors clustered on the dyad. \*\* $p \leq 0.01$ ; \* $p \leq 0.05$ . All tests of statistical significance are two-tailed.  
†There is no case where states with a former colonial relationship formed a reciprocal FTA, CU, common market or economic union.

$$PTA_{onset_{ij}} = \beta_0 + \beta_1 Veto\ Players_i + \beta_2 Veto\ Players_j + \beta_3 Regime\ Type_i + \beta_4 Regime\ Type_j + \beta_5 Trade_{ij} + \beta_6 GDP_i + \beta_7 GDP_j + \beta_8 AGDP_i + \beta_9 AGDP_j + \beta_{10} Dispute_{ij} + \beta_{11} Ally_{ij} + \beta_{12} Former\ Colony_{ij} + \beta_{13} Contiguity_{ij} + \beta_{14} Distance_{ij} + \beta_{15} Hegemony + \beta_{16} GATT_{ij} + \epsilon. \quad (1)$$

TABLE 2  
Ordered Probit Estimates of the Effects of Veto Players and Regime Type on the Depth of  
Regional Integration, 1950–2000

	Base Model	PTA Instrument	Regime Indicator*	Democracies Only
<i>Veto Players<sub>i</sub></i>	1.073** (0.163)	1.012** (0.165)	0.314** (0.091)	-0.637** (0.135)
<i>Veto Players<sub>j</sub></i>	0.892** (0.171)	0.841** (0.173)	0.143 (0.094)	-0.376** (0.133)
<i>Regime Type<sub>i</sub></i>	0.029** (0.002)	0.034** (0.002)	0.399** (0.038)	-
<i>Regime Type<sub>j</sub></i>	0.024** (0.002)	0.029** (0.002)	0.282** (0.040)	-
<i>Regime Type<sub>i</sub> × Veto Players<sub>i</sub></i>	-0.103** (0.009)	-0.108** (0.009)	-1.171** (0.130)	-
<i>Regime Type<sub>j</sub> × Veto Players<sub>j</sub></i>	-0.093** (0.010)	-0.099** (0.010)	-0.881** (0.136)	-
<i>Trade<sub>ij</sub></i>	-0.001 (0.003)	-0.002 (0.003)	-0.002 (0.003)	-0.010 (0.007)
<i>GDP<sub>i</sub></i>	-0.067** (0.006)	-0.087** (0.006)	-0.067** (0.006)	-0.006 (0.013)
<i>GDP<sub>j</sub></i>	-0.060** (0.006)	-0.077** (0.006)	-0.060** (0.006)	-0.017 (0.013)
<i>ΔGDP<sub>i</sub></i>	8.71 × 10 <sup>-10*</sup> (3.93 × 10 <sup>-10</sup> )	1.15 × 10 <sup>-9**</sup> (4.04 × 10 <sup>-10</sup> )	7.64 × 10 <sup>-10</sup> (4.10 × 10 <sup>-10</sup> )	5.38 × 10 <sup>-9</sup> (5.02 × 10 <sup>-10</sup> )
<i>ΔGDP<sub>j</sub></i>	6.70 × 10 <sup>-10</sup> (3.68 × 10 <sup>-10</sup> )	9.43 × 10 <sup>-10*</sup> (3.81 × 10 <sup>-10</sup> )	5.72 × 10 <sup>-10</sup> (3.81 × 10 <sup>-10</sup> )	9.40 × 10 <sup>-9**</sup> (4.12 × 10 <sup>-10</sup> )
<i>Dispute<sub>ij</sub></i>	-0.166 (0.104)	-0.223* (0.097)	-0.143 (0.104)	-0.119 (0.293)
<i>Ally<sub>ij</sub></i>	0.499** (0.025)	0.628** (0.024)	0.507** (0.025)	0.272** (0.045)
<i>Former Colony<sub>ij</sub></i>	-0.294 (0.221)	-0.287 (0.227)	-0.287 (0.223)	- <sup>b</sup>
<i>Contiguity<sub>ij</sub></i>	-0.071 (0.039)	-0.050 (0.032)	-0.061 (0.039)	-0.092 (0.072)
<i>Distance<sub>ij</sub></i>	-0.383** (0.015)	-0.480** (0.013)	-0.375** (0.015)	-0.341** (0.025)
<i>Hegemony</i>	-10.117** (0.611)	-12.626** (0.668)	-10.107** (0.616)	-3.641** (1.002)
<i>GATT<sub>ij</sub></i>	0.156** (0.019)	0.192** (0.017)	0.161** (0.019)	0.180** (0.045)
<i>Instrument[RIA]</i>	-	-4.246** (0.315) <sup>c</sup>	-	-
<i>_Cut 1</i>	-4.424** (0.266)	-6.305** (0.290)	-4.604** (0.269)	-1.727** (0.524)
<i>_Cut 2</i>	-4.398** (0.266)	-6.279** (0.290)	-4.578** (0.269)	-1.718** (0.523)
<i>_Cut 3</i>	-4.241** (0.266)	-6.121** (0.290)	-4.423** (0.268)	-1.421** (0.525)
<i>_Cut 4</i>	-4.157** (0.266)	-6.036** (0.290)	-4.340** (0.268)	-1.333** (0.526)
<i>_Cut 5</i>	-3.280** (0.265)	-5.159** (0.289)	-3.469** (0.268)	-0.902 (0.522)
Log-likelihood	-14,063.16	-13,955.99	-14,160.66	-2,886.09
N	339,910	339,910	339,910	45,565
Pseudo-R <sup>2</sup>	0.14	0.15	0.14	0.09

Notes:

Entries in parentheses are Huber standard errors clustered on the dyad.

\*\*  $p \leq 0.01$ ; \*  $p \leq 0.05$ . All tests of statistical significance are two-tailed.

<sup>a</sup> *Regime Type<sub>i</sub>* and *Regime Type<sub>j</sub>* are dummy variables.

<sup>b</sup> There are no cases of two democracies that have a former colonial relationship entering an RIA.

<sup>c</sup> Estimate of standard error is bootstrapped since the predicted value of RIA is an instrument.

## 6.3 Trade Agreements

### Trade agreement depth

PTA: selected access

FTA: comprehensive access

Custom Union: common external tariff

Common Market: free factor movement

Econ. Union: fiscal and monetary policy coordination

$$\begin{aligned}
 \text{Proposed Integration}_{ij} = & \beta_0 + \beta_1 \text{Veto Players}_i + \beta_2 \text{Veto Players}_j + \beta_3 \text{Regime Type}_i \\
 & + \beta_4 \text{Regime Type}_j + \beta_5 (\text{Veto Players}_i \times \text{Regime Type}_j) \\
 & + \beta_6 (\text{Veto Players}_j \times \text{Regime Type}_i) + \beta_7 \text{Trade}_{ij} + \beta_8 \text{GDP}_i \\
 & + \beta_9 \text{GDP}_j + \beta_{10} \Delta \text{GDP}_i + \beta_{11} \Delta \text{GDP}_j + \beta_{12} \text{Dispute}_{ij} \\
 & + \beta_{13} \text{Ally}_{ij} + \beta_{14} \text{Former Colony}_{ij} + \beta_{15} \text{Contiguity}_{ij} \\
 & + \beta_{16} \text{Distance}_{ij} + \beta_{17} \text{Hegemony} + \beta_{18} \text{GATT}_{ij} + \varepsilon. \quad (1)
 \end{aligned}$$

## 6.3 Trade Agreements

### Trade agreement and dispute settlement

TABLE 1. *Institutional options in dispute settlement design*

Treaty provision	Spectrum of legalism		
	More diplomatic	<—————>	More legalistic
Third-party review	None	Access controlled by political body	Automatic right to review
Third-party ruling	Recommendation	Binding if approved by political body	Directly binding obligation
Judges	Ad hoc arbitrators	Ad hoc panelists drawn from roster	Standing tribunal of justices
Standing	States only	States and treaty organs	States, treaty organs, and individuals
Remedy	None	Retaliatory sanctions	Direct effect in domestic law

TABLE 9. *Ordered probit regression of legalism*

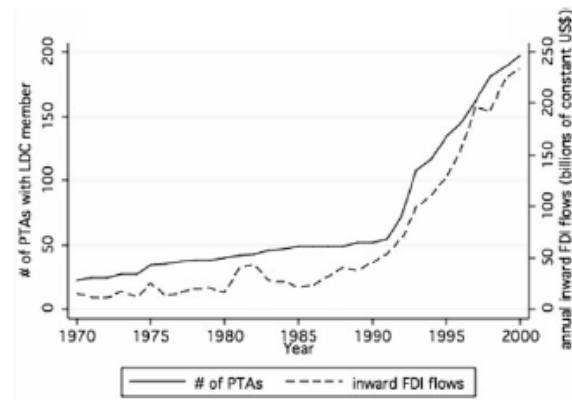
Variable	Coefficient	Standard error
Proposed integration	3.203**	0.682
Economic asymmetry	1.067*	0.484
Interaction	-5.604**	1.483
Number of observations	63	
Log likelihood	-49.59	
Chi-squared	26.16	
Significance	0.000	

\*\* $p < .01$ , two-tailed test.

\* $p < .05$ , two-tailed test.

## 6.3 TRADE AGREEMENTS EFFECTS ON INVESTMENT

FIGURE 1 PTAs and FDI Flows into Developing Countries



H1: If a country is a member of GATT/WTO, it will experience higher inward FDI.

H2: The greater the number of PTAs to which a country is a party, the greater will be the inward FDI that it experiences.

TABLE 1 From Economic Baseline Model to Full Political-Economic Model

	Model 1	Model 2	Model 3	Model 4	Model 4 with Bootstrapped Errors
Cumulative PTAs				0.217***	0.217**
GATT/WTO membership			1.22***	1.08***	1.08***
Bilateral Investment Treaties (BITs)		0.0496***	0.0502***	0.0411***	0.0411***
Domestic Political Constraints		1.75**	1.44**	1.15*	1.15*
Political Instability		-0.0129	-0.0144*	-0.0153*	-0.0153**
Market Size	-3.85***	-1.89	-1.94	-1.64	-1.64
Economic Development	-0.0739	-0.503	-0.595	-0.406	-0.406
GDP growth	0.0395***	0.0344***	0.0331***	0.0302***	0.0302***
Constant	-8.90e <sup>-10</sup>	-8.15e <sup>-10</sup>	-1.02e <sup>-9</sup>	-1.12e <sup>-9</sup>	-1.12e <sup>-9</sup>
R <sup>2</sup>	+0.0231	+0.0491	+0.0625	+0.0691	+0.0691

OLS within estimates with Arellano (1987) robust (clustered) standard errors in parentheses; all estimates rounded to three significant figures. \*p < 0.1; \*\*p < 0.05; \*\*\*p < 0.01; two-tailed tests. N = 2,524; n = 122; analysis covers 1970–2000, subject to data availability. All variables detrended, except Political Instability, which exhibited no significant trend. Country fixed effects implemented in advance via "areg" command, with "absorb(country)" in Stata 9.2. R<sup>2</sup> information indicates additional variance explained by the variables shown, after country fixed effects and trend have explained 39.2% of the variance in the raw FDI data.

## 6.3 Trade Agreements Effects on political survival

