Treaty Diplomacy and the Global Firm

Calvin Thrall

University of Texas at Austin

IPES, October 22, 2021
Motivation

Bilateral treaty networks (or *regimes*) affect states’ gains (and losses) from globalization.
Motivation

Bilateral treaty networks (or *regimes*) affect states’ gains (and losses) from globalization.

*How did these treaty regimes evolve?*
Approach

I study the coevolution of multiple treaty regimes.
— Investment, trade, tax, labor, and environmental cooperation.
Approach

I study the coevolution of multiple treaty regimes.
— Investment, trade, tax, labor, and environmental cooperation.

**Stylized facts**: interdependence across regimes.

1. Separate treaty regimes overlap dramatically.
2. Pairs of states often sign multiple treaties at the same time.
Approach

I study the coevolution of multiple treaty regimes.
— Investment, trade, tax, labor, and environmental cooperation.

**Stylized facts**: interdependence across regimes.

1. Separate treaty regimes overlap dramatically.
2. Pairs of states often sign multiple treaties at the same time.

**Theory**: Firms invest abroad, *then* lobby their home state to sign multiple types of treaties with the host state.
How do treaty regimes evolve?

1 Competitive diffusion
   ▶ Baccini and Dür 2015; Baldwin and Jaimovich 2012; Barthel and Neumayer 2012; Davies and Naughton 2014; Elkins, Guzman and Simmons 2006; Rixen 2011.

2 Normative diffusion (institutional isomorphism)
   ▶ Hearson 2018; Jandhyala, Henisz and Mansfield 2011; Poulsen 2014.
Stylized facts

Extant work suggests: separate regimes, separate treaty-generating processes.
Stylized facts

Extant work suggests: separate regimes, separate treaty-generating processes.

I present two stylized facts that instead suggest cross-regime interdependence:

1. Overlap
2. Temporal clustering
To measure temporal clustering, I examine between-treaty gaps.
To measure temporal clustering, I examine **between-treaty gaps**.

State A—State B

Gap 1: 1991 − 1989 = 2

1991 BIT
1992 BTT
1993
1994
1995
1996 BLA
1997
To measure temporal clustering, I examine **between-treaty gaps**.

Gap 1: 1991 − 1989 = 2

Gap 2: 1996 − 1991 = 5
48% of gaps are $\leq 5$ years

19% of gaps are $\leq 1$ year
Theory: firm-driven interdependence

I argue that interdependence in treaty regime evolution is the result of corporate pressure.
Theory: firm-driven interdependence

I argue that interdependence in treaty regime evolution is the result of corporate pressure.

- Multinational firms often invest abroad in the absence of treaties.
Theory: firm-driven interdependence

I argue that interdependence in treaty regime evolution is the result of corporate pressure.

- Multinational firms often invest abroad in the absence of treaties.

- Once abroad, these incumbent firms become beneficiaries of bilateral treaties between home and host.
Theory: firm-driven interdependence

I argue that interdependence in treaty regime evolution is the result of corporate pressure.

- Multinational firms often invest abroad in the absence of treaties.

- Once abroad, these incumbent firms become beneficiaries of bilateral treaties between home and host.

- These benefits are targeted.
  - Only apply to firms with operations in both states.
Theory: firm-driven interdependence

I argue that interdependence in treaty regime evolution is the result of **corporate pressure**.

- Multinational firms often invest abroad in the absence of treaties.

- Once abroad, these **incumbent** firms become beneficiaries of bilateral treaties between home and host.

- These benefits are **targeted**.
  - Only apply to firms with operations in both states.

⇒ Incentive to lobby for treaties.
Lobbying for Treaties

Two avenues for foreign economic policy lobbying:

1. Top-down: lobby domestic legislatures. 

2. Bottom-up: lobby diplomats directly.
   ▶ Treaties are the product of diplomacy.
   ▶ Promoting exports & investment are key diplomatic objectives.
   ▶ Diplomats hold strong preferences in favor of bilateral cooperation (Malis 2021, Poulsen 2016).
Lobbying for Treaties

Two avenues for foreign economic policy lobbying:

1. **Top-down**: lobby domestic legislatures.
Lobbying for Treaties

Two avenues for foreign economic policy lobbying:

1. Top-down: lobby domestic legislatures.

2. Bottom-up: lobby **diplomats** directly.
   - Treaties are the product of diplomacy.
   - Promoting exports & investment are key diplomatic objectives.
   - Diplomats hold strong preferences in favor of bilateral cooperation (Malis 2021, Poulsen 2016).
Implications

Demand-driven bilateralism in foreign economic policy?
Implications

1. Demand-driven bilateralism in foreign economic policy?

2. New places to look for effects of bilateral treaties.

Thank you!
cthrall@utexas.edu
Appendix links

- Evidence:  
  - Quant 12
  - Case study 12

- More on gaps:  
  - Counterfactuals 12
  - Remove newer dyads 12

- More interdependence descriptives:  
  - Treaty Partners Plot 12
  - Quintiles 12
  - Treaty Portfolios Plot 12

- Literature:  
  - On Treaty Formation ??

- Qualitative:  
  - Interviews 12
Evidence

Key prediction: strong bilateral business ties $\rightarrow$ interdependence across treaty regimes.

Quantitative evidence

- Strong business ties associated with greater *overlap* at bilateral level.
- Strong business ties associated with greater *temporal clustering* at bilateral level.

$\Rightarrow$ **Case study**: U.S.-Kazakhstan relations, 1988-1994.
U.S.-Kazakhstan relations, 1988-1994

1988  American Trade Consortium bargains with USSR
1990  Chevron strikes investment deal on Tengiz Oilfield with Kazakh SSR
1991  Soviet Republics declare independence; USSR dissolves
1992  US and Kazakhstan sign a trade agreement, BIT, and OPIC agreement on the same day, and negotiate a bilateral tax treaty (signed 1993).

Why Kazakhstan instead of the other former Soviet states?

*Kazakhstan is only one of several [Commonwealth of Independent States] states with which the U.S. seeks to normalize economic relations. Nonetheless, given Nazarbayev's impending visit and rising American business interest in Kazakhstan, we should make an extraordinary effort rapidly to conclude the agreements.*

―U.S. Ambassador William Courtney, diplomatic cable to Washington
**Quintiles**

Table: *While most states have at least some treaties, a small proportion of dyads account for almost all treaties.*

<table>
<thead>
<tr>
<th>Quintile</th>
<th>% of treaties</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>State</td>
</tr>
<tr>
<td>1</td>
<td>41%</td>
</tr>
<tr>
<td>2</td>
<td>23%</td>
</tr>
<tr>
<td>3</td>
<td>17%</td>
</tr>
<tr>
<td>4</td>
<td>13%</td>
</tr>
<tr>
<td>5</td>
<td>6%</td>
</tr>
</tbody>
</table>
More info on counterfactual gaps

1. Limit sample to dyads with $>1$ treaty.

2. For each dyad-treaty-year $ijt$, take one i.i.d. draw from the distribution $U(1945, 2007)$ to generate counterfactual dyad-treaty-years $ijt^*$. 

3. Within each dyad, sort the counterfactual treaty-years $t^*$ from largest ($t^*_K$) to smallest ($t^*_1$).

4. Generate counterfactual gaps by calculating $t^*_k - t^*_k-1$, resulting in $K - 1$ gaps per dyad and a total of $[\text{number of treaties}] - [\text{number of dyads}]$ gaps.
Interviews

Table: **Supplemental interviews.**

<table>
<thead>
<tr>
<th>Interview ID</th>
<th>Interviewee</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Former U.S. Foreign Service Officer</td>
<td>04/30/2021</td>
</tr>
<tr>
<td>2</td>
<td>Former Treaty Negotiator at U.S. Department of State</td>
<td>06/09/2021</td>
</tr>
<tr>
<td>3</td>
<td>Former U.S. Ambassador</td>
<td>07/03/2021</td>
</tr>
</tbody>
</table>