External Negotiations, Internal Credibility: Investment Treaties and Autocratic Decision Making

by

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ABSTRACT

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This thesis seeks to understand why some policymakers sign international agreements governing the rights of investors by looking at the effects of winning coalitions on state leaders. The two empirical sections of this thesis examine the mechanisms through which political institutions, and the policymakers within them, shape executive level policy toward bilateral investment treaties in autocratic states. I find that signing agreements with highly developed OECD states contributes to the credibility of policymakers within the regime, which ultimately incentivizes the signing of international agreements.

1 Introduction

Early political theorists used the concept of enlightened despotism help to justify colonial exploitation. Contemporary scholars, however, have used the theory to explain why some autocracies sign international agreements. These scholars argue that international agreements contribute to economic development within that autocratic state. Benevolent autocrats are authoritarian leaders whose motivations for achieving economic growth is to provide public goods (Easterly, 2011: 1). The concept of the benevolent autocrat makes two troubling assumptions. First, scholars have assumed that the benevolent autocrat has the perfect set of policy prescriptions for growth available at her fingertips. This is problematic, especially since the recipe for growth has eluded the presumed elite level economic policymakers (Rodrik, 2008: 15). Second, these scholars downplay the importance of political institutions. Recent scholarship has highlighted the diversity of regime types amongst autocratic states (Cheibub et al., 2010; Lidén 2014; Weeks, 2008). This growing literature demonstrates that the autocratic leader is not omnipotent. Rather, she faces real constraints on her ability to implement her preferred policy goals. If the autocrat is neither omniscient nor omnipotent, she would very likely struggle to be benevolent. If benevolent intentions are not motivating autocratic decision making, then, what is driving policy regarding international agreements in these states?

This thesis proceeds by first briefly describing the history and salient features of bilateral investment treaties (BITs). Then, I discuss the motivating literature and competing theoretical frameworks. Third, I advance my own, unique theoretical framework, followed by a discussion of the case of Vietnam. Finally, I close by presenting quantitative statistical models and discussing how the data fits my hypothesis.

1.1 History and Features of BITs

The first BIT, signed in 1959 between West Germany and Pakistan, ushered in a new era of investment possibilities. The forces of globalization, allied with fewer barriers to foreign investors, led to exponential growth in global levels of investment. The use of BITs in the latter third of the twentieth century skyrocketed. Nearly every nation is now a party to at least one, if not several, of these agreements. Importantly, a central feature of many BITs is third-party dispute settlement. This feature allows foreign investors to air complaints before a disinterested body, adding credibility to the aims of the agreement.

The specific components of BITs vary from state to state. Most states have a preexisting, or model, BIT (Allee & Peinhardt, 2010). Most model BITs are concerned with the treatment of foreign investment. This can range from governing how investment enters a state, how states treat foreign investment after it enters the host state, the compensation owed if the host state expropriates it, and how the investor and the host state settle disputes (Elkins, Guzman, & Simmons, 2008).

The United States' and typical European model BIT have slightly different agendas. The European model BIT tends to emphasize the protection of foreign investment. The U.S. model BIT, however, prioritizes economic liberalization more broadly (Elkins, Guzman, & Simmons, 2008; Guzman, 1997). Beginning with the Reagan administration (Elkins, Guzman, & Simmons, 2008), the U.S. saw BITs as a method to protect American investment from foreign expropriation. From the 1980s, the U.S. model BIT began to demand national treatment, or the equal treatment of domestic and foreign investors. Further, the U.S. model BIT prohibited performance requirements, such as those requiring a minimum usage of local goods (Guzman, 1997; Vandeveld, 1998). To complement these requirements, there was a recognition that these agreements needed some teeth, in terms of enforcement.

Many wealthy, western, OECD countries include strong, third-party investor dispute settlement (ISDS) mechanisms in their model BITs (Allee & Peinhardt, 2010). Some scholars claim this preference for strong ISDS, however, is not based on western political or economic norms. Rather, this preference may be related to the relative prevalence of multinational corporations (MNCs) in a country (Elkins, Guzman, & Simmons, 2008). As such, some scholars see corporate driven market capitalism as promoting economic liberalization through investment treaties.

The existing literature does not agree entirely that BITs promote such liberalization, however. Indeed, BITs may promote economic nationalism, or the prioritization of investment protections, above market neutrality (Vandeveld, 1998). Some BITs explicitly allow host countries to screen potential investments for approval. Similarly, BITs can require that investors hire from the domestic workforce and use a certain percentage of locally sourced assembly items.

Negotiated BITs, however, do not always entirely conform with the model BIT. This is especially true when it comes to dispute settlement components. The variation in negotiated and model BITs may relate to asymmetries in bargaining power between the negotiating states (Allee & Peinhardt, 2010). Some scholars argue that the more powerful home state, or capital exporter, largely holds agenda setting powers. This framework implies that the relative economic relationship between a weaker host state, or capital importer, and stronger home state, or capital exporter, motivates states to sign agreements.

Other scholars argue, however, that the need to compete for capital is what motivates host states to sign agreements (Elkins, Guzman, & Simmons, 2008). Scholars frame this competition as being purely amongst host states. Power dynamics between dyads, or investment treaty country pairs, are less of a factor in this model. The host state competition model does acknowledge that home states set the terms of the agenda, while host states largely accept the terms as presented. However, this model sees the coercive power of home states as less direct. The model views the correlation between International Monetary Fund borrowing, levels of World Bank investment, and the propensity of host countries to sign BITs as evidence of this indirect power (2008). Scholars argue that home states leverage their control of international institutions to indirectly coerce host states into signing investment agreements. Further, they argue that this leverage contributes to more favorable terms for the home state, typically in the form of stronger dispute settlement mechanisms.

The dispute settlement components of negotiated BITs can range from strong, middling, to weak. Strong dispute settlement emphasizes third-party resolution (Allee & Peinhardt, 2010) and the automatic domestic application of arbitration decisions (Franck, 2006). Strong dispute settlement, favored by capital exporting states, does not always appear in the final negotiated BIT (Allee & Peinhardt, 2010). Some scholars argue that home states prefer strong dispute settlement mechanisms when MNCs are actively involved in policymaking. Home states, however, may allow for weaker dispute settlement clauses when the pre-existing bilateral relationship is strong, such as between allies or former colonies (2010). The broader political and legal culture that exists between the two states, according to this argument, may be a good predictor the strength of the dispute settlement clause.

Some scholars, however, push back on this cultural argument. There is some evidence that a shared political history, such as exists between former colonial partners, encourages stronger dispute settlement clauses (Elkins, Guzman, & Simmons, 2008). The cultural argument may be more appropriate to treaties signed between two less developed countries (LDCs). These types of agreements are exceedingly rare, if increasing in frequency more recently (2008).

A common feature of strong dispute settlement is direct international arbitration. The International Centre for Settlement of Investment Disputes (ICSID), a member organization of the World Bank, is a preferred venue for home states. The association with the World Bank lends an "institutional gravitas" (Allee & Peinhardt, 2010; Franck, 2006) to arbitration rulings, encouraging states to abide by ICSID decisions. Further, the high financial cost of settling a dispute through the ICSID encourages many host states to resolve the dispute quickly and in a more favorable way for investors (Allee & Peinhardt, 2010).

Middling ISDS, by far the least common ISDS structure, typically relies on ad hoc arbitration. The particulars of the arbitration method for middling ISDS are outlined in the BIT, or otherwise defined via the United Nations Commission on International Trade Law (Allee & Penhardt, 2010). Middling ISDS is a contemporary form of the Calvo doctrine, which calls for investors bringing their dispute before domestic institutions prior to third-party arbitrators. In this way, the host state is relatively more assured of realizing a favorable outcome (2010).

Weak ISDS proscribes the possibility of third-party arbitration entirely. Host states may prefer weak ISDS based on their aversion to outside influence on their sovereignty (Allee & Peinhardt, 2010; Elkins, Guzman & Simmons, 2008). Some host states, however, have either terminated BITs, or walked away from negotiations, containing weak ISDS (Allee & Peinhardt, 2010). This demonstrates the lengths some host states will go to avoid signing international agreements that may limit their sovereignty. It also casts doubts on the perceived tradeoff between investor protections and increased foreign investment. Many scholars have long argued that this tradeoff is the justification for why states sign investment agreements.

2 Motivating Literature: Why States Sign International Agreements

Despite this evident aversion by host states to sign international agreements, they still sign them. As previously discussed, home states do have a certain amount of bargaining power. Home states can use this power to compel host states into signing investment agreements. Indirect coercion via international institutions is not the only means by which home states can leverage their power. Host states with a weak economy or low levels of economic growth, relative to the home state, may feel compelled to sign agreements to attract more investment. Similarly, host states that are dependent on trade or foreign aid may feel obligated to enter into investment agreements (Allee & Peinhardt, 2010).

While some scholars argue that home state preferences matter most to investment agreement outcomes (Alee & Peinhardt, 2010), other scholars discount those preferences. This school largely argues that international agreements are the result of competition amongst host states (Elkins, Guzman, & Simmons, 2008; Guzman, 1997). In the host state competition model, host states seek to gain an advantage over other host state competitors by committing to investor protections and property rights. In this way, some scholars see BITs as a “race-to-the-top” (Franck, 2006). These investment agreements, by ensuring increased property rights for foreign investors, may also facilitate these rights for domestic constituencies. These scholars argue that this race leads to the standardization of certain economic liberalizations across host states. This means that host states increasingly vary in fewer ways from one another.

As BITs have proliferated, investors increasingly see host states as substitutes for one another (Elkins, Guzman, & Simmons, 2008). Some scholars argue that BITs will continue to spread as the pool of available capital grows. This competition may be more prevalent amongst light manufacturers than in natural resource industries, where host states are less substitutable for one another. However, the slowdown of the last decade in the number of new BITs, combined with increasingly mobile capital, casts doubt on the host state competition theory. This may be a sign of the market simply having most efficiently allocated capital (Guzman, 1997), thus reducing the need for additional agreements. Alternatively, this may be a sign that the competition amongst host states has significantly reduced the potential economic profits available from investment agreements. As states sign agreements with stronger dispute settlement mechanisms, the cost of arbitration and likelihood of adverse decisions increases for the host state. These additional costs may bring the economic profits of additional investment closer to zero, thus reducing the investment incentive for host states to sign investment agreements.

Still other scholars argue that investors are not concerned with dispute settlement strength (Franck, 2006). Rather, investors care more about establishing a presence in particular markets. In this view, host states are not direct substitutes for each other. Similarly, home states may be less insistent on strong ISDS if the preexisting economic or political relationship with the host state is stable (Franck, 2006). Host states in this model still sign agreements to attract investment, but the strength of the dispute settlement mechanisms is less important.

With the strength of investment dispute components being of secondary importance, some scholars see investment agreements as credible commitments to the fair treatment of investors (Allee & Peinhardt, 2010; Elkins, Guzman, & Simmons, 2008; Guzman, 1997).

Investment agreements, regardless of ISDS strength, still come with real costs for host states. Breaking commitments can result in reputational, diplomatic, and financial costs (Elkins, Guzman, & Simmons, 1997). The potential for these costs, however, does come with a benefit. They help resolve dynamic inconsistency, or time horizon, problems (Guzman, 1997). Investors are keenly aware that the gains of breaking faith with that agreement tomorrow may outweigh the interest of host states today - more investment. The host state accrues costs by expropriating investment and ignoring treaty obligations, which may be a sufficient deterrent.

In addition to signaling fair treatment to investors, host states may sign international agreements to signal a commitment to future institutional reform (Franck, 2006; Vandeveld, 1998). In the institutional reform model, investment agreements engender a belief in the validity of institutions. Faith grows in the capacity of domestic courts to enforce arbitration decisions as host states emphasize institutional frameworks. Further, domestic courts are a necessary component in the enforcement of these decisions. Some scholars argue that the strengthening of the domestic legal system, as domestic courts compete with third-party arbitration, ultimately proscribes the need for strong ISDS (Franck, 2006). Other scholars however, claim the strength of ISDS predicts the strength of the commitment to institutional reform, with stronger ISDS signaling a stronger commitment (Vandeveld, 1998). Some question whether international agreements lead to any institutional reform (Salacuse & Sullivan, 2005). They argue that third-party arbitration is a substitute for independent domestic courts.

The key point, emphasized in much of the literature is that, regardless of the mechanism, host states sign agreements to attract more foreign investment (Allee & Peinhardt, 2010; Elkins, Guzman, & Simmons, 2008; Guzman, 1997; Salacuse & Sullivan, 2005; Vandeveld, 1998). Even those that question the linkages between investment treaties and increased foreign investment

(Franck, 2006) still argue the goal of investment treaties is always additional investment. The agreements link host states, promising to protect capital, and investors, promising to provide more capital (Salacuse & Sullivan, 2005).

This point is incomplete at best, and problematic at worst. The literature discussing BITs treats policymakers and host states as largely homogenous. In so doing, this literature fails to address variations amongst different regime types. While the literature does differentiate between developed and developing states, it does not differentiate between democratic and autocratic regimes. Reviewing the literature covering autocratic regime behavior, then, is instructive in answering why some countries sign investment agreements.

2.1 Autocratic Regime Types

Autocratic regimes vary in terms of their institutional frameworks. Much of the literature acknowledges four main types. A leader that is especially difficult to constrain characterizes the first type, a personalist regime (Kinne, 2005). There are very few checks on the leader's ability to establish, or indeed dismantle, institutions (Moon, 2015; Vreeland, 2008). Since winning coalitions struggle to limit the personalist regime leader, the leader's ability to maintain power depends more on their general status (Kinne, 2005; Weeks, 2008). Further, the personalist regime leader can limit the ability of winning coalitions to punish their actions. This makes it difficult for these regimes to signal their intentions to regime outsiders (Weeks, 2008). Since the leader can largely act with impunity, their commitments lack credibility. Alternatively, some scholars argue that personalist leaders may face no domestic pressures whatsoever, including the need to maintain their reputation. This limits their desire to make even symbolic gestures (Vreeland, 2008), such as signing international agreements that lack enforcement mechanisms.

In single party regimes, the party holds a monopoly of power within the country (Kinne, 2005). Single parties, however, typically do not simply rubber stamp policy proposals made by the leader (Weeks, 2008). Therefore, the relationship between the leader and the party is vitally important in understanding why autocrats sign international agreements. Since the party can delegate authority, by holding veto power over policy proposals and holding appointment powers over many positions, the party can control the leader (Kinne, 2005; Weeks, 2008). These regime types can be relatively durable (Wallace, 2013), which may afford them some signaling advantages over other autocratic regime types. Long lived single party regimes can build up a reputation over a period of time, thus giving more credibility to actions that are consistent with previous behavior.

Multiparty regimes institutionally allow competing parties and interest groups. These parties can check the power of the regime leader. In this way, they are potentially able to gain concessions from regime leaders. International agreements may be a form of concession from the regime leader to competing parties. For autocrats, the international costs to signing agreements can be low, so the domestic costs within the regime are more important. As such, the strength of the enforcement mechanisms within an agreement can be a measure for how much an agreement is a domestic concession to competing parties (Vreeland, 2008). In contrast to personalist regimes, it is easier for multiparty regimes to credibly commit to international agreements (Wallace, 2013). This is precisely because winning coalitions can sanction the leader of the multiparty regime.

Militaristic regimes can be especially short lived, with many quickly transitioning to personalist regimes (Kinne, 2005). The limited regime durability of militaristic regimes hampers their ability to credibly commit to international agreements. Durable militaristic regimes, however, can use their stability to accrue the type of reputational benefits needed to credibly commit to international agreements (Weeks, 2008). In contrast to multiparty regimes, where parties constrain the leader, the groups of military leaders can constrain the militaristic regime leader (Kinne, 2005).

2.2 Private versus Public Goods

Regardless of the regime type, most regime leaders are concerned with the durability of their regime (Kinne, 2005). Some scholars understand autocratic decision as a method to appease winning coalitions. Those within the winning coalition are those people who played a decisive role in selecting the leader (de Mesquita, 2005). Autocratic policymakers, like their democratic counterparts, seek to provide goods for their constituencies. The autocrat, however, does not always need to provide public goods, such as investments in education or healthcare. A mass voting public does not elect the autocratic leader into office. Rather, a small winning coalition commonly select the autocratic executive. Therefore, the autocratic leader may tend to prefer less expensive private goods. This is because the executive can direct these goods towards the smaller group comprised of the winning coalition (Kinne, 2005; Weeks, 2008). The potential preference for private goods also works to explain why regime leaders may choose policies that lead to bad outcomes for the general public. There is a built-in dependency of the leader on their Selectorate, or winning coalition, that helps determine policy outcomes (de Mesquita, 2005; Kinne, 2005). The leader is concerned with the coalition that placed them in power perceiving them as a credible and competent actor to (Moon, 2015).

Some autocrats, however, are not solely concerned with providing private goods for their Selectorate. Some regimes actively seek out policies that provide of public goods. There is some disagreement within the literature, however, as to the mechanism that provides these public goods. Some scholars argue that autocrats want to increase levels of foreign investment (Moon, 2015), while others argue that autocrats are more concerned with growing the overall size of the economy via gross domestic product (GDP) growth (Wallace, 2013).

Autocrats whose goal is to increase foreign investment typically have a longer time horizon in terms of regime durability (Moon, 2015; Olson, 1993). The autocrat with the shorter time horizon is more interested in extracting as much capital out of the country as quickly as possible. This tends to manifest itself in the form of expropriation, which discourages foreign investors from investing in the country. The longer time horizon and desire to provide public goods can lead the autocrat to make investments in human capital (Moon, 2015) or infrastructure.

There is some disagreement within the literature regarding autocratic preferences over redistributive policy. Some scholars perceive autocrats as having an urban bias when it comes to channeling resources. Autocrats can funnel resources towards cities, and away from rural areas, via exchange rate manipulation, export restrictions, and price distortions or high agricultural taxes (Wallace, 2013).

Autocrats may want to favor urban oriented redistributive policies because regime capitals are commonly located in urban locations. Urbanites, then, can present an immediate threat to the regime (Wallace, 2013; Weiss, 2013). By focusing redistributive policy on urbanites, regimes can mitigate this immediate threat towards their survival.

Some authors point out, however, the assumption that rural populations do not pose a threat implies that those populations are immobile (Wallace, 2013). Redistributive policies that focus on urbanites can draw farmers to the cities. This can reduce the collective action problems, brought about by the low population density of rural areas, that restrict rural populations from politically mobilizing (Wallace, 2013; Weiss, 2013). There is some evidence, however, that the costs associated with political uprisings allow regimes to use those uprisings to their advantage (Weiss, 2013). Regimes may view these uprisings as one method to generate costly signals.

3 Theory

International agreements, much like domestic legislation, bring opportunities to shape economic outcomes. Autocratic signatories gain most directly from foreign direct investment (FDI) – in some autocratic states, FDI inflows constitute up to 25% of GDP (World Bank, 2018).[1] These signatories can also accumulate indirect gains. The executive can strengthen her credibility by successfully negotiating international agreements. These agreements also bring risks, however, and facilitate opportunities for strategic political behavior. Investment agreements can limit the policy autonomy of autocratic signatories and may potentially crowd out investment by domestic elites.

Scholars have long argued that states, regardless of regime type, sign investment treaties to increase levels of FDI. This approach is problematic in three ways. First, it assumes that autocratic policymakers face the same institutional pressures as their democratic counterparts. Similarly, it does not account for the variance across autocratic regime type. Second, the logic of increased FDI does not explain why autocratic policymakers sign investment treaties, as opposed to pursuing more reliable methods of attracting FDI inflows. Third, FDI-centered arguments cannot explain the variance of dyadic partners in BITs.

Following on the theoretical framework of Weeks (2008), I diverge from much of the existing literature by treating autocratic regime types as heterogeneous. However, I argue that autocratic policymakers' primary concern when signing investment treaties is to build their own

[1] Most autocracies enjoy far smaller FDI inflows as a percentage of GDP, with the mean being closer to 4%.

credibility. I assume that autocratic policymakers are only interested in maximizing their chances of staying in power. As autocratic allowance of winning coalition sanctions on the executive increases, the more likely that executive is to sign an investment treaty. Therefore, the institutions in single-party regimes lead to the signing of more investment treaties. However, the inability of the winning coalition in personalist or military regimes to punish the executive leads to the signing of fewer investment treaties.

This argument makes several important contributions. Most importantly, I focus on the salience of autocratic institutions in shaping willingness to sign investment treaties. In addition, I propose a novel theory of autocratic decision making by assessing how executive credibility influences not only the signing of investment treaties, but the type of partner autocrats tend to sign these treaties with.

This section continues as follows. First, I review the three autocratic regime types, Then, I introduce the concept of autocratic internal credibility. Second, I apply the concept of autocratic internal credibility to discuss how each regime type affects policymakers, and the extent to which policymakers are beholden to the support of their winning coalition in their approach to investment treaties. Third, I describe why investment treaty alternatives are preferable, from the perspective of autocratic policymakers and foreign investors, in facilitating FDI. Finally, I explain why credibility pressures incentivize autocratic policymakers to sign investment treaties specifically with advanced economies. Within the section, I suggest testable hypothesis based on my theoretical framework.

3.1 Autocratic Regime Type

My theoretical framework identifies three autocratic regime types. I use the Geddes classification of regime type by dividing autocratic regimes into single-party regimes, military regimes, and personalist regimes (1999).[2] Recall from section 2.1 that in single-party regimes, the party can delegate authority and oversight ability over the executive. Personalist regimes, meanwhile, are typically able to build-in relatively few constraints on the executive's power. Military regimes, finally, vary on their ability to sanction the executive based on the hierarchical structure of their military. This variance contributes to the short-lived nature of most of these regimes.[3]

3.2 Internal Credibility & the Autocratic Executive

Here, I introduce the concept of autocratic internal credibility. This term describes the ability, especially of the autocratic leader, to validly project competence to those within the regime. Of primary importance is the executive's ability to instill confidence in her ability to help the party and winning coalition to maintain power. When an autocratic executive is credible, the regime is likely to be more durable and the executive more likely to stay in power. Domestic regime outsiders (e.g., the public) will fear substantive retaliation for challenges against the regime's power or policy choices. The credible executive has the backing of the regime's full set of resources to instill fear in opponents and breakup public discontent at source.[4]

This type of suppression is costly for the regime. If the suppression is too heavy handed, or constant, citizens may eventually revolt against the regime. The high potential cost of suppression means the non-credible executive is unlikely to enjoy the same level of support when dealing with domestic opposition.[5] Therefore, internal credibility contributes to regime durability by allowing the executive to squelch opposition from domestic regime outsiders.

[2] For examples of alternative classifications, see: Hadenius, A., & Teorell, J. (2007); Cheibub, J., Gandhi, J., & Vreeland, J. (2010); Wahman, M., Teorell, J., & Hadenius, A. (2013); Kailitz, S. (2013).
[3] See Geddes 1999 and Kailitz 2013 for data verifying the short-lived nature of military regimes compared to personalist and single-party regimes. The authors present evidence that single-party regimes are the most durable.
[4] A prominent example is China's suppression of street protests in response to a mid-air collision between Chinese and U.S. aircraft in April, 2001.
[5] See, for example, Weiss 2013 for a fuller discussion of authoritarian signaling and nationalist protests.

The executive can build her own internal credibility by successfully performing the duties of state. One of the most visible methods is to complete the negotiation of international agreements. The need to build internal credibility, however, varies by autocratic regime type. Leaders across the three types face different institutional constraints, which result in different approaches to signing international agreements.

3.3 Internal Credibility & Regime Type

The relative importance of internal credibility for the autocratic executive varies by regime type. The ability of the executive to coopt elites drives this variance. Autocratic executives that are better able to coopt dissident voices within the winning coalition do not need to build up internal credibility as much as those executives that are less able to do so.

Personalist regime leaders' need to secure internal credibility is generally the least pressing. This is precisely because of the high levels of control the personalist regime leader holds over the winning coalition. This control results from several factors. First, the personalist executive maintains a tight grip on appointment powers. If the executive can replace members of the winning coalition at will, she does not build up internal credibility with those members. Second, the winning coalition in personalist regimes are both less able and less willing to punish the personalist executive. Personalist executives can limit the ability of the winning coalition to coordinate with each other, thus hampering their ability to punish. Further, the executive can more easily tie the fate of members of the personalist winning coalition to their own fate. The winning coalition are frequently either family members of the executive or otherwise owe their position entirely to the executive, vis a vis political patronage. In the latter case, this is because members of the winning coalition rose to their position by the will of the executive, rather than political acumen or wealth.[6] As such, they would be unlikely to secure an equivalent position in subsequent regimes, should there be a change in leadership. Ultimately, this means that the personalist executive faces less pressure to accumulate internal credibility through the signing of international agreements.

The military regime leader faces a greater need of internal credibility than does her personalist counterparts. Military executives, because of the short-lived nature of their regimes, tend to adopt strategies common amongst their personalist counterparts. This is especially true in the way military executives hire and fire their members of their winning coalition, frequently with the use of violence.[7] In this way, the military executive can limit the ability of winning coalition members to communicate, coordinate, and mete out punishment. While some military autocracies have been successful, largely based on the ability of the executive to tightly control the winning coalition, most military executives are unable to exert the necessary control. The winning coalition in military autocracies are typically composed of the officer corps of that state's military. These winning coalition members, then, have personal and political capital that personalist coalition members commonly lack. As such, the winning coalition in military regimes face fewer institutional disincentives to punish the executive relative to their personalist counterparts. Members of a military regime winning coalition can take advantage of a strong pre-existing hierarchy to limit the executive's ability to control their communication and coordination efforts. They are also commonly career officers, as opposed to political appointees, meaning they have developed the skills necessary to make strategic decisions within the regime. Similarly, it means that the fate of these winning coalition members is less tied to the fate of the

[6] For example: François Duvalier ("Papa Doc"), the Haitian personalist autocrat who maintained power through political patronage and familial appointments.
[7] For example: Emilio Medici, the Brazilian military autocrat.

military executive. The military executive, then, has an incentive to dismantle the old military personnel structure by using the more violent, extreme personalist executive measures. Therefore, many military autocracies are either short-lived, or transition to personalist regimes.[8] Military executives, then, do face relatively less institutional pressure to accumulate internal credibility by signing international agreements. They can build up that credibility, much like personalist executives, by use of force and a high degree of control over the winning coalition.

Single-party regime executives have the greatest need to generate internal credibility. This need stems the single-party executive's inability to exert the same levels of control over the winning coalition as their personalist and military counterparts. In single-party regimes, the party has more control over political appointments relative to the executive. As such, the executive is less able to hire, and fire, winning coalition members at-will than are personalist and military executives. This has several consequences for the single-party executive. First, they are less able to strategically hire and place supportive winning coalition members in key positions. Second, it affords a certain level of autonomy from executive control for those within the winning coalition. This autonomy facilitates relatively more ability for the winning coalition to communicate and coordinate strategic responses to executive decisions. Third, single-party regimes tend to have relatively more career winning coalition members than personalist or military regimes. Career coalition members can generate the level of independent skills and regime connections that frequently elude their personalist and military counterparts. Winning coalition members can turn these skills and connections into political capital, and a better ability to extract concessions from the single-party executive.[9] The winning coalition in party-based regimes, then, is

[8] See, for example, the regime of Paraguayan military-turned-personalist autocrat Alfredo Stroessner.
[9] See O'Brien 2013 for a fuller discussion of the Chinese case and political opposition extracting concessions from a single-party executive.

simultaneously more independent (at least in terms of their relationship to the executive), better able to coordinate and communicate, and possessing of more political capital than personalist and military winning coalition members. Further, the career nature of these coalition members means their fates are the least tied to the executive out of any of the three autocratic regime types.

These factors translate into a higher need, for the party-based executive, to generate support within the winning coalition. Both winning coalition members and the party want the executive to ensure regime durability. Single-party executives, then, need to project competence and build internal credibility. If the single-party executive cannot generate this credibility, they are more easily sanctionable and replaceable than personalist and military regime leaders. This is because the single-party executive faces different institutional pressures. The single-party executive cannot as easily control appointments, communication, or coordination. Further, this disassociates the fate of the single-party executive from the fate of her winning coalition. The political structures of military and personalist regimes are starkly different. The single-party executive, then, needs to generate visible, internal credibility to maintain their place in power. Since the party, in single-party regimes, controls much of the operational aspects of governance (e.g., personnel appointments, oversight of performance against strategic goals, etc.), the single-party executive cannot generate internal credibility merely by ensuring the trains run on time. Rather, the single-party executive has to ways of building her credibility outside of the day-to-day operations of governance. In other words, the party ensures regime durability, which crowds-out the executive from building credibility in that space.

International agreements, then, present an opportune method for single-party executives to generate internal credibility. First, these agreements are outside the scope of the day-to-day operations of government. This means they are within the scope of power and remit of the executive. Second, they are relatively low-cost to the executive. The enforcement mechanisms, particularly those found within investment agreements, are notoriously weak.[10] This means autocrats that sign these agreements can break their commitment to the terms of these agreements without punishment. Further, recall that many nations, especially advanced economies, already have pre-existing model BITs. This means autocracies do not have to expend a large amount of resources to negotiate investment agreements. This lowers the transaction costs of negotiating BITs. Third, and perhaps most importantly, successfully completing negotiations to sign an international agreement demonstrates governing competence. It is a visible way for the autocratic executive to demonstrate their ability to perform the functions of state. For this reason, the autocratic executive can build internal credibility by signing international agreements. Further, BITs present an appropriate, low-cost form of international agreement. Therefore, single-party autocracies sign relatively more investment treaties than personalist and military regimes.

Hypothesis 1: Single-party regimes are more likely to sign investment agreements than are military or personalist regimes.

3.4 BIT Alternatives to FDI

These investment treaties are not primarily attractive for the levels of FDI they may potentially generate. First, recall that the levels of FDI inflows, though somewhat large in some autocracies as a percentage of GDP, are commonly quite small. This is true of autocracies that are signatories

[10] See Net et al. 2016 for a fuller discussion of how Vietnam, a single-party autocracy, has structured domestic institutions, such as the court system, to both discourage dispute arbitration and tip the scales against foreign investors in investment disputes that do arise.

to many BITs. It is difficult to make the argument, then, that investment treaties have delivered on the theoretical promise of more FDI inflows.

Second, as the later discussion of the case of Vietnam will further demonstrate, there is little evidence to suggest the promise of increased property protections inherent in BITs is a selling point to investors. Autocratic states can easily break these agreements. The enforcement mechanisms built into these agreements are weak and easily avoidable. Autocracies still maintain a tight control on the structure, personnel appointments, and strategic goals of domestic institutions. This is especially true of domestic legal systems. By building in low levels of transparency in the domestic legal system, autocracies can discourage investment disputes before they even happen. Note that discouraging investment disputes from arising by controlling domestic institutions does not violate the terms of most, if not all, investment treaties. Not even the creation of the ICSID as a third-party dispute settlement venue has been able to affect this trend. Autocratic states simply do not become ICSID participant members, yet continue to sign investment treaties.[11]

Third, autocracies prefer strategic methods that allow for maximum control by the regime. Investment treaties, despite their low cost and opportunities to easily avoid punishment, allow for less control by the regime than other methods, namely institutional design. In other words, autocratic regimes would prefer to attract FDI inflows via a method that is entirely under their control. Attracting FDI via strategic domestic institution design allows for more regime control. Further, signing investment treaties is simply cheap talk on the part of autocracies, since treaty components are not easily enforceable. This means these agreements are not a strong commitment, on the part of autocracies, to foreign investors. If the treaty is easily breakable,

[11] For example: Vietnam, a single-party autocracy and signatory to over sixty BITs.

foreign investors will simply not have enough faith to make investments in autocracies. Autocracies, then, need to make more credible commitments to investors than those in investment treaties if they want to attract FDI. Building up a history of treating foreign investors fairly is the only reliable way to accomplish this. To build that history of reliable commitment, autocracies strengthen the rights of foreign investors in domestic institutions, such as the courts, and they do so consistently over a period of time.[12] This demonstrates why not only autocracies prefer investment treaty alternatives to attract FDI, but why foreign investors also prefer these alternatives.

3.5 Credibility and Investment Treaty Partner Choice

Since autocratic executives view international agreements as way to generate internal credibility, these executives want to maximize the amount of credibility generated per agreement. Further, since these agreements are not primarily a means to increase levels of FDI inflows, a subsequent growth in those inflows is an unreliable method to generate internal credibility.[13] Therefore, if the baseline expectation, in terms of internal credibility enhancement, is simply completing an agreement, and if FDI inflow growth does not necessarily enhance the executive's internal credibility, some other factor must explain the variation in credibility generation.

It is unlikely that autocracies would be able to generate substantive concessions from treaty partners when negotiating investment treaties. First, most negotiated BITs are closely related to model BITs. This demonstrates that autocrats, even if they do try to negotiate concessions, are generally unsuccessful in doing so. Second, as previously discussed, autocrats

[12] See Olson 1993 and Moon 2015 for a fuller discussion of autocratic time horizons and commitment mechanisms.
[13] While some autocracies do appear to strategically prioritize growth in FDI inflows (e.g., The Democratic Republic of the Congo, a personalist regime), many autocracies wish to limit FDI inflow growth to low-single digit percentage growth. This stems from a concern that rapid growth in FDI inflows will lead to citizen agitation for liberal reforms, and more broadly to democratization and the end of the regime. See Wallace 2013 for a fuller discussion of this phenomena.

easily break the terms of these treaties. Further, negotiating these treaties does require some amount of resource expenditure, however small, on the part of both prospective treaty partners. This means there is a disincentive for potential partners to expend resources negotiating with an autocrat, who can easily break the treaty, to dramatically alter the terms of an investment agreement. Therefore, it is unlikely that autocratic executives look to gain substantive concessions in investment treaties as a method to generate internal credibility. If neither increased FDI inflows or treaty concessions (i.e., negotiating acumen) generate credibility above the baseline amount, what factor drives additional credibility generation?

The component that is both easily controllable and reliable for the autocratic executive is the trading partner. Autocrats can sign investment agreements with any number of partners, and not every partner is as valuable as others. Since autocratic executives view the signing of investment agreements as a signal of their governing competency, they can maximize internal credibility growth by signing agreements with highly competent governments. These highly competent potential treaty partners, then, are unlikely to be other autocracies. Signing an agreement with a partner who views the agreement in equal terms (i.e., cheap talk) does not convey the necessary amount of competence. It is simply too easy to negotiate agreements with partners who can easily break the agreement. Instead, it is preferable, from the perspective of the autocratic executive, to sign agreements with partners that are within the scope of treaty enforcement mechanisms. That means signing agreements with countries that are participating members of third-party enforcement mechanism, such as the ICSID. These countries tend to be OECD western democracies. Further, since single-party regime executives are more concerned with building internal credibility, single-party regimes will seek out OECD country partners more frequently than will military or personalist regimes.

Hypothesis 2: Regimes that sign more agreements with OECD countries will also sign more BITs than states with fewer OECD treaty partners.

4 Case Study – Vietnam

This section will use the case of Vietnam to argue that autocratic leaders are more interested in building internal credibility by examining how the country has economically developed. The political powers in Vietnam are most concerned with providing private goods to a minority selectorate (in other words, to elites). Vietnam has taken advantage of the opportunities afforded by trade in a globalized world. Since the 1990s, the country has experienced tremendous economic growth, relative to other less developed countries. This growth has coincided with a decidedly liberalizing turn for much of the country's economic and social welfare institutions. These liberalizations, driven in party by the country's more open trade policies, have contributed to a dramatic drop in poverty rates and a slight narrowing of overall wage inequality (World Bank Data, 2017). It is precisely for these reasons that many scholars cite Vietnam as a regime interested in increasing FDI inflows. However, while there is undoubtedly some merit to these arguments, the country's reform efforts have not led to appreciable gains in education or public health outcomes for the country's low-skilled majority. Of some note, the returns to education, in terms of wages, has largely flat lined for this majority, demonstrating the difficulty they face in using the education system to climb the socio-economic ladder. Further, despite the shift away from a planned economy, the Communist Party of Vietnam (CPV) emphatically retains political control within the country's single-party system. Despite the claims that globalization has provided mechanisms to increase FDI inflows and deliver public goods in Vietnam, it appears that globalization has simply allowed the CPV to retain its grip on power.

First, this section will identify the key early internal reforms implemented within Vietnam. Next, it will describe the external barriers to growth faced by Vietnam, followed by a description of the results of its export-oriented growth strategy. Finally, it will close with a discussion of why the FDI inflows argument is inappropriate in the case of Vietnam.

4.1 Asian Style Development: State Led Market Reforms

The CPV made a clear decision to move away from a planned economy during its 6th National Congress in December 1986. The resulting Doi Moi ("renovation") reforms, while discarding the command economy, were in line with the development models of several other East Asian countries. Policymakers allowed liberalizing reforms, but under heavy state control (Athukorala, 2006: 173; Beresford, 2008: 223; Fukase, 2013: 328). The CPV utilized industrial policies that allowed the party to control long-term investment and structural change within the economy (Beresford, 2008: 225).

The Doi Moi reforms, however, did not uniformly allow for the heavy-handed intervention of the state. Some reforms called for more market-decided outcomes. These reforms included market determination of wages for non-state employees and limited privatization of some state-owned enterprises (SOEs) (Fukase, 2013: 318). Further, policymakers implemented legal reforms related to foreign direct investment (FDI), financial institutions and insurance services, environmental protection and labor rights, as well as property rights and domestic investment, over the course of the 1990s (Van Arkadie, 2004: 109).

The CPV extended some autonomy, via these legal reforms, to firms in select industries. Indeed, some firms in industries such as garment and mobile phone manufacturing, as well as energy resource mining (World Factbook, 2017), could take on foreign investors (Beresford, 2008: 241). This limited privatization helped make the Vietnamese manufacturing and mining industries more efficient, and thus more competitive in the global marketplace, relative to the pre-Doi Moi era (Beeson & Pham, 2012: 545).

The autonomy given to these firms, however, came with certain strings attached. Policymakers expected the firms to export a certain percentage of their products in exchange for foreign investment and limited privatization (Beresford, 2008: 227). Once again, however, the state played a major role in facilitating exports. In addition to lowering the barriers faced by private investors described above, the CPV led a concentrated effort to reduce investment in relatively lower performing SOEs (Van Arkadie, 2004: 32). Further, the Vietnamese state implemented incentives that led to the creation of new, diverse industries. This diversification, especially within light manufacturing, helped Vietnam export more goods (Ibid.: 209).

4.2 Overcoming Exogenous Barriers: Integration into the Global Market

Despite the internal Doi Moi reforms, the Vietnam War hindered Vietnam's ability to attract foreign investment and gain entrance into large foreign markets. Perhaps the most impactful of these consequences was the trade embargo levied by the United States in 1975. The embargo made foreign investors leery of investing in Vietnam. Further, it prevented the country from building the types of relationships that can lead to economic and technical assistance. Indeed, during the embargo years, Vietnam relied almost exclusively on the United Nations Development Programme and the Swedish International Development Agency for assistance and development guidance (Van Arkadie, 2004: 220). However, Vietnam was able to modify the advice given by these organizations to fit the particular needs of their country. This may not have been possible had this guidance come from leading international institutions such as the International Monetary Fund or World Bank.

After the initial Doi Moi reforms, the United States lifted the trade embargo in 1994. Vietnam began exporting goods to the U.S. almost immediately. However, these goods were, by in large, “primary products such as coffee, shrimp, and petroleum whose general tariff rates are zero or close to zero” (Fukase, 2013: 318). Most favored nation (MFN) status, when granted, allows a country to gain access to the most favorable terms of trade. Vietnam, by the late 1990s, had yet to gain MFN status from the United States. This prevented the country from exporting the goods produced by the light manufacturing sector they had developed in the first part of the decade. This would change when the U.S.-Vietnam Bilateral Trade Agreement (BTA) came into force in late 2001. Following this BTA, Vietnamese exports to the U.S. more than doubled in the year from 2001 to 2002 (McCaig, 2011: 102; Fukase, 2013: 318). This increase in trade with the U.S. came with growth for Vietnam’s domestic industries, which in turn led to an increase in trade with all of Vietnam’s non-U.S. trading partners (Fukase, 2013: 318).

Ultimately, the domestic Doi Moi reforms, normalization of trading relations with the United States, and increased levels of trade with all trading partners allowed Vietnam to further integrate itself into the leading international trade institutions (Hakkala & Kokko, 2007: 24). In 2007, Vietnam gained entrance into the World Trade Organization (WTO) (Fukase, 2013: 318). The increased levels of trade, beginning with the Doi Moi reforms of the late 1980s and early 1990s, and culminating with ascension into the WTO in 2007, have facilitated remarkable growth for Vietnam.

4.3 Reform Period Outcomes: Mixed Results

Prior to the Doi Moi reforms in December 1986, Vietnam was consistently one of the poorest countries in Asia (London, 2014: 87). Following those reforms, and the increase in trade they facilitated, the country has experienced impressive gross domestic product (GDP) growth.

From 1987 to 2016, Vietnam has averaged roughly 6.6% GDP growth per year, with some years seeing around 9.5% growth (World Bank Data, 2017). This growth, like other East Asian countries, resulted in dramatic declines in poverty. Vietnam had a poverty rate of around 60% in the early 1990s. By 2006, Vietnam was successful in cutting that rate to 16% (London, 2014: 98). There is some evidence that increases in trade played a direct role in reducing levels of poverty, especially for the country's low-skilled workers (McCaig, 2011: 109).

Despite the integration into the regional and international markets, the country was able to weather, to a certain extent, the Asian financial crisis of the late 1990s. As discussed previously, the country introduced market reforms while maintaining state involvement. One state-oriented policy the country maintained was that of capital controls. The watchful eye that the CPV maintained on capital entering and leaving the country helped limit the influence of hot money that was so destructive throughout the region during the crisis (Minh & Long, 2008: 99). State involvement in education and public health, however, led to mixed outcomes for the Vietnamese people.

Vietnam, to its credit, increased spending on education in the early parts of the 21st century. In 2005, the country committed 10.9% of the state budget to education. This commitment increased to nearly 20% by the end of that decade (London, 2014: 99). This has been possible, in large part, because of the increased state revenues made possible by trade. However, concurrent with this increase in education spending was a transition to a public-private hybrid school system. This transition shifted an increasing amount of the cost of education from the state onto households. Indeed, while the state doubled its education spending, the burden on households increased by a factor of five, for every income quintile, during the same period (London, 2014: 100). By 2010, the average household expenditure on education exceeded the per capita GDP in Vietnam for every quintile except the poorest fifth. For that poorest fifth in Vietnam, household expenditures on education was below the per capita GDP by only $40USD (London, 2014: 99-100).

The CPV's commitment to public health has been less robust. Whereas the increase in education spending somewhat masks the shift in financial burden to households, there has been no similar state investment in public health. The limited improvements in public health outcomes, given the lack of increased state funding for public health, are likely more attributable to the reduction of poverty and increased living standards (London, 2014: 100). In contrast to the education system, the public health system is still largely state-run. Despite the heavy involvement of the state, access to quality health care has grown increasingly uneven. Anywhere from one-third to twenty percent of the country's children are malnourished or underweight, with most of those children coming from the poorest households (London, 2014: 101). While the country has increased coverage for basic services, it is difficult to say the same about equitable access to quality care.

Scholars debate the Doi Moi reforms' effect on Vietnamese wages. On the one hand, there is some evidence that liberalization has increased wages, especially for low-skilled workers. This was, perhaps, most acutely seen in the aftermath of the BTA and the United States' granting of MFN to Vietnam (McCaig, 2011: 112). More recent studies, however, have controlled for the employment effect of trade on wages. Trade has the potential to negatively affect domestic workers' employment prospects. As trade opens industries to competition and pressures to become more efficient, they can innovate, incorporate new technologies, and employ fewer workers. Further, imports may displace domestic industries. When controlling for the employment effect, the growth in wages for low-skilled workers is negligible. High-skilled, high-educated workers experience the most substantive wage gains (Oostendorp & Doan, 2013: 928).

4.4 Discussion

It is tempting to view Vietnam, when considered against its economic growth, integration into global markets, poverty reduction, and relative insulation against the Asian financial crisis, as a relatively unmitigated development success story. These factors, especially if seen from a less nuanced view of public health, education, and wage outcomes, would seem to validate the argument that the regime in Vietnam is interested in providing public goods. These achievements are undoubtedly impressive as they are rare amongst those less developed countries holding aspirations to enter the middle-income bracket. However, a look further beneath the surface reveals a different picture.

The Doi Moi reforms, initially unleashed in 1986, did lead to certain market liberalizations. It is possible to view these liberalizations as concessions from the CPV to the Vietnamese public. If they are concessions, the state-led, top-down reforms would indicate the salience of the influence of relative power dynamics in advancing liberalization efforts. If this were the case, however, we should expect to see advancements in the equitability of the public goods provided by Vietnam's leadership.

In the case of education, the large increase in state expenditures, on face value, undermine the indifferent autocrat framework this section advocates. If the CPV leadership were indifferent to public goods, why would they double the country's education spending in such a short period of time? Perhaps the answer is that the CPV, because of the upwardly-spiraling household expenditures on education, felt the need to compensate by expending more state funds on education. Household expenditures on education outstrip the per capita GDP in Vietnam and have been increasing exponentially. When compared against these increases in household spending, the state expenditures look less and less like a public good. Instead, they look like the actions of an autocrat regime more concerned with regime stability.

In terms of wages, studies have shown that the earnings of low-skilled workers have increased as a long-run result of the reforms. Some scholars argue a causal link between the increase in spending on education and the increase in wages. The increasing wages are the returns to education investment made by Vietnam. First, as discussed above, the increase in household education expenditures perhaps cancels out the state investment. Second, the returns to education, in terms of wages, has perhaps grown after the reforms. However, the returns to education argument becomes less convincing when controlling for the employment effect of trade. Once this is controlled for, the returns to education for the country's low-skilled, undereducated majority effectively remains flat after the reforms. It is only for the high-skilled, educated elite that the returns to education have increased. With this added nuance, it is difficult to see how the education and wage policies have not simply been a boon to the real powerbrokers within the country. Effectively, these policies have been a subsidy to the winning coalition in Vietnam.

As discussed in section 2, the argument that autocrats are primarily interested in increasing FDI inflows has become pervasive. This argument claims that autocracies seek out economic growth to provide public goods. While there is, admittedly, some convincing evidence in support of this argument, it becomes less convincing after taking a deeper look. Vietnam, a country that implemented some market-oriented reforms, experienced impressive economic growth, and achieved a dramatic decline in poverty rates, offers an excellent case study. Despite these achievements, the country's education system and wage growth appear to have benefitted the minority selectorate. The same appears to be true of the country's public health system. With heavy state-involvement, like the development style of other East Asian countries, the CPV cannot credibly absolve itself of the responsibility for these outcomes. *Nor, in fact, would it likely want to*. The CPV regime leaders have maintained power by pleasing the winning coalition. Far from being a regime focused on attracting more FDI inflows, the regime in Vietnam has primarily focused on maintaining political power, even in the face of liberalizing reforms.

The following section will provide a more rigorous examination of this claim. The Vietnamese case study contributes to the inclusion of several variables within the statistical model. First, I will include FDI inflows as a percentage of GDP within the model. Some scholars argue that the Vietnam intended the Doi Moi reforms to increase levels of investment. Controlling for this variable against the number of signed BITs will help clarify the validity of these claims.

Increased levels of investment are only part of the picture, however, when considering how interested autocrats are in providing public goods. I make the claim that the transition in Vietnam to include more private education options offset the state investment in education. If the regime in Vietnam valued public goods, it is likely that their public debt as a percentage of GDP would increase. Increasing levels of debt may motivate the signing of BITs to attract more foreign investment and reduce the need for state-led public goods investments. To control for this possibility, I will include a variable measuring public debt as a percentage of GDP.

Finally, the Vietnamese case highlights the potential impact of the relationship with the United States. Some scholars argue that Vietnam was able to sign agreements with the United States only after Vietnam implemented certain market liberalizations. This implies that the

United States, an OECD country, signs agreements with autocrats of their choice. In other words, it is potentially not institutional dynamics within the autocracy that motivates the signing of international agreements, as I argue, but rather primarily the preferences of OECD countries. If this is the case, one would expect higher levels of investment specifically from OECD countries to motivate the signing of investment treaties. This would indicate that policymakers in OECD countries are signing investment agreements with autocratic countries to better safeguard protections for investments originating from within the OECD country. Therefore, to control for the possibility that OECD preferences, rather than autocratic preferences, are driving the signing of investment agreements, I will include a variable measuring the investment profile from OECD countries.

5 Autocratic Regime BIT Data

The preceding sections provide a theoretical basis and qualitative study for reconsidering the relationship between regime type and the signing of international agreements. The theoretical framework presented in this paper calls for understanding autocratic involvement in these agreements via the autocratic executive's need for internal credibility. Below I present empirical tests of the predictions developed above that party-based regimes sign both more investment agreements and more agreements with OECD countries. Juxtaposed to this, military and personalist regime executives do not face the same internal credibility pressures. Therefore, these types of regimes should have signed fewer agreements and be less discriminatory in the choosing of their agreement partners.

The strategic nature of autocratic winning coalition and executive behavior presents methodological challenges when testing for the existence of internal credibility. Both the executive and the winning coalition have incentives to mask their behavior. This is especially true of communication and coordination efforts, given that these efforts can lead to the executive or the winning coalition members losing their place of power in the regime. Therefore, to test hypotheses about internal credibility, one must necessarily look to variables that demonstrate an executive's ability to generate this credibility.

5.1 Dispersion of Signed BITs across States

The United Nations Conference on Trade and Development (UNCTAD) has developed a data set on the number of bilateral investment treaties by country. The UNCTAD database includes both the number of BITs signed and the number of BITs still in force. Given the ease with which autocrats can break the terms of international agreements, the number of BITs signed is more relevant as a proxy to autocratic internal credibility generation. It is the act of successfully negotiating and signing an agreement that generates internal credibility. Remaining beholden to the terms of an agreement can reduce the ability of the autocracy to effectively govern.

Fig. 1: Number of Signed BITs, by State

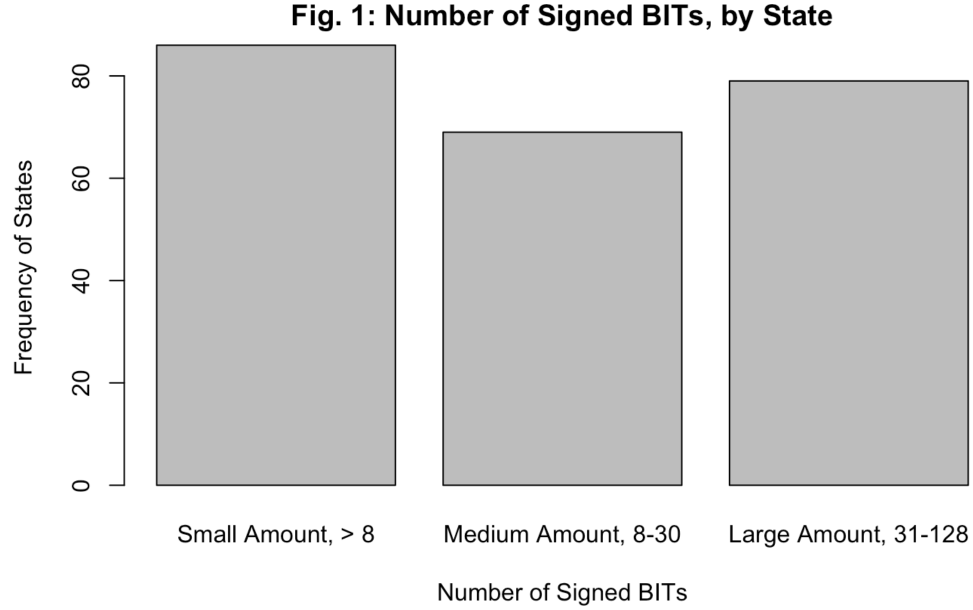
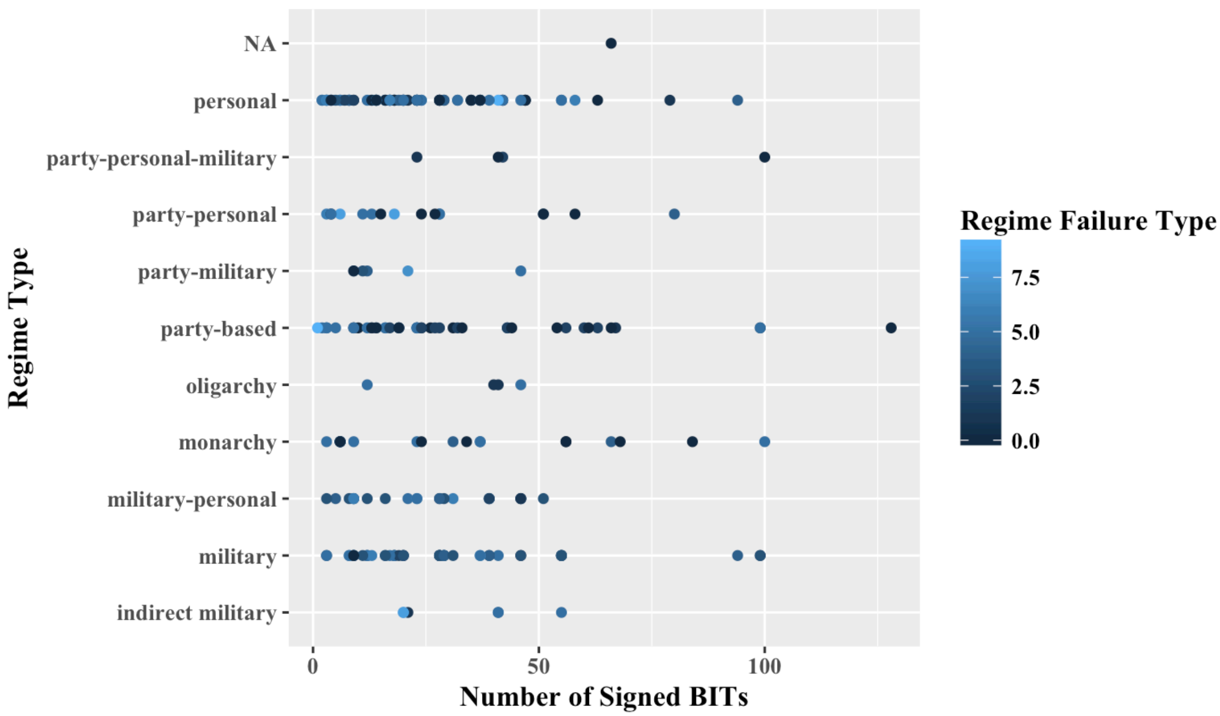


Figure 1 depicts an overview of the number of BITs signed by state, including non-autocracies. This demonstrates that preponderance of these types of international agreements: there are more BITs than there are states. Further, most of states signed a medium-to-large number of BITs. The mean number of BITs signed per state is roughly twenty-five. There is, however, large deviation in the number of signed agreements. The standard deviation of just over twenty-eight BITs is larger than then mean. This indicates that certain states are either less-able or less-inclined to sign these agreements. Which of these is most likely the case?

To begin to better understand this phenomenon, it is instructive to narrow down which types of regimes sign more agreements than others. Utilizing BIT data from the UNCTAD database, as well as the data set from Barbara Geddes, Joseph Wright, and Erica Frantz (GWF) regarding autocratic regime type, Figure 2 shows the number of BITs signed by non-democracies. Further, it reveals how each non-democracy either failed, or that they otherwise remain in power. The GWF failure type variable is a categorical variable. The variable factors range from the regime remaining in power, coded as “0,” to ceasing to exist, coded as “9.” In ascending order from 1, the remaining factors represent regime failure due to: members of the winning coalition changing the political rules, the executive losing an election, an incumbent executive choosing not to run in an election, popular overthrow of the government, military coup, civil war, foreign invasion, and finally a new executive changing the political rules to remain in power. Note that the one “NA” plot point represents the case of Iran from 1979 to current.

Fig. 2: BITs Signed by Regime Type, Intersected by Failure Type



The four party style regime types appear to have a slight advantage, in absolute numbers of signed BITs, over non-party regimes. In China, party style regimes also boast the state to have signed the most BITs. Further, regimes in which the executive has remained in power have a BIT signing advantage, in terms of absolute numbers compared to military and personalist regimes. The dispersion of both signed BITs, as well as signed BITs by regime type, suggests *Hypothesis 1* is correct. To examine that hypothesis, as well as *Hypothesis 2*, will require a more rigorous analysis of the data. The following analysis will test the statistical relevance of regime type for the signing of BITs and the role of the percentage of OECD ratified treaties as a proxy for internal credibility.

5.2 Why Autocracies Sign BITs: Empirical Evidence

In addition to the GWF regime type and UNCTAD BIT data sets, the following tables incorporate data from the World Bank Group's Worldwide Governance Indicators data set

(WGI) and replication data from Wasseem Mina's 2013 "Political Risk Guarantees and Capital Flows: The Role of Bilateral Investment Treaties" (WM). The inclusion of these data sets allows the models to test against alternative theoretical explanations.

Table 1 reports the results of three pooled linear models[14] with various predictor variables. The dependent variable, signed BITs, is a count variable by country-year. The time period covered in the data is the period from 1996 to 2011. Models 1, 2, and 3 use party-style, military, and personal regime types, respectively, as the base categories. The regime type variables are each a dummy variable, grouping each respective regime type against every other alternative regime type. Along with the regime type variables, I include a variable measuring OECD treaties as a percentage of a state's total ratified treaties. This variable is a proxy for the autocratic executive's strategic choice to build internal credibility. Successfully negotiating with OECD countries demonstrates an executive's ability to competently perform their role as head of state. Also included in the models are variables measuring alternative theoretical arguments. Much of the preexisting literature argues that states view BITs as a means increase their FDI inflows. Conversely, my theoretical framework claims that FDI inflows do not incentivize autocratic executives to sign BITs. Similarly, scholars have previously argued that autocrats are especially interested in increasing levels of FDI inflows. In this view, autocrats need to sign investment agreements so that they can provide public goods, thus insulating themselves from public overthrow. The public debt as a percentage of GDP variable tests this theory. Other variables in the models test the impact of other global economic factors, such as trade, investment, and financial openness. Finally, I include variables to test the relationship of governance features to the signing of international agreements.

[14] Alternative specification options include Poisson and negative binomial models.

Table 1: Why Autocracies Sign BITs

	Model 1	Signed BITs Model 2	Model 3
Regime Type: Party	3.162*		
	(1.719)		
Regime Type: Military		0.494	
		(2.097)	
Regime Type: Personal			-1.040
			(1.868)
OECD Ratified Treaties: % of Total Treaties	4.801***	4.844***	4.829***
	(1.460)	(1.464)	(1.464)
FDI Inflows: % of GDP	0.110	0.125	0.128
	(0.131)	(0.131)	(0.131)
Trade: % of GDP	-0.047**	-0.040*	-0.041*
	(0.023)	(0.024)	(0.023)
Public Debt: % of GDP	-0.080	-0.047	-0.039
	(0.289)	(0.290)	(0.290)
Investment Profile: % from OECD Treaties	-5.073**	-5.151**	-5.133**
	(2.132)	(2.138)	(2.138)
Chinn-Ito Financial Openness Index	-2.353***	-2.460***	-2.419***
	(0.639)	(0.639)	(0.643)
Perceived Political Stability Percentile	0.040	0.055	0.056
	(0.048)	(0.048)	(0.048)
Perceived Public Accountability Percentile	-0.691***	-0.714***	-0.712***
	(0.058)	(0.057)	(0.057)
Perceived Government Effectiveness Percentile	0.700***	0.690***	0.693***
	(0.095)	(0.095)	(0.095)
Perceived Regulatory Quality Percentile	-0.074	-0.068	-0.071
	(0.090)	(0.091)	(0.090)
Perceived Rule of Law Percentile	0.188**	0.208**	0.200**
	(0.092)	(0.092)	(0.093)
Constant	31.158***	31.305***	31.892***
	(2.855)	(2.948)	(2.954)
N	576	576	576
R-squared	0.444	0.440	0.441
Adj. R-squared	0.432	0.429	0.429
F Statistic (df = 12; 563)	37.425***	36.930***	36.968***

***p < .01; **p < .05; *p < .1
Pooling Model

The results of Table 1 suggest that, while party-style regimes are the most statistically relevant of the three regime types, we cannot be confident that regime type plays a statistically significant role at high enough confidence levels. The results do provide strong support, however, for the logic of autocratic internal credibility as a justification for the signing of international agreements. Whether controlling for party-style, military, and personalist regime types, autocracies sign nearly five more BITs per year when they ratify a higher percentage of their treaties with OECD countries. The significance of this finding is at the 1% level. Similarly, the lack of statistical significance for the political stability variable further underlines the logic of internal credibility. Recall that regimes do not task autocratic executives, particularly in party-style and military regimes, with running the daily operations of government. Political stability is more the concern of the party or military officers who are members of the winning coalition. These coalition members task the executive, conversely, with projecting competence. Note, here, that the government effectiveness variable is statistically significant at the 1% level and is correlated with the signing of roughly 0.7 additional BITs per year. In other words, the winning coalition ensures the trains run on time while regime executives project effective leadership. Therefore, the empirical findings presented in Table 1 present weak support for *Hypothesis 1*, but strong support for *Hypothesis 2*.

The results of Table 1 also provide evidence against alternative theoretical frameworks. Neither the FDI inflows as a percentage of GDP nor the public debt as a percentage of GDP variables are statistically significant in any of the three models. Interestingly, relatively more capital account openness is strongly correlated, at the 1% level, with the signing of nearly two and a half fewer BITs per year. Further, greater perceived public accountability is also correlated with the signing of fewer BITs per year. Finally, investments resulting from OECD treaties are correlated, at the 5% level, with the signing of roughly five fewer BITs per year. These results indicate that autocratic executives do not see BITs as quid pro quo arrangements to provide public goods to their citizens.

Table 1 provides mixed support for legal scholars who have long argued that the prolific nature of BITs is evidence of improved institutions and the spread of the rule of law. The regulatory quality variable is not statistically significant. The rule of law variable, however, is significant at the 5% level and is correlated with a marginal increase in the signing of BITs per year.

5.3 Why States Sign BITs: A Response to Arguments of Reverse Causation

Finally, it is worth addressing potential concerns regarding reverse causality. As previously discussed, many scholars argue that FDI inflows, the need to finance and provide public goods, and regulatory quality motivate the signing of BITs. Other scholars, meanwhile, have argued that these relationships correlate in the opposite direction. Table 2 provides evidence to speak to these arguments of reverse causation. Models 1, 2, and 3 each use signed BITs as the base category. The number of BITs signed is not significantly correlated to any of the base categories in Table 2.

Table 2: Evidence Against Reverse Causation

	FDI Model 1	Public Debt Model 2	Reg. Qlty. Model 3
Signed BITs	0.013	-0.001	-0.008
	(0.014)	(0.006)	(0.020)
Chinn-Ito Financial Openness Index	0.336	0.135	2.310***
	(0.208)	(0.094)	(0.294)
OECD Ratified Treaties: % of Total Treaties	-0.330	0.285	-0.662
	(0.474)	(0.213)	(0.703)
Regime Type: Party	0.853	0.379	0.944
	(0.552)	(0.249)	(0.821)
Trade: % of GDP	0.040***	0.004	-0.020*
	(0.007)	(0.003)	(0.011)
Public Debt: % of GDP	-1.215***		0.412***

	(0.078)		(0.138)
FDI Inflows: % of GDP		-0.247***	0.237***
		(0.016)	(0.062)
Investment Profile: % from OECD Treaties	0.244	-0.474	1.745*
	(0.689)	(0.310)	(1.020)
Perceived Political Stability Percentile	0.041***	0.025***	-0.032
	(0.015)	(0.007)	(0.022)
Perceived Public Accountability Percentile	-0.008	-0.006	0.177***
	(0.020)	(0.009)	(0.029)
Perceived Government Effectiveness Percentile	-0.141***	-0.040***	0.721***
	(0.028)	(0.013)	(0.029)
Perceived Regulatory Quality Percentile	0.108***	0.038***	
	(0.028)	(0.013)	
Constant	1.857*	0.836*	6.493***
	(0.974)	(0.439)	(1.425)
N	576	576	576
R-squared	0.379	0.327	0.811
Adj. R-squared	0.367	0.314	0.808
F Statistic (df = 11; 564)	31.256***	24.935***	220.708***

***p < .01; **p < .05; *p < .1
Pooling Model

The variables associated with the dependent variables in each of the models are perhaps unsurprising. In Model 1, the trade, perceived political stability, and perceived regulatory quality are all associated at the 1% level with relatively greater FDI inflows. Meanwhile, greater public debt and less perceived government effectiveness are associated with less FDI inflows at the 1% level. This is perhaps evidence that investors funnel capital into states that provide stable environments with a track record of strong institutions and ability to govern efficiently. Perceived political stability and regulatory quality are each associated, at the 1% level, with marginal increases in public debt as a percentage of GDP. This trend perhaps reflects the additional costs associated with investing in strong domestic institutions. Perceived government effectiveness is negatively correlated with public debt at the 1% level, and the direction of this correlation is again marginal. Finally, Model 2 provides evidence that FDI inflows are significant at the 1% level and correlate with a reduced need for the host government to take on additional public debt. Model 3 shows positive correlations, each significant at the 1% level, of the financial openness, public debt, FDI inflows, perceived public accountability, and perceived government effectiveness variables with the regulatory quality variable. Again, the BITs are not statistically significant factors in any of the three models.

6 Conclusion

Conventional theories that states sign investment agreements based on power differentials or to attract more FDI inflows discounts the differences in the ways democratic and non-democratic policymakers maintain power. The literature on bilateral investment treaties has taken a one-dimensional view of dyad partners – choosing to focus on relationships between less developed countries and highly developed countries. The literature on autocratic regime studies, meanwhile, has left the question of why autocrats sign investment agreements unanswered. This thesis argues that institutional differences do in fact lead to differences in the objectives of policymakers as they approach international agreements. Autocratic regime executives view international agreements as a highly visible means to build internal credibility within the regime by demonstrating their ability to enhance government effectiveness. They are less focused on maintaining political stability, which is instead the focus of the winning coalition. My statistical analysis of autocratic policymaker's sheds light on their motivations in signing BITs. Autocrats from varying regime types share the common goal of signing agreements with advanced economies to demonstrate their ability to perform the duties of state.

The evidence in this thesis not only supports the logic of autocratic internal credibility, but also problematizes alternative theories about why policymakers sign international agreements. Busse et al. (2008) and Büthe and Milner (2008) are not alone amongst scholars in arguing that states sign investment agreements to attract foreign investment and provide public goods for constituents. This theory cannot explain my findings that capital account openness and more public accountability are both strongly correlated with the signing of fewer BITs. Nor can it explain why autocracies that sign more agreements with OECD countries concurrently sign fewer BITs as OECD investment increases. Meanwhile, Franck (2004, 2005) has argued that the spread of the rule of law and strengthening of legal institutions motivates the signing of investment treaties. While there is some evidence to suggest that more respect for the rule of law contributes to the signing of more treaties, my statistical analysis found little basis for the institutional argument.

The analysis in this thesis is not only theoretical implications, but also has practical implications for policymakers and investors as they shape future capital flows. A better understanding of the motivations of autocratic policymakers can help investors make more efficient use of capital. Autocratic policymakers, frequently outside of the scope of enforcement mechanisms, can easily break the terms of investment agreements. Further, these policymakers do not always view foreign investment as beneficial to their ability to stay in power. Short of third party enforcement mechanisms, such as the ICSID, gaining more teeth, investors will need alternative approaches to safeguard their ability to invest in autocratic states. This paper presents on such alternative approach, namely presenting foreign investment as a means for policymakers to generate internal credibility. Finally, the arguments in this thesis are not just potentially relevant to policymakers and investors. Many autocracies have factor-based advantages, particularly in their supply of labor, making them attractive potential opportunities for investment. Moreover, this investment can help transform the lives of citizens within autocratic states by providing previously unavailable opportunities. While the safeguard of labor rights and environmental standards is outside the scope of this paper, there is an opportunity for development within autocratic states. Given the correct framing, investors, policymakers, and citizens have potential gains. To realize those gains, however, foreign investors and policymakers first must appreciate that autocrats view investment treaties as external negotiations generating internal credibility.

6.1 Directions for Future Research

The literatures from political science and law have largely ignored the significance of political institutions and how they impact the decision making of autocratic policymakers in the signing of international agreements. Although there has been much more recent attention paid to differences amongst autocratic regime types, our understanding of internal credibility generation and autocratic decision making remains somewhat limited. Future research should focus on how internal credibility generation influences the signing of other international agreement types, such as human rights or weapons agreements. Developing a systematic appraisal of the relative level of potential internal credibility by agreement type would be valuable. First, such an appraisal would provide a better understanding of why autocrats sign those agreements, much like the analysis of BITs in this thesis. Second, applying the findings of this thesis to other agreement types would provide a test of the generalizability of my findings. Third, a more complete view of the relative credibility ranking of agreements would allow non-autocratic policymakers to improve the nature of their strategic interactions with autocracies. Finally, this thesis has used the Geddes classification of regime type. Future studies could test the findings of this thesis more holistically by including the data sets from Hadenius and Teorell, Cheibub, Gandhi, and Vreeland, Wahman, Teorell, and Hadenius, and Kailitz.

Appendix

Table A.1: Variable by Data Source

Variable Name	Source Code
Chinn-Ito Financial Openness Index	1
FDI Inflows: % of GDP	1
Investment Profile: % from OECD Treaties	1
OECD Ratified Treaties: % of Total Treaties	1
Perceived Government Effectiveness Percentile	2
Perceived Political Stability Percentile	2
Perceived Public Accountability Percentile	2
Perceived Regulatory Quality Percentile	2
Perceived Rule of Law Percentile	2
Public Debt: % of GDP	1
Regime Type: Military	3
Regime Type: Party	3
Regime Type: Personal	3
Signed BITs	4
Trade: % of GDP	1

Table A.2: Variable Source Code Table

Source	Source Code
Mina, Wasseem. "Political risk guarantees and capital flows: The role of bilateral investment treaties." (2013).	1
Kaufmann, Daniel, Aart Kraay, and Massimo Mastruzzi. "The Worldwide Governance Indicators: Methodology and Analytical Issues." *Hague Journal on the Rule of Law* 3, no. 2 (2011): 220-246.	2
Geddes, Barbara. "What do we Know about Democratization after Twenty Years?." *Annual Review of Political Science* 2, no. 1 (1999): 115-144.	3
"International Investment Agreements Navigator." International Investment Agreements by Economy. November 23, 2017. Accessed April 08, 2018. http://investmentpolicyhub.unctad.org/IIA/IiasByCountry#iiaInnerMenu.	4

Table A.3: Correlation Table

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
(1)	1											
(2)	-0.11	1										
(3)	-0.77***	-0.03	1									
(4)	0.22	-0.20	-0.35	1								
(5)	-0.19	-0.78***	0.13	-0.12	1							
(6)	0.19	-0.20	-0.32	1.00***	-0.13	1						
(7)	-0.13	0.38	-0.07	-0.39	-0.23	-0.40	1					
(8)	-0.45	-0.28	0.65**	-0.36	0.14	-0.32	-0.24	1				
(9)	-0.23	-0.11	0.41	-0.49	0.05	-0.47	0.21	0.68**	1			
(10)	0.12	-0.34	0.24	-0.31	0.05	-0.27	-0.21	0.78***	0.63**	1		
(11)	-0.11	-0.29	0.47	-0.33	0.06	-0.29	-0.24	0.89***	0.66**	0.96***	1	
(12)	0.03	-0.30	0.30	-0.34	0.05	-0.31	-0.18	0.83***	0.72***	0.98***	0.96***	1

***p < .01; **p < .05; *p < .1

Variable List:
(1) Signed BITs **(2)** FDI Inflows: % of GDP, **(3)** Chinn-Ito Financial Openness Index, **(4)** OECD Ratified Treaties: % of Total Treaties, **(5)** Public Debt: % of GDP, **(6)** Investment Profile: % from OECD Treaties, **(7)** Trade: % of GDP, **(8)** Perceived Public Accountability Percentile, **(9)** Perceived Political Stability Percentile, **(10)** Perceived Government Effectiveness Percentile, **(11)** Perceived Regulatory Quality Percentile, **(12)** Perceived Rule of Law Percentile

Table A.4: Country List

Country	Start Year	End Year	Regime Type
Afghanistan	1997	2001	party-based
Afghanistan	2010	NA	personal
Algeria	1993	NA	military
Angola	1976	NA	party-based
Armenia	1995	1998	personal
Armenia	1999	NA	personal
Azerbaijan	1994	NA	personal
Bangladesh	2008	2008	military
Belarus	1995	NA	personal

Botswana	1967	NA	party-based
Burkina Faso	1988	NA	personal
Burundi	1997	2003	military-personal
Cambodia	1980	NA	party-based
Cameroon	1984	NA	personal
Cen African Rep	2004	NA	personal
Chad	1991	NA	personal
China	1950	NA	party-based
Congo-Brz	1998	NA	personal
Congo/Zaire	1961	1997	personal
Congo/Zaire	1998	NA	personal
Cuba	1960	NA	party-personal
Egypt	1953	NA	party-personal-military
Eritrea	1994	NA	party-personal
Ethiopia	1992	NA	party-based
Gabon	1961	NA	party-personal
Gambia	1995	NA	personal
Georgia	1993	2003	personal
Ghana	1982	2000	personal
Guinea	1985	2008	personal
Guinea	2009	2010	personal
Guinea Bissau	1981	1999	personal
Guinea Bissau	2003	2003	personal
Haiti	2000	2004	personal
Indonesia	1967	1999	party-personal-military
Iran	1980	NA	NA
Iraq	1980	2003	personal
Ivory Coast	1961	1999	party-based
Ivory Coast	2000	2000	personal
Ivory Coast	2001	NA	personal
Jordan	1947	NA	monarchy
Kazakhstan	1992	NA	personal
Kenya	1964	2002	party-based
Korea North	1949	NA	party-personal
Kuwait	1962	NA	monarchy

Kyrgyzstan	1992	2005	personal
Kyrgyzstan	2006	2010	personal
Laos	1976	NA	party-based
Liberia	1998	2003	personal
Libya	1970	NA	personal
Madagascar	2010	NA	personal
Malaysia	1958	NA	party-based
Mauritania	1979	2005	personal
Mauritania	2006	2007	military
Mauritania	2009	NA	personal
Mexico	1916	2000	party-based
Morocco	1957	NA	monarchy
Mozambique	1976	NA	party-based
Myanmar	1989	NA	military
Namibia	1991	NA	party-based
Nepal	2003	2006	monarchy
Niger	1997	1999	personal
Nigeria	1994	1999	military-personal
Oman	1742	NA	monarchy
Pakistan	2000	2008	military-personal
Peru	1993	2000	personal
Russia	1994	NA	personal
Rwanda	1995	NA	party-military
Saudi Arabia	1928	NA	monarchy
Senegal	1961	2000	party-based
Serbia	1992	2000	party-personal
Sierra Leone	1993	1996	military-personal
Sierra Leone	1998	1998	personal
Singapore	1966	NA	party-based
Sudan	1990	NA	personal
Swaziland	1969	NA	monarchy
Syria	1964	NA	party-personal-military
Taiwan	1950	2000	party-based
Tajikistan	1992	NA	personal
Tanzania	1965	NA	party-based

Thailand	2007	2007	military
Togo	1964	NA	personal
Tunisia	1957	NA	party-based
Turkmenistan	1992	NA	party-personal
Uganda	1987	NA	personal
United Arab Emirates	1972	NA	monarchy
Uzbekistan	1992	NA	party-personal
Venezuela	2006	NA	personal
Vietnam	1955	NA	party-based
Yemen	1979	NA	personal
Zambia	1997	NA	party-based
Zimbabwe	1981	NA	party-based

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