

Investment Discrimination and the Proliferation of PTAs

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Overview

Research question:

Does the protection of outward foreign direct investments play a role in the proliferation of preferential trade agreements since 1990?

Answer:

Yes, countries try to counter investment discrimination by signing PTAs. We expect a diffusion process.

Overview

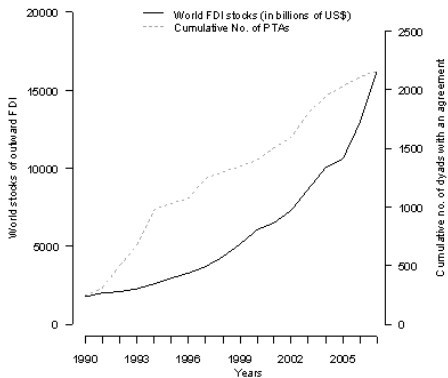
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The argument

Causal mechanism I:

- ▶ Governments want to avoid losses for any significant sector of society
- ▶ The creation of a PTA can impose costs on third countries through both trade diversion and investment discrimination
- ▶ Two causes of investment discrimination:
 - tariffs on the import of intermediary goods
 - explicit investment provisions

The argument

Causal mechanism II:

- ▶ Investors from excluded countries mobilize
- ▶ Their lobbying influences trade policy
- ▶ Excluded countries implement policies that protect outward investors from discrimination abroad by establishing a “level playing field”
- ▶ They sign a trade agreement with the country where investors face discrimination

The argument

Hypothesis:

The likelihood of two countries signing an agreement increases, the larger the investment discrimination that one faces in the market of the other.

Quantitative test

Scope:

- ▶ 166 countries
- ▶ 1990-2007
- ▶ Unit of analysis: up to 13,452 undirected dyads
- ▶ 1,880 dyads conclude an agreement in that period

Method:

Proportional Hazard Cox model, do states A and B sign an agreement at time t ?

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Spatial Interdependence

Predictor:

- ▶ Measure of *potential* for investment discrimination
- ▶ 3 conditions (for directed dyad AB):
 - B recently signed a PTA with C (between 1 and 5 years ago)
 - A is a large exporter of FDI
 - B is a large importer of FDI
 - C is a large exporter of FDI
- ▶ Sum across all dyads that include B
- ▶ Do the same for A
- ▶ Then take bigger of two values for directed dyads

Control variables

Economic characteristics of the dyad:

FDI flows, trade flows, GDP

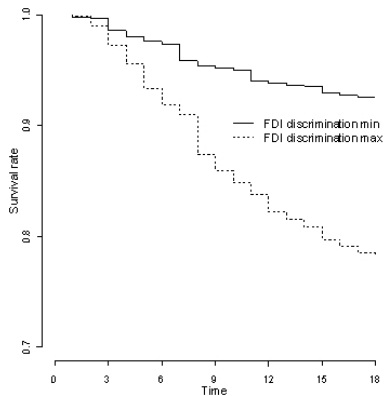
Other characteristics of the dyad:

Distance, democracies, alliance, BIT, islands, colony,...

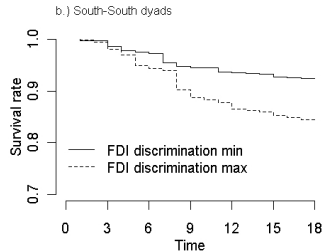
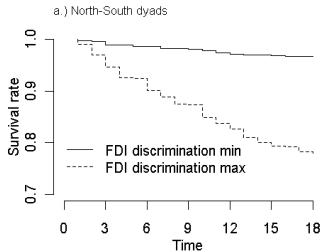
State of the international trading system:

WTO round, trade disputes,...

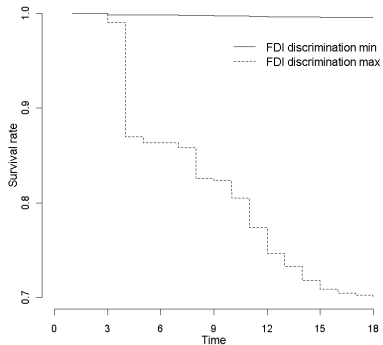
Substantive effect: Whole Sample



North-South Dyads vs. South-South Dyads



Substantive effect: Investment Chapter



Robustness of the results

Robustness checks:

- ▶ Bilateral FDI
- ▶ Instrumental variable
- ▶ Attracting FDI
- ▶ Effect for 3 or 7 years?

Conclusion

Summary:

- ▶ Preferential trade agreements are interdependent
- ▶ Diffusion of political decisions
- ▶ Contribution to quantitative literature on spatial interdependence