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# International Agreements and Procurement Discrimination

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# Motivation

- When do international agreements change the behaviour of national governments?
    - Previously studied in various policy areas
      - Trade (e.g. Kono 2007)
      - International Monetary Law (e.g. Simmons 2000)
      - Human rights (e.g. Hathaway 2002)
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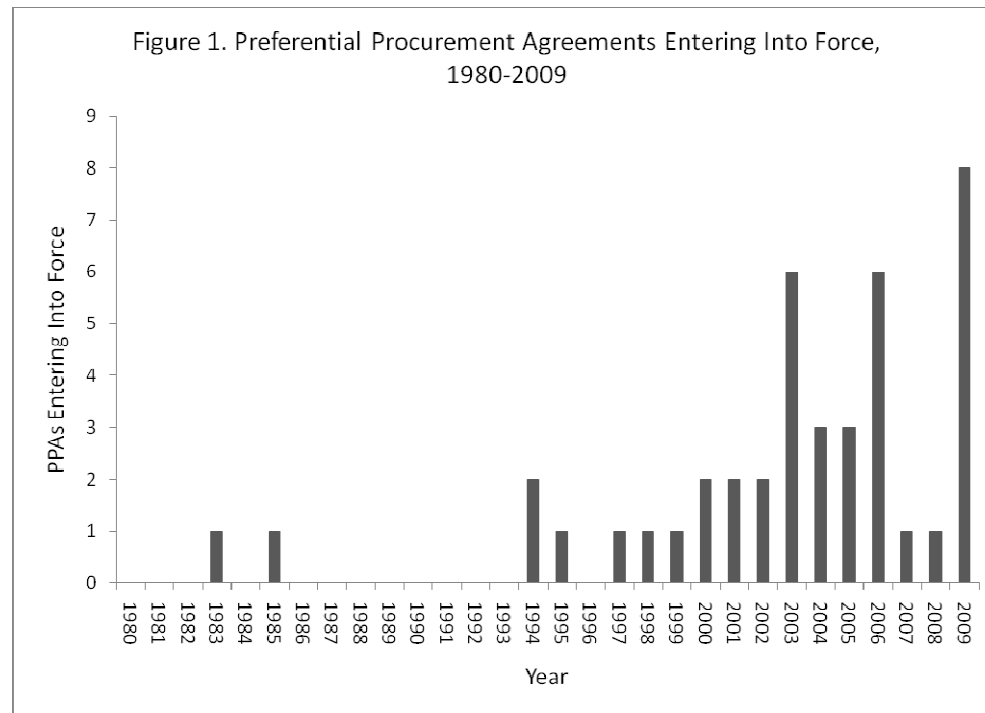
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# Public procurement

- The purchase of goods and services by governments for their own use (i.e. not with a view to commercial sale or resale).
    - Examples
      - Food & clothing for prisoners
      - Multi-functional satellite for Air Traffic Management
    - Big money
      - 10% of GDP in OECD economies
      - US Federal government spent \$235 billion in 2001
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# Motivation

- Increasing number of international agreements regulate public procurement



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# Procurement agreements in practice

- Each country would like to access others' procurement markets but protect their own
  - Reputational costs of non-compliance (e.g. Keohane 1984)
    - Reputation mechanism works only if others can detect treaty violations
    - This may not hold with regards to procurement
    - Procurement discrimination is often opaque
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# Empirics

- To what extent do international agreements reduce procurement discrimination?

Agreements	<ul style="list-style-type: none"><li>■ WTO GPA</li><li>■ PTAs with coverage commitments</li></ul>
Discrimination	<ul style="list-style-type: none"><li>■ Elasticity of imports to procurement spending</li><li>■ Higher elasticities indicate less discrimination</li></ul>

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# Gravity model

$$\begin{aligned}\ln(\text{Imports}_{ijt}) = & \beta_0 + \beta_1 \ln(\text{Imports}_{ijt-1}) + \beta_2 \ln(\text{Procurement}_{it}) + \beta_3 \text{PPA}_{ijt} \\ & + \beta_4 \ln(\text{Procurement}_{it}) * \text{PPA}_{ijt} + \beta_5 \text{GPA}_{ijt} + \beta_6 \ln(\text{Procurement}_{it}) * \text{GPA}_{ijt} \\ & + \beta_7 \ln(\text{GDP}_{it} * \text{GDP}_{jt}) + \beta_8 \ln(\text{Population}_{it} * \text{Population}_{jt}) + \beta_9 \text{Trade Taxes}_{it} \\ & + \beta_{10} \text{WTO}_{ijt} + \beta_{11} \text{Joint Democracy}_{ijt} + \beta_{12} \text{PTA}_{ijt} + \beta_{13-28} \text{Year}_t + \varepsilon_{ijt}.\end{aligned}$$

- Expect  $\beta_4$  to be positively signed if PPA discourage discrimination
  - 112 countries with unbalanced panels from 1990 to 2007
  - Dyad & year fixed effects
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# Results

- Signatories are no more inclined than non-signatories to spend procurement funds on imports
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Table 2. Procurement, Imports, and Preferential Procurement Agreements

Independent Variable	All models with dyad and year fixed effects				
	(1) OLS	(2) OLS	(3) OLS	(4) OLS	(5) 2SLS
$\ln(\text{Procurement}_{it})$	.105*** (.021)	.121*** (.026)	.119*** (.026)	.112*** (.029)	.105*** (.024)
$\ln(\text{Procurement}_{it}) * \text{PPA}_{ijt}$	-.000 (.019)	.004 (.031)	-.070 (.116)	-.022 (.176)	.016 (.020)
$\text{PPA}_{ijt}$	-.043 (.425)	-.142 (.658)	1.48 (2.52)	.544 (3.75)	-.393 (.443)
$\ln(\text{Procurement}_{it}) * \text{GPA}_{ijt}$	-.077*** (.022)	-.093*** (.030)	.031 (.043)	-.007 (.060)	-.075*** (.026)
$\text{GPA}_{ijt}$	1.57*** (.494)	1.81*** (.670)	-.881 (.976)	-.188 (1.37)	1.52*** (.577)
$\ln(\text{GDP}_{it} * \text{GDP}_{jt})$	.347*** (.051)	.479*** (.063)	.131 (.084)	.167* (.086)	.344*** (.052)
$\ln(\text{POP}_{it} * \text{POP}_{jt})$	.181 (.210)	-.098 (.263)	3.09*** (.417)	2.06*** (.428)	.201 (.210)
$\text{Trade Taxes}_{it}$	-3.66** (1.60)	.839 (1.85)	-11.5*** (2.05)	-6.17*** (2.04)	-3.69** (1.60)
$\text{WTO}_{ijt}$	.392*** (.061)	.426*** (.076)	.393*** (.090)	.359*** (.093)	.379*** (.061)
$\text{Joint Democracy}_{ijt}$	-.011 (.050)	.020 (.065)	-.249*** (.093)	-.276*** (.106)	-.010 (.050)
$\text{PTA}_{ijt}$	.018 (.067)	.080 (.087)	-.076 (.115)	-.123 (.130)	.015 (.065)
$\text{Alliance}_{ijt}$			.205* (.121)	.225* (.132)	
$\text{MID}_{ijt}$			.280 (.436)	.410 (.429)	
$\ln(\text{Imports}_{ijt-1})$	.253*** (.006)		.121*** (.007)		.251*** (.006)
Constant	-16.2** (7.40)	-12.4 (9.03)	-99.4*** (13.5)	-66.4*** (13.8)	
Observations	137,407	143,512	63,874	69,979	135,673
P > F	0.0000	0.0000	0.0000	0.0000	0.0000

Dependent variable:  $\ln(\text{Imports}_{ijt})$ 

Robust-cluster standard errors in parentheses \*\*\* p&lt;0.01, \*\* p&lt;0.05, \* p&lt;0.1

# Results

Table 2.1 Conditional Elasticities of Imports to Procurement (GPA = 0)		
No Agreement	Agreement	Wald Test $H_0: C1 = C2$
.105*** (.021)	.105*** (.028)	0.999

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# Robustness checks

- Split samples
    - Economic development
    - Economic diversification
    - Total spending
  - Disaggregate Agreements
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# Conclusion & Implications

- International agreements have failed to discourage procurement discrimination
  - The nature of a given policy area itself may determine the success of international agreements
  - Implications for current multilateral negotiations
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