

**Forming Economic Cooperation
Through Preferential Trade Arrangements
—Political Relations, Regime Type, and Domestic Political Stability**

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ABSTRACT

This paper approaches the relationship between politics and trade in two ways. In the first part, I construct empirical tests for three arguments about the impact of international and domestic politics on trade treaties. The first argument states that close relations between two states encourage the likelihood that states will establish international trade treaties. The second is that trade treaties are more likely to be concluded in democratic dyads than nondemocratic dyads, and the third is that domestic political stability influence the likelihood that states will establish such an agreement. I will examine specifically preferential trade arrangements on behalf of international trade treaties between dyads and conduct a logistic regression with the above political variables added. In the latter part, I focus my analysis on causal mechanism of the three arguments. To explain the causal effects, I will explore a Chinese case of PTAs highlighting the above political variables in the decision-making process.¹

¹ This paper is a research design to be beefed up with the result of empirical tests and additional discussion. The section of data description, measurement strategy in this paper was intentionally sketchy for now, because the author is intending to construct his own data-set on the basis of previous studies. Instead, an inchoate case study is added as a complement to elucidate the paper's argument.

RESEARCH QUESTION

This paper addresses two puzzles. First, this paper investigates political determinants in the formation and expansion of international trade treaties. Although most of studies examine important political factors in international trade, those studies are prone to adopt trade flow in U.S. dollars as their indicators to explain the impact of their political determinants and to turn a blind eye to political consequences such as trade agreements between states.² Given that trade flow is affected by factors beyond the boundaries of politics, it is proper to have a political indicator to measure the effect of the political determinants. Hence, I attempt to investigate the impact of political determinants on international trade treaties. Agreements on international trade treaties are political phenomena. From the initial stage of choosing a country to negotiate a trade treaty with to the final decisions on what trade treaties should be concluded and on whether to conclude and ratify a treaty, political actors are involved and make decisions, and their decisions are very much dependent on political utility of the treaties. By addressing the previous discord in explaining the relationship between trade and politics, this paper will fill the gap of explaining the relationship between trade treaties and political factors.

Secondly, this paper examines the condition under which political determinants affect the formation and expansion of international trade treaties. Recent studies in international political economy could have advanced our understanding on political factors regarding international trade. Those studies probe the fair part of the political factors affecting international trade in the light of conflict, regime types, and security. Despite the fact that domestic conditions under which the probed relationship operationalizes better are still more to be proved, mainly the studies of regime type on trade relations has been conducted. Hence, this paper attempts to clarify the condition by including *domestic political stability* factor. Political factors affecting trade treaties are dependent upon certain level of domestic

² See, for example, Morrow et al. (1999); Gowa (1994); and Gowa and Mansfield (1993). For an exception, see Mansfield et al. (2002).

political stability, because state's leaders would consider initiating and concluding international trade treaties if domestic political stability is assured.

International political relations shape international trade treaties. I focus on explaining international agreements that establish or expand preferential trade agreements (PTAs)—a group of institutions that includes customs unions, common markets, free trade areas, and other commercial agreements. PTAs are acts of international cooperation, which is embodied in mutual policy adjustment such as reciprocal lowering of trade barriers (Mansfield et al., 2002, 493). Thus, I will establish and test my model of cooperative trade agreements by focusing on the formation and expansion of PTAs.

I evaluate and elaborate three broad arguments that illuminate what political determinants have impact on international trade treaties. The first argument states that close relations between two states encourage the likelihood that states will establish international trade treaties. The second is that trade treaties are more likely to be concluded in democratic dyads than nondemocratic dyads, and the third is that domestic political stability influence the likelihood that states will establish such an agreement. The unit of analysis is states' dyads, that is, a pair of states.

Briefly, I expect my result would indicate that close political relations increase the likelihood of two countries signing a PTA; the impact of democratic dyads on forming a PTA is not significantly different from the one of mixed dyads or even nondemocratic dyads; and dyads with domestic political stability demonstrate greater probability of forming a PTA than dyads without domestic political stability.

These results are different from previous literatures on political determinants of trade. The reason resides in different sampling for data to use. Data on both PTAs and the independent variables to be described later will be collected on the basis of the period from approximately the late 1960's to contemporary time as far as available. I will include data from various institutions³ and relevant literatures. Literatures coming up with the significance of the effect of regime type base their results on data which

³ To name a few: World Trade Organization, Asian Development Bank, International Monetary Fund, United Nations, COW data set, World Bank Data, and Policy IV Data .

consist of the major powers or developed countries before the post-Cold War.⁴ However, I argue that the data might not reflect the change after the Cold War. Qualitative studies on foreign trade policies in the post-Cold War era demonstrate different patterns of states' behavior, especially compared to those in Cold War period. For instance, East Asian countries' trade policies do not generally show the considerations of trading partner's regime type. Along with regime type, alliance does not seem to have a consistent significant effect on trade across various literatures even with data before the post Cold War era.⁵ I argue that countries have become more practical in the sense that political relations with similar interests based on grand strategies surpass alliance relationship in concluding a trade agreement. For this reason, alliance will be my control variable.

The results to be presented in this paper are different from the previous results on political determinants of trade in the literatures. This fact has important implications for the broadest theoretical arguments in international politics. Realists contend that, due to the fact that the distribution of the benefits of trade can be converted to a military advantage, alliance is such an important factor that allies should have trade more than nonallies. My evidence will challenge this view in the sense that the strategic practicality of decision makers is likely to appreciate political relations with similar interest in dyads more than alliance.

Secondly, liberalists focus on the shared idea of democracy influencing on trade. My test with other sampling might appear to disagree with the liberalist idea, demonstrating the effect of domestic regime type explains less than the effect domestic political stability in making a trade agreement.

Lastly, presuming the weakness of alliance and regime type in explaining economic cooperation, theories of cooperation, especially international political integration theory, should develop more reliable concepts. With the result of this research, policy-makers might be able to discuss another way toward

⁴ For example, Morrow et al. (1998) examine trade flows between the major powers from 1907 to 1990; and Mansfield et al. (2002) analyze the effects of regime type on PTA formation from 1951 to 1992.

⁵ For example, Morrow et al. (1999) shows alliances decrease trade under multipolarity, whereas Gowa (1994) and Gowa and Mansfield (1993) demonstrate the effects of alliance on trade flow is positive under both polarities.

international cooperation as well as regional integration, which is different from the “follow-me” type of European integration.⁶

I begin with summaries of literatures, from which I will specify my testable hypotheses. I then describe sample of variables that I control or use for my model. After data description, I will discuss my estimation strategy. The results will be presented, and evaluation of these arguments with regard the test regards will be discussed. Lastly, a discussion for the limitation of this test and directions for future research will be discussed.

THE HYPOTHESES

In this section I review literatures in relations to the three arguments, and develop the set of hypotheses to be tested. The first argument asserts that the state of political relations affects the likelihood of agreement on trade. The second is that regime type has impact on the possibility of commercial cooperation. The final argument is that domestic political stability influence the likelihood that states will establish such an agreement. All three arguments deals with political determinants on international trade treaties, provided those determinants are from different theoretical strands.

The State of Political Relations

Political relations between states influence their trade flow as well as trade treaties. When political conflict arises between two states, one can consider restricting trade to the other being afraid of potential benefit that the other can get from the trade between them. One might degrade the level of trade openness or sanction to harm the other. Political relations are also characterized by similarity of interests between two states. States whose interests are close can cooperate in foreign economic policies. They would increase the benefits from trade between them by increasing the amount of trade or concluding

⁶ Johnston (2003, 108)

liberalizing trade treaties. The more similar the interests of states in political relations, the more the states are likely to conclude a PTA or the higher level of PTAs.

HYPOTHESIS 1: The greater the degree of common interests between dyads, the greater likelihood that they make a PTA.

It is noteworthy that despite many research on the effects military interstate disputes (MIDs) or wars on trade, little quantitative studies have addressed this issue.⁷ Pollins (1989a) demonstrated a model of bilateral trade flows focusing on the relationship between interstates diplomacy and commerce with the Conflict and Peace Data Bank. Pollins' finding (1989a; 1989b) is that there was statistically significant evidence that cooperation promotes trade. Whereas Pollins considers both conflictive relations and cooperative relations affecting trade flows, this research concentrates on the impact of cooperative relations on PTAs. Dixon and Moon (1993) report the influence of the political influence of common interests between dyads on trade flows. The degree of common interests is measured by similarity of voting in the United Nations. It seems that studies of the effects of security on trade focus much on the effect of a formal political-military alliance, but little on the effect of diplomatic relationship.⁸

For theoretical background, but not fully developed yet as the concept for measurement in this paper, I employ coalitional analysis of grand strategy relying on Sollingen (1998), although my analysis focuses mainly on coalitions in the international level. Grand strategies could vary not only in substance but also in modality in which those take clearly defined blueprints and political platforms or, instead a

⁷ For the studies about the effects of militarized interstates disputes on trade, see, for example, Morrow at al. (1998; 1999); and Mansfield and Pevehouse (2000). For the studies about the effects of war on trade, see, for example, Mansfield (1994); Gowa (1994); Gowa and Mansfield (1993); and Mansfield and Bronson (1997). Their results show that both conflict and war dampen trade with statistically significance. Meanwhile, Barbieri and Levy (1999) find that war does not have a significant impact on trading relationships.

⁸ Gowa (1994); Gowa and Mansfield (1993); and Mansfield and Bronson (1997).

wide range of loosely connected domestic and foreign policies.⁹ On the basis of grand strategies, political decision makers develop coalitions for political survival, addressing national wealth and security as integrated one, while they consider the interrelatedness between external (regional and global) and domestic opportunities and constraints. Coalitions are “policy networks” spanning inter-state and domestic political actors, and thus can undertake “joint projects” in the interstate level, whereas military alliance is a formal agreement and thus short of sensitivity to reflect fluid changes of states’ interest.¹⁰ Coalitions of internationalists in the level of dyads are more strongly committed to cooperative (commercial) policies converging with similar neighboring countries than coalitions of statist-nationalists.

Regime Type

International cooperation in trade can also be influenced by regime type, in particular, domestic voters or selectorates and its institutional stability.¹¹ Although the degree of the influence depends on regime types—the degree varies starkly between democracies and autocracies—, domestic voters exert control over political leaders in general. Particularly, through the regular occurrence of fair and competitive elections in democracies, voters constrain democratic leaders to be more cooperative internationally and thus more prone international economic cooperation. The function of elections in democracies has ability to prompt democratic leaders to be more likely to conclude international trade agreements than their nondemocratic counterparts. Also, because democracies are generally limited governments and their political-legal systems are visible, trading agents have less risk to be exposed to their legal vulnerability.¹²

⁹ Solingen (1998, 9)

¹⁰ Snyder (1991)

¹¹ Bueno de Mesquita et al. (2003)

¹² Mansfield et al., (2002)

HYPOTHESIS 2: *Democratic dyads have higher probability of two countries signing a PTA than nondemocratic or mixed dyads.*

HYPOTHESIS 3: *The higher level of democracy, the more probability of two countries signing a PTA than nondemocratic or mixed dyads.*

Mansfield et al. (2002) argues that, given voter's insufficiency of information provision, economic crisis prompts heads of state go to trade agreements. When economic crisis hits a country, voters are hard to tell whether the country's economic crisis comes from exogenous shocks or wrong choices of economic policies by heads of state. In order for them to retain office or political clout, they would like to choose to demonstrate an economic performance, one way of which is entering into a PTA. Unlike unilateral policy declarations, such agreements require a public commitment by leaders to free trade, and thus offer a more credibility to domestic voters as well as overseas investors.

Furthermore, democratic partners are easier to conclude a PTA, because they are typically limited governments, which provide actors with the confidence that their interests will be protected by law. Democratic regimes have higher predictability in the political-legal systems, because they are in general transparent in their policy-making process. Hence, democracies with the higher credibility are reliable partner to make a PTA.

Milner with Kubota's analysis (2005) focuses on the move toward free trade during democratization. As the movement toward democracy in developing countries gets momentum, leaders become to recognize newly emerging voting groups, which are previously disenfranchised. In order for leaders to gain the support of these new groups who could benefit from trade liberalization than previous high protectionism, they see PTAs as a strategy to bolstering their political position. Namely, leaders in countries choose trade liberalization as a means of garnering broader or alternative political support.¹³

¹³ Milner with Kubota (2005, 113)

Domestic Political Stability

International trade treaties are also dependent on domestic political stability. The reason is that people are encouraged to invest and trade when they are confident in the future, and few things seem more likely to undermine business and consumer confidence than the prospect of political unrest and sudden changes in the economic “rules of the game” (Goldsmith 1989: 471). Another reason is related to decision makers’ bounded rationality. They cannot consider all the possible options, because their time and energy are limited. When they have domestic political turbulence, their attention to commercial cooperation with other countries will diminish. Hence, it is important for countries to maintain the certain amount of domestic political stability in order to consider PTAs as their feasible policies.

HYPOTHESIS 3: Dyads with domestic political stability have higher probability of two countries signing a PTA than dyads without domestic political stability.

As Putnam’s two level games (1988) shows, domestic political condition matters in decisions at the international level. In his theory of ratification, he argues that large win-sets make Level I agreement more likely.¹⁴ That is, the larger each win-set, the more likely that the negotiations come to conclude a PTA. Conversely, the smaller the each win-sets, the greater the likelihood that the negotiations will break down or does not even start. Not only highly liberal trade policies are hard to surge, but also the negotiations over liberal trade agreements are hard to come to agreements, under the presence of severe political instability. Namely, in an extreme domestic turbulence, policy makers or negotiators are hard to grasp the win-set at Level I, not to mention the other Level I negotiators’ difficulties to grasp it.¹⁵

¹⁴ Putnam (1988, 437)

¹⁵ Putnam (1988, 440) talks about a third world leader whose domestic position is relatively weak. He says the leader should be able to bargain better with his international creditors because of his small size of the win-set. But, the possibility of the success of the bargain gets smaller, too. Certain level of domestic instability might be the reason that his win-set gets small and his power to bargain increase.

Otherwise, under such condition, only a small variety of preferences around decision makers could be recognizable, whereas a number of groups with a wider variety of preferences is observable a stable and democratic society.

There is the possibility that even under the dire crisis in domestic politics, leaders choose a bold policy to get through the crisis, or the possibility that leaders come up with highly issue-salient policies such as war or revolutionary (foreign) economic policies to divert people's attention and to unite severely divided domestic situation for his/her political purpose. This is not the case for PTAs, however. International commercial polices are hard to come up under that condition, because, even if those are proposed, trade agreements do not proceed unilaterally. Besides, in order for liberal trade policies to overwhelm other issues, certain conditions need to be satisfied such as the existence of political or social groups who are highly sensitive to economic gains and losses from the result of the policies and have sufficient size and more power to control public opinion than others.

The notion of bounded rationality supports the argument that political domestic stability counts for the likelihood of two countries signing a PTA.¹⁶ The notion means that decision-makers are bounded by the limited information, the cognitive limitations of their minds, and the finite amount of time and energy they have in decision making. The events of serious domestic instability often catch and occupy decision-makers' attention. Given they have constraints on rationality imposed by cognitive limitations associated with psychological stress from the dramatic and the vivid surface of events, they tend to be preoccupied with the events causing grave domestic instability.¹⁷ Hence, they often become defensive, passive and cautionary rather than aggressive in their proposing a new PTA.

But, as the level of domestic instability gets higher, the likelihood that both party in negotiations come to sign an agreement might get smaller.

¹⁶ Simon (1991)

¹⁷ Axelrod (1976), Jervis(1976), Janis and Mann (1977), and Kinder and Weiss (1978). Notice also that, although emotional stress have distorting effects on the decision process, certain amount of stress results occasionally in vigilant information processing.

DATA DESCRIPTION AND MEASUREMENT OF VARIABLES

To test my hypotheses I will rely on a cross-sectional time series data. I will collect data not only for all the major powers but also other countries such as ones in Third World. My period is the late 1960s or the 1970s to 2008, because international organizations like the UN Conference on Trade and Development (UNCTAD) began to systematically collect data regarding countries in Third World from the 1970s. The most recent and available year is deemed to be 2008. It is important to have this period in theoretical standpoint, too, not only because PTAs began to surge around the period, but also because the end of the Cold War is deemed to have a significant impact on the effect of my independent variables on PTAs.

Although many studies on political determinants in international trade include economic conditions as control variables, this research does not.¹⁸ Following the spirit of Christopher Achen's "a rule of three" and avoiding a garbage can model, my model intentionally delimits the number of independent variable and the control variable.¹⁹ The control variable from the model is alliance, despite of the fact that alliance is a political factor which affects trade flow in many articles. Aside from the theoretical reasons mentioned above,

The dependent variable is, following Mansfield et al. (2002), the log of the odds that a pair of states, i and j , enters a PTA in year $\tau + 1$, where we observe 1 if this occurs and 0 otherwise. Countries, i and j , are coded if they—either by themselves or in combination with other countries—form a PTA, or if one of them joins a PTA in which the other is already a member. Hence, the value of PTA_{ij} is 1 in the year when their entering a preferential arrangement is observed, but not in years when they belong to a preexisting arrangement.

¹⁸ The variables for economic conditions are, for example, *Population*, *Gross National Product*, and *Physical Distance*.

¹⁹ Achen (2005; 2002)

Given that the formation of a PTA is rare event, using logistic regression to estimate the probability of rare events can yield biased results. Gary King and Langche Zeng (2001) have developed methods to correct such biases. Their methods will operate effectively when the number of observations being analyzed is less than a few thousand. This is not the case for the sample I adopt, which is much larger than that size. And yet, for the robust test of my model, I will use these methods to generate another set of estimates of the parameters in my model.

For the data of *the state of political relations and regime type*, I will rely mostly on the data from previous relevant or cited studies in this paper and the data from various organizations such as the Correlates of War (COW) data, Polity IV data, World Bank data, the World Trade Organization (WTO) data and UNCTAD data. For data construction of domestic political stability, I state briefly for now. Following the Worldwide Governance Indicators (WGI) project, domestic political stability measures the perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including domestic violence and terrorism.²⁰ Also, my data construction for domestic political stability, Political Instability Index (PII), which define political instability as social and political unrest or upheaval will be incorporated, too.²¹ PII uses two component indexes on a scale of 0 (no vulnerability) and 10 (highest vulnerability) to measure political stability with 15 indicators: 12 indicators for the underlying vulnerability; and 3 indicators for the economic distress²². Additionally, data from other relevant studies will be pooled as well. A threshold to dichotomize into two categories is to be constructed on the basis of theoretical considerations.

It is worthwhile to note the difference between regime type and political stability as variables affecting the likelihood of two states signing PTAs. Political stability can be largely meant to be in secure,

²⁰ For more specific cases, see, <http://info.worldbank.org/governance/wgi/pdf/pv.pdf>

²¹ For Political Instability Index: Vulnerability to social and political unrest, see http://viewswire.eiu.com/index.asp?layout=VWArticleVW3&article_id=874361472

²² The underlying vulnerability index lists: inequality, state history, corruption, ethnic fragmentation, trust insitutions, status of minorities, history of political instability, proclivity to labor unrest, level of social provision, a country's neighbourhood, regime type, and regime type and factionalism. The economic distress index lists: growth in incomes, unemployment, level of income per head.

predictable and reliable conditions. Any regime type can vary in the degree of political stability. For just illustration, in a democratic regime, political stability can mean that the majority are satisfied with the status quo, while the minority does not have enough power to topple a regime or government. On the other hand, in a totalitarian government, stability can mean very low possibility for everyone but the ruler to overturn the regime because of extreme fear. Hence, although the two variables could be closely related, they can be quite distinctive.

Although it is expected that there are correlations between regime type and domestic political stability, I will subset the sample according to the presence or the absence of domestic political instability. That is, the effect of regime type on forming a PTA will be measured in separate groups. This estimation strategy will confirm or disapprove the effect of regime type on forming a PTA.

Finally, I will construct a model which demonstrates that the probability of two countries signing a trade agreement is a positive function of the degree of close political relations, the level of democracy in each country and domestic political stability as dummy variable. The first hypothesized relationship between the state of political relationship and PTAs predicts that the sign on this coefficient should be positive and statistically significant. Hypothesis 2 and 3 about the relationship between regime type and PTAs predict this coefficient should be positive and significant. Lastly, I expect the coefficient for domestic political stability to be negative and significant.

CASE STUDY

As stated above in the introduction, this paper addresses two puzzles: What are the political determinants bearing on the countries of signing PTAs?; and What are the essential domestic political conditions working for the countries of signing PTAs? This section approaches these questions in a way of case studies. Thus, the particular question for this section is what the causal mechanism of the phenomena is or how the independent variables above cause PTAs. Given that this section focuses

especially on a causal mechanism or how' question, it is appropriate to take a case study as qualitative methodology.²³

This section intends to elucidate the hypotheses from the empirical tests by way of confirming the posited theoretical arguments with China-ASEAN Free Trade Agreement (ACFTA) case. Its analytics focus is on political relations, regime type and domestic political stability associated with PTAs. The focus implies that the state of political relations, system of regime, and considerations of domestic political stability can substantially affect the conclusion of PTAs. The Chinese case is the least-likely case study: first, China has diversified its diplomatic relationship since the post-Cold War and concluded many PTAs with nonallies, even with the one under territorial disputes. ACFTA is the case; secondly, China has been categorized as autocracy since the 1950s. Its Logic of statecraft would elucidate the political determinants vis-à-vis ACFTA; lastly, China's relatively recent shift to policies of PTAs in the late 1990s matches with the period in a multipolarity system.²⁴ ACFTA case represents PTAs between nonallies under nondemocratic regimes in a multipolarity system. Certainly, ACFTA case has methodological advantages.

My first theoretical argument posits that increasing positive state of political relationship is more likely to make two countries sign a PTA. Indeed, increasing state of political relationship between China and the Association of Southeast Asian Nations (ASEAN) came to fruition in the form of ACFTA in 2002. China's multilateral regional cooperation after the Cold War began with attending ASEAN Regional Forum (ARF). ARF endorses the codes of conduct in the ASEAN Treaty of Amity and Cooperation (TAC). TAC champions the principles of sovereignty such as the noninterference in the domestic affairs, respect for territorial integrity, the right to choose domestic social systems, etc. These principles might have made China feel less resistance to attending the meeting. Through ARF, Chinese

²³ Mahoney (2000); Bennett and Elman (2006, 457-458). Meanwhile, an empirical test bears largely on causal effects between independent and dependent factors. See, Mahoney (1999); King et al. (1994, 86).

²⁴ According to Morrow et al. (1999), allies under democratic regimes in a bipolar system are mostly likely to have PTAs between the two.

decision-makers could have exchanged ideas as well as shared credibility.²⁵ The foundation of this trust and confidence, which have been constructed in ARF, might have assisted China to suggest ACFTA first. During the interactions with foreign personnel in ARF, the Asia Department of the Foreign Ministry of China became the center of providing normative rationale for China's multilateral diplomacy and attempted to persuade skeptics in the military, government bureaucracy, and university. Shirk (2007) reports that the idea of strategic using of FTA to improve China's relations with its neighbors came from the diplomats in the Asia Department.²⁶

My second theoretical argument posits that leaders would choose PTA policies for their demonstrative political feat. ARF endorses the rule of consensus decision-making, which is reassuring rather than threatening in the sense of *realpolitik*. This ARF's consensus decision rule was an attractive feature for China to engage with ASEAN, because it reduces the risk of ending up on the losing side. Given losing internationally could mean domestic political costs, it might have been difficult for the leaders to participate in an international organization, especially when they are standing against the domestic challenge for legitimacy. In other words, achieving internationally by concluding an international agreement could gain credits from domestic political groups. Namely, the ARF's decision-making rule might have provided the leaders with an additional incentive to engaging in an activity with ASEAN. Accordingly, after having confidence in the ASEAN Way, China might have moved to the next step, China's proposal to ASEAN countries of establishing a free trade area between them in 2001.

Finally, my third theoretical argument is that leaders would not choose PTA policies from the consideration of domestic political stability. Even though Japan is a neighboring country, FTA with only Japan is not even under consideration, but FTA with Korea is categorized as under consideration, despite

²⁵ Johnston (2003, 132) reports that the Chinese representatives were suspicious about the developments of the discussion in the meetings, because those developments might impinge on sensitive security or domestic political issues. They were also unaccustomed to exchanging debate and having meaningful negotiations. Over time, however, these officers have become much more engaged, relaxed, and flexible, implying that they could have built up positive relationship in the groups.

²⁶ Shirk (2007, 128)

the high degree of the existing economic interdependence.²⁷ The same conundrum goes for the China's trade relationship with the United States. This might be related to the Chinese leaders' perception that issues with the United States or Japan could cause huge domestic turmoil and thus put their political survival at risk, in which case their other policies cannot but be suspended as well.²⁸ Hence, it is thinkable that the Chinese leaders attempt to avoid potentially sensitive issues such as FTA with the U.S. and Japan, which are enough to agitate the people, and instead they attempt to wait the time while building up a positive relationship.²⁹

CONCLUSION

What are the political reasons that explain the political phenomena of trade agreements? This paper focused on the effects of three political factors on signing PTAs. All of the three political factors, that are the state of political relations, regime type, and domestic political stability, are expected to come out as significant variables in explaining the cause of PTAs. A case study intended to illuminate the causal mechanism of how the independent variables can lead to two countries signing PTAs.

Future research should be, first of all, constructing a relevant data-set to test the hypotheses with choosing appropriate estimation strategy. Regarding the case study, explanations about ASEAN side must be included, not to mention the need for further exploring of the decision making process in China.

²⁷ Currently, with Japan, only in the form of China-Japan-Korea Joint Study, FTA discussion is in progress. <http://fta.mofcom.gov.cn/topic/chinaasean.shtml>

²⁸ Shirk (2007, 3 and Chapter 6)

²⁹ One can bring up the KOREA-US FTA case, for an example. The agreement had to go through huge domestic turbulence in Korea from the moment the Korean government made it public and up to now, and the reason for the disturbance goes beyond its economic effect on the domestic society.

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