

Risk Perceptions and International Agreements: A Survey Experiment

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IPES, Charlottesville, 9 November 2012

Puzzle

- Many claims about the benefits of international economic cooperation depend on third-party *perceptions* of those agreements
- Yet microfoundations rarely tested in systematic manner
- Research question:
 - ▶ Do perceptions of country risk change as a function of international economic relationships?

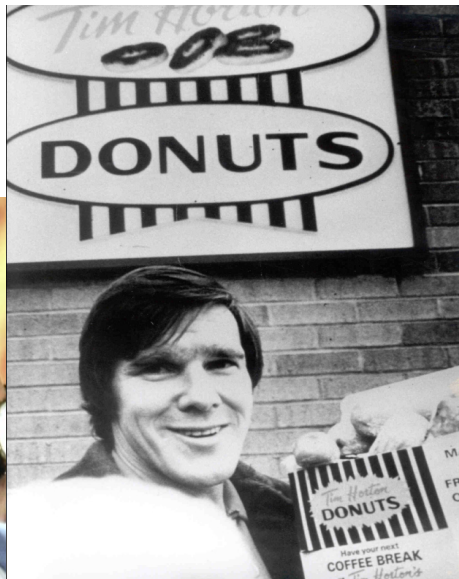
Some Real-World Examples

- Post-communist countries join the EU; perceptions of country risk *fall* dramatically
- Honduras joins Hugo Chávez's Bolivarian Alternative for the Americas; perceptions of country risk *increase*
- → But difficult to isolate causal mechanisms, magnitude
 - ▶ Anticipated policy change? Peer effects?

Argument

- Perceptions of country risk responsive to “the company you keep”
 - ▶ Observers make inferences based on *who* a country signs agreements with, not the content of the agreement
 - ▶ Heuristic about a country’s political intentions in the medium-term
 - ▶ → *Central Hypothesis*: Joining clubs with “good” members should make countries look less risky; joining clubs with “bad” members makes countries look more risky

Who is Better Company?



Why a Survey?

- Advantages

- ▶ Difficult in real world to isolate agreement type from reputation of country
 - ★ “Good” countries may sign agreements that are broader and more likely to be implemented
 - ★ “Bad” countries may sign shallow agreements
- ▶ Want to hold content of agreement constant
- ▶ Establish microfoundations for large-N results

- Limitations

- ▶ Survey of general public, not investors
 - ★ BUT investors in emerging markets have “too much money and too little local knowledge or power”

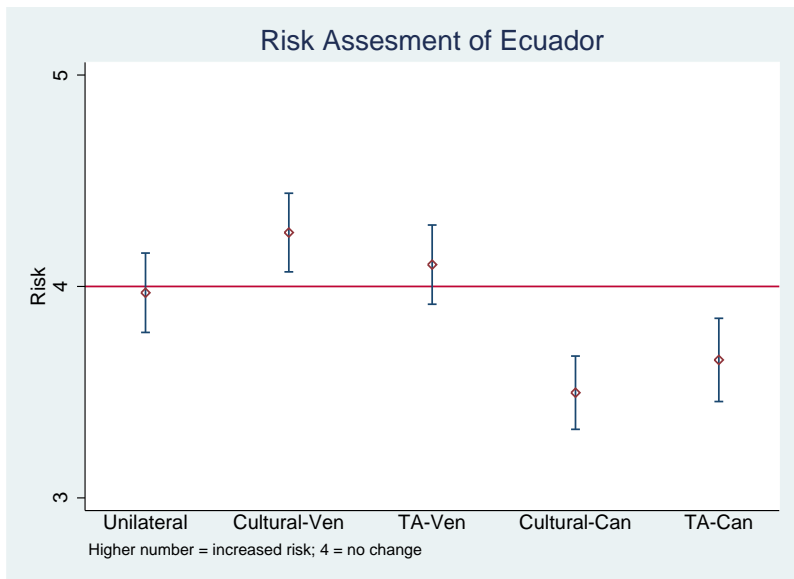
Survey Experiment

- Two different groups of respondents
 - ▶ Respondents on mTurk (n=700)
 - ▶ Students recruited by Wharton's Behavioral Science Lab (n=200)
- Survey questions
 - ▶ Asked about risk perception = Possibility that government will default on its debt
 - ▶ Randomized questions to assess whether risk perception contingent on policy change associated with agreements or simply with the reputation of the signatory country
 - ▶ Follow-up questions to establish mechanisms

Details and methods

- Randomized control and treatment questions asking about international policy
 - ▶ Control group: Unilateral change in tariff rates
 - ▶ Treatments: Trade or cultural agreement with “good” polity (EU, Canada) or a “bad” one (Venezuela, Iran, Russia)
 - ★ Terms of agreement consistent across all groups
- T-tests of differences in means
 - ▶ Test control versus treatment
 - ▶ Also test “bad” versus “good” polity

Change in Risk: Ecuador



Risk perceptions for Ecuador: T-tests

	N	Mean	Std. dev.	Control T-test	Treat. T-test
Unilateral tariff cut	202	3.97	1.35	–	–
Cultural exchange - Venez	200	4.26	1.33	0.034	–
TA with Venez	213	4.10	1.39	0.323	–
Cultural exchange - Canada	203	3.50	1.25	0.000	0.000
TA with Canada	213	3.65	1.46	0.022	0.001

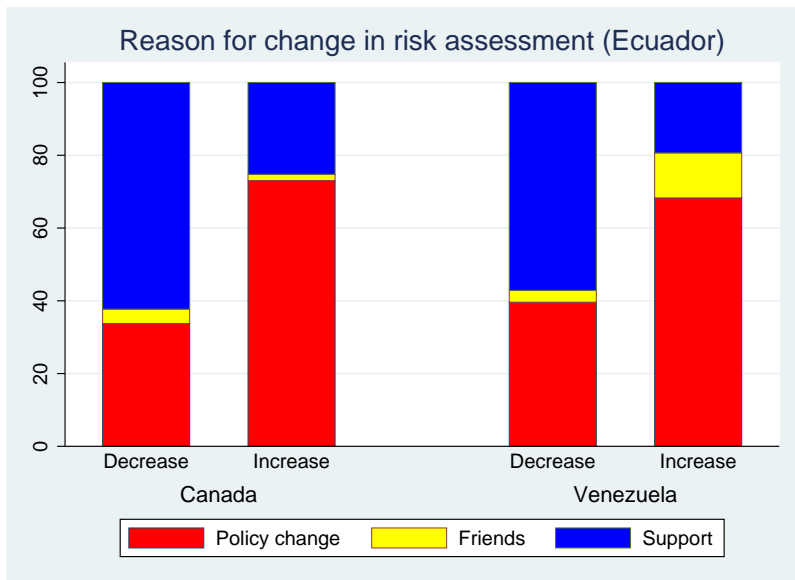
Higher scores indicate a larger increase in risk

Two-tailed probabilities that difference in mean

Mechanisms

- What's driving the change in perceptions?
 - ▶ Difficult to tell because we f'd up the questions
 - ▶ 3 alternatives for increased risk and 3 for decreased risk
 - ★ Expect policy change as result of agreement
 - ★ Friends of good/bad country cannot be trusted/Friends of good/bad country is friend of mine
 - ★ Can expect economic and political support in future
 - ▶ Some evidence that it is the reputation of the “bad” polity
 - ★ Respondents more likely to say friends of “bad” countries cannot be trusted when risk increases
 - ★ Also differences in importance of support and policy change

Reasons for changes in risk perception: Ecuador

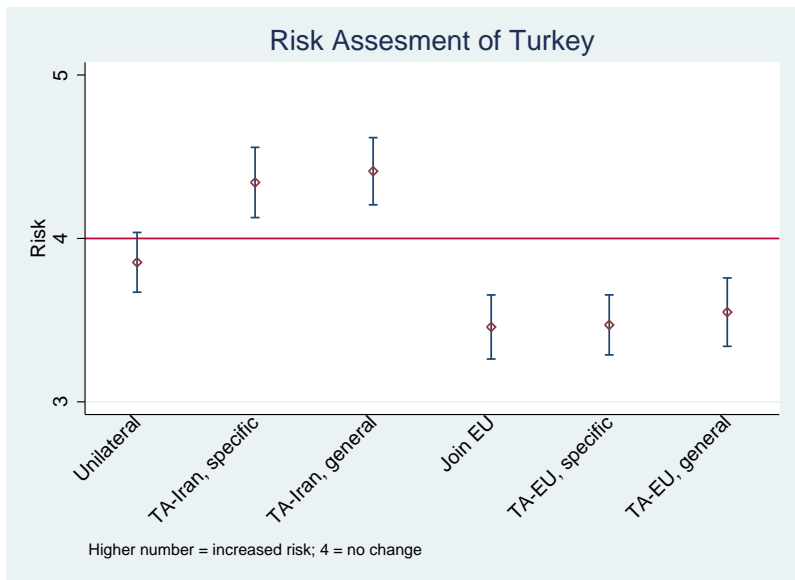


Conclusion and Future Research

- Evidence that individuals make associations with countries as a function of “the company they keep”
- Mechanisms need to be clarified
- Extension to elite groups, actual investors?
- Game in a lab?

Supplementary slides

Change in Risk: Turkey



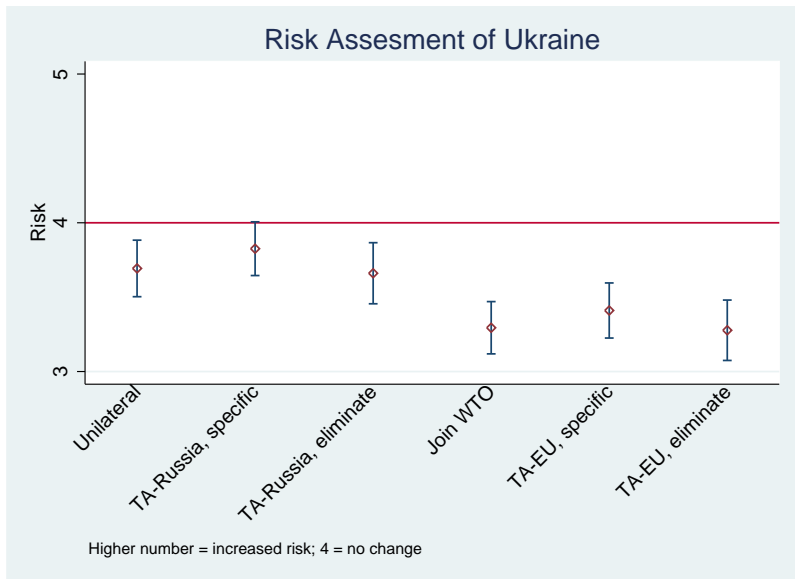
Risk perceptions for Turkey: T-tests

	N	Mean	Std. dev.	Control T-test	Treat. T-test
Unilateral tariff cut	171	3.85	1.21	–	–
TA w/Iran, specific cuts	181	4.34	1.47	0.001	–
TA w/Iran, general cuts	175	4.41	1.38	0.000	–
Join EU	179	3.46	1.33	0.004	–
TA w/ EU, specific cuts	172	3.47	1.22	0.004	0.000
TA w/EU, general cuts	173	3.55	1.39	0.031	0.000

Higher scores indicate a larger increase in risk

Two-tailed probabilities that difference in mean

Change in Risk: Ukraine



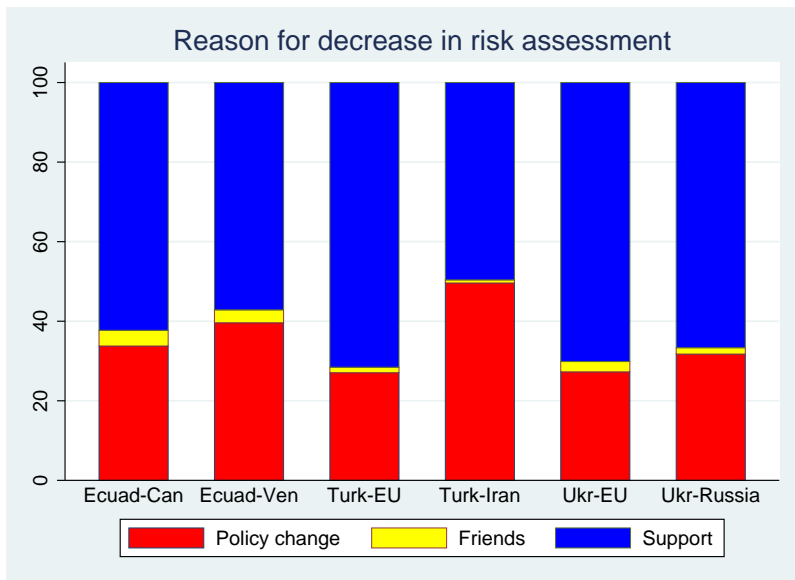
Risk perceptions for Ukraine: T-tests

	N	Mean	Std. dev.	Control T-test	Treat. T-test
Unilateral tariff cut	176	3.69	1.28	–	–
TA w/Russia, specific cuts	178	3.82	1.22	0.319	–
TA w/Russia, eliminate	171	3.66	1.36	0.820	–
Join WTO	180	3.29	1.19	0.003	0.000
TA w/ EU, specific cuts	173	3.41	1.24	0.036	0.002
TA w/EU, eliminate	173	3.28	1.35	0.034	0.009

Higher scores indicate a larger increase in risk

Two-tailed probabilities that difference in mean

Decreases in Risk: Why?



Increases in Risk: Why?

