Are Bilateral Investment Treaties Really Bilateral?

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Summary

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Are Bilateral Investment Treaties (BITs) truly 'bilateral'?

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Our Argument:

Not always. Many BITs result from a multilateral process.

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Why it Matters:

- BITs are important.
- Explains "puzzling" previous BIT findings regarding legal systems, regime type, income, and FDI flow.

Outline

1. Motivation
2. Argument
3. Empirical Analysis
    - Research Design
    - Empirical Results
4. Conclusion

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UNCTAD ‘BIT-palooza’ 1999

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Issues new study on bilateral investment treaties

TAD/INF/PR/99001

07 January 1999

BIT formation is often multilateral

- Theory suggests multilateral competition for capital $\rightarrow$ BITs.

- Some BIT formations are explicitly not bilateral in practice:
  - Multilateral conferences to negotiate BITs.
  - BITs complement/substitute multilateral agreements.

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Punch Line:
Fail to account for **multilateral process** $\rightarrow$
flawed inferences.

Multilateral Process = k-adic design (Poast 2010)

What is a k-ad? Group of k number of states.

Dyad: Is when $k = 2$

Triad: Is when $k = 3$

Quad-ad: Is when $k = 4$

etc.

Directed K-adic Data set of BIT Formation

Dyadic Data set: Source-Target-Year
Example: US-Costa Rica-1995

K**-adic Data set:** Source-Target 1-...-Target K-Year
Example: US-Costa Rica-Ecuador-1995

Data set

Unit of Observation: Directed k-ad Year

DV: Did all k targets of k-ad i form BIT with the source in year t?

Sample Size:

- 263 k-ads formed BITs = 8,122 "event" k-ad years
- Generated a random sample of 518 k-ads that did not form BITS = 11,123 "non-event" k-ad years

Models

Replication of Neumayer and Plümper (2010)

- Consider 5 possible competitive diffusion mechanisms.
- Cox proportional hazard model.
- Other variables: Common Law, income, FDI flows, regime type, etc.

Summary of Findings (Key Variables)

Variable	Exp. Effect	Prior Results (EGS)	Our Results
Democracy	-	No sig effect.	- in all 10 models; sig in 7 models.
Law and Order	-	+ and sig effect.	- in 9 models; sig in 4 models.
Per Capita GDP	-	No sig effect.	- in all 10 models; si. in 8 models.
GDP Growth	+	- and sig effect.	+ and sig coef in all 10 models.
Colonial Ties	+	- and sig effect.	+ and sig coef in all 10 models.

Robustness Checks

1. Limit potential targets to same region.
2. Consider alternative draws of “non-event” *k*-ads.

Model Fit Comparison

Table: Comparison of K-adic and Dyadic Model Fit

	1		2		3		4	
	K-adic	Dyadic	*K*-adic	Dyadic	*K*-adic	Dyadic	*K*-adic	Dyadic
AUC	0.9586	0.8058	0.9678	0.8039	0.9822	0.8310	0.9836	0.8427
ePCP	99.08	97.30	99.36	97.30	99.31	97.34	99.31	97.37
N	35,379	30,300	38,185	30,300	33,460	30,300	33,460	30,300

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THANK YOU!