Institute for International Integration Studies

IIIS Discussion Paper

No.289/ May 2009

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Abstract

Regional trade agreements (RTAs) proliferate in the developed and developing world. However, there is wide variation in both the institutional structure of these RTAs and the degree to which they achieve their goals. Particularly in the developing world, RTA dispute-settlement mechanisms are formed but rarely employed; ambitious tariff cuts are announced but never implemented; and promised trade flows do not quite materialize. Yet the study of these agreements has been mostly limited to their trade-enhancing effects. Moreover, empirical researchers tend to treat all RTAs as like units. What accounts for the different levels of not only "thick" institutional design, but also of implementation of that design — since the two are at times scarcely correlated? We present a theoretical framework as well as empirical evidence to explain the de facto as well as the de jure institutional design of these agreements. We argue that the conditions that produce effective and broad agreements are not a function of endogenous design, but rather of exogenous factors. If countries within the RTA have fewer options for world trade beyond the RTA, they will almost always develop strong institutions, such as mechanisms for dispute settlement, and make substantial use of them. Similarly, environments where member states are accustomed to using the public sector as a source of private rents, such as employment opportunities, will create broad agreements that are high in scope. We present a new cross-regional dataset, compiled from expert surveys, to test these arguments.

1 Introduction

In October 2008, African heads of state capped off an eight-day summit at Uganda's luxurious Imperial Royale Hotel with the announcement that they would create a new free trade zone. This ambitious new plan would combine 26 countries who were already in three existing regional agreements — the South African Development Community (SADC), the Common Market for Eastern and Southern Africa (COMESA), and the East African Community (EAC). But SADC was already suffering severe international criticism for its failure to constrain one of its members, Zimbabwe, either politically or economically. A month later, COMESA canceled for the second time in six months a proposed meeting to establish a customs union, ostensibly because of the instability in Zimbabwe.[1] The EAC had already fallen short of its ambitions for a common market, despite several meetings and agreements. "I am not sure whether we can make the EAC common market to be operational — as a matter of fact, a common market is a big exercise indeed, though writing it is very simple," one EAC official said.[2]

Given that many regional agreements — such as the European Union (EU), the North American Free Trade Agreement (NAFTA), or even smaller ones like the Community of Carribean States (CARICOM) — are quite effective in promoting trade and fulfilling the goals they set out for themselves, why are some countries unable or unwilling to negotiate or implement trade agreements that work? What little research exists on this topic has tended to suffer from one of two problems. Most commonly, scholars looking to evaluate the effects of RTAs treat them all as like units. Many empirical studies simply operationalize RTA membership as a dichotomy: a country is in one or it isn't, and the relative capacity of different agreements is ignored. The second problem is that those studies that do address variation across different RTAs tend to single out one aspect of the agreement — either trade volumes, technical aspects of the agreement, or institutional structure — and use that sole dimension as a judgment on the overall effectiveness of the

[1] "COMESA summit on Customs Union called off," *The Kenyan Standard,* 13 Nov 2008.
[2] "EAC states told to pull out of COMESA, SADC," *The Guardian,* 2 Feb 2006.

RTA. Trade agreement success is likely due to an interaction of several of these variables, each of which on their own is insufficient to produce a truly cooperative outcome.

Furthermore, the existing theories do not sufficiently explain when and why regional trade agreements fail to promote trade or why leaders would even bother to negotiate agreements that are likely to be ineffective. We observe many types of RTAs across the world — highly ambitious but potentially ineffective ones, such as the proposed African Free Trade Area mentioned above; ambitious and effective ones in Europe and in North America; and no shortage of unambitious and ineffective ones that exist in name alone, such as the Latin American Integration Association, the Mano River Union, and the Economic Community of the Great Lakes Countries, to name a few. What sets of conditions would produce this wide range of trade agreements?

We address these questions theoretically to understand the conditions under which successful, ambitious agreements are likely. We argue that the conditions that produce this variety of agreements are exogenously determined. The presence of outside options — that is, trading opportunities that exceed the potential for trade within the proposed RTA — will lead to an agreement that does not meet the goals it sets out for itself. Agreements, however, can be highly effective (in the sense that they fulfill the goals that they set out for themselves) but narrow in their scope. Thus, we argue that, separately, countries that are used to relying on the state for the provision of jobs — that is, an environment where state-generated private rents are high — will produce agreements that are broad in scope, covering a multitude of different issue areas (and, by extension, posts to oversee those issue areas).

Empirically, we test these arguments by examining the interactions between the various dimensions of RTAs using a new dataset collected from expert surveys on the many attributes that make for a successful agreement. This dataset is a tremendous contribution to our understanding the dynamics of different RTAs. There is no shortage of anecdotal evidence of the effectiveness or lack thereof of different agreements, but social scientists are left with few indicators that can be applied cross-regionally. The expertise

of officials in the trade agreements themselves as well as external observers at the multilateral level can shed much light on the actual functioning of these RTAs, beyond what the treaties and trade flows alone can tell us.

This paper proceeds by first presenting the state of the literature on regional trade agreements and legalization. We then lay out our theoretical expectations regarding the success of RTAs. Using our new expert survey dataset on the capacity of RTAs across numerous dimensions, we explore our theoretical expectations. We show that a relative lack of outside options (as modeled by the ratio of trade in the proposed agreement to world trade at the outset of the agreement's existence) produces agreements that are able to carry out their goals. We also demonstrate that countries where rents are generated from the public sector (modeled both by levels of corruption in a country as well as the level of public employment) tend to produce supranational agreements that are broad in scope. The final section concludes.

2 Beyond Legalization to Effectiveness

The number of regional trade organizations has increased dramatically since the 1990s, and they have become increasingly important with the failure of the Doha rounds of multilateral trade talks. Fewer than 20 RTAs were reported to the GATT in 1990, but by July 2005, a total of 330 had been notified to the WTO, and only one WTO member — Mongolia — was not additionally a member of a regional trade agreement. The WTO estimates that over 400 RTAs will be in existence by 2010, including those in existence that have not been notified, those that have been signed but are not yet in force, those presently being negotiated, and those in the pipeline. GATT's Article 24 allows RTAs to be set up as an exception to the most-favored nation rule that members must uphold, as long as those RTAs complement the multilateral trading system. To that end, much of the initial literature on the formation of regional trade agreements focused primarily on

their economic effects in the context of multilateralism[3]. Since the boom in popularity of RTAs coincided with the Uruguay Round, and the greater institutionalization of the multilateral agenda with the transformation of the GATT to the WTO, most researchers at the time were concerned with whether RTAs would have a trade-diverting effect or would potentially derail multilateralism[4].

Only recently have researchers begun to study RTAs as institutions in and of themselves, applying the theories from the literature on international organizations[5]. However, many of the empirical studies treat membership in RTAs as a dichotomy — either a country is a member of an RTA, or it is not[6]. Indeed, a country could be a member of several RTAs (as Kenya is a member of SADC, COMESA, and the EAC), one dysfunctional one (Arab Maghreb Union), or one highly functional one (Germany in the European Union) and receive the same empirical treatment. Clearly, vast differences exist across these different possible scenarios, yet researchers are only beginning to try to weigh RTAs according to their differing characteristics.[7]

The issue of effective institutional design has long been a concern of international relations scholars. Many have argued that deeper legalization — that is, treaties and procedures that put the functioning of the institution in the hands of third parties, rather than leaving them at the mercy of heads of state — makes for more effective forms of cooperation[8]. Empirical tests of these propositions have tended to focus primarily on the design of the treaty itself and the language employed[9]. Furthermore, these studies have tended to focus primarily on multilateral or the more ambitious of the regional institutions, such as studies of the WTO[10] or the European Union (EU)[11].

[3]Panagariya 1999

[4]Bhagwati 1991; Bhagwati, Greenaway, and Panagariya 1998; Krueger 1999

[5]Fernandez 2000; Foroutan 1998; Fratianni and Pattison 2001; Holmes 2005; Kono 2007; Nitsch and Sturm 2004; Urata 2002

[6]Mansfield and Reinhardt 2008; Milner and Büthe 2008

[7]Crawford and Fiorentino 2005; Stinnett 2007; Kim 2008; Kim and Hicks 2008; Mansfield and Reinhardt 2009

[8]Keohane, Moravcsik, and Slaughter 2000; McCall Smith 2000

[9]Koremenos 2005; Rosendorff 2005

[10]Rosendorff 2005

[11]Moravcsik 1998

Among the virtues of those organizations for social scientists is the relative abundance of data they make available. Thanks to strict reporting procedures and data standards, it is relatively straightforward for researchers to conduct empirical studies of those organizations' effect. However, a comprehensive test of the effects of legalization would examine not just organizations with *high* levels of legalization and documentation, but also those with medium- or low levels as well. Indeed, those organizations most frequently studied represent only a small fraction of the myriad of organizations in the world today. This is one shortcoming of the existing literature that we address.

An additional gap in much research on international organizations has to do with the common proxies for effectiveness. Much of the extant literature tends to conflate the effectiveness of an organization with the level of legalization of the treaty, as well as with the presence of a dispute-settlement mechanism. In addition to making rulings, a well-functioning DSM can play an important informational role to members of the RTA[12]. Because of the openness created by the presence of the DSM, governments know whether other governments have cheated in previous interactions and whether they have paid the penalties for judgements on the rulings rendered against them. The DSM typically does not have an enforcement arm. It does, however, retain information about whether fines have been paid. This information can be crucial for countries hoping to interact over time, even in the presence of uncertainty about future governments.

But dispute settlement is just one of the many aspects of a regional trade agreement's functioning. Many RTAs have DSMs that are scarcely ever used, such as SADC and COMESA. These DSMs may go unused because the politics of the relationships among countries are such that countries feel pressure not to use the channels of public dispute settlement, particularly when powerful countries are potentially at fault. Thus, it is crucial to try to account for not just what these courts look like on paper but how well they actually work.

One of the more notable studies that attempted to disaggregate the attributes of RTAs

[12]Dai 2005; Chapman 2007; Fang 2008

on at least one dimension — that of legalization — was McCall Smith's (2000) comparative study of dispute settlement mechanisms (DSMs) in RTAs. McCall Smith coded the level of formal legalization of these DSMs, realized through five different categories: whether third-party review and ruling were provided for, whether permanent judges were appointed, who has standing, and what the potential punishments might be. McCall Smith took the level of legalization of the DSMs as a necessary (though perhaps not sufficient) condition for how well the agreements functioned as a whole. It is important to note that these codings were derived from the language of the agreements themselves, not necessarily from how those agreements worked in practice.[13] Upon closer examination, anecdotal evidence abounds that even some of the most highly legalized treaties fail to function well in practice. Many countries, in practice, sidestep their own regional dispute settlement mechanisms, preferring instead to seek redress through the WTO's court[14].

Furthermore, much of the language employed in the creation of these under-performing regional DSMs is lifted almost directly from organizations that do function well. Take, as just one example, Article 30 of the courts of COMESA and the EAC (two different RTAs in Africa), which establishes the relationship between national courts and the DSM: "National Courts or tribunals may refer a matter to the Court or request the Court to give a preliminary ruling on the application or interpretation of the Treaty or the validity of regulations, directives and decisions of the Common Market." Though the exact language differs, this borrows heavily from the EU's preliminary ruling procedure (Article 234 of the Consolidated European Treaties). This article is notable because it allows national courts to refer questions about the compatibility of national law with European obligations to the European Court of Justice, an unprecedented move that was critical for EU legal integration. Some have argued, that this has the effect of allowing EU law to be upheld in national courts[15]. Presumably, national governments in Africa have adopted this practice in language alone, since in practice national governments are

[13]Similarly, Rosenthal and Voeten 2007 demonstrate that factor-analytic models of measurement of comparative legal systems can produce different empirical outcomes than constructed indices.

[14]Lacarte-Muró and Gappah 2000; Busch 2007; Bown and Hoekman 2005

[15]Alter 1998

far from constrained by the regulations of the RTAs of which they are members.

Figure 1 demonstrates this disparity in greater detail. Two of the questions in our expert survey (explained in greater detail in the section below) capture the de facto effectiveness of these DSMs, rather than the the level of actual, effective legalization of the agreement. Simply plotting these against McCall Smith's index measuring the legalization of the DSM demonstrates that de facto effectiveness and de jure legalization are not the same. There is very little relationship between experts' estimation of the actual functioning of the DSM and the legal language of the DSM (r=.16), and no relationship between the language of the DSM and the expert measure of the level of legalization (r=-.003).

FIGURE 1 ABOUT HERE

The differences between the two measures are highlighted by agreements whose DSMs were scored among the lowest by the experts — CACM, the Andean Community, ECOWAS, and CIS — yet received high scores on McCall Smith's scale. The former two received the highest score possible on McCall Smith's index, while the latter two received the second-highest possible score. Similarly, the results of the expert survey gave relatively high scores to the DSMs to which McCall Smith gave the lowest possible rankings (EFTA and SACU).

This points to a broader question of interest: what motivates countries to form not just effective and ambitious organizations — the question that most existing studies have addressed — but also organizations that are highly institutionalized on paper but ineffective in practice? The next section develops a theoretical framework for understanding these choices.

3 Theory

We argue that exogenous factors drive the functioning and scope of RTAs. Many have demonstrated that when at least one state within a proposed organization can make a

credible threat of exit or has a reasonable option beyond the organization, the organization may be less effective[16]. At the very least, bargaining within the organization will be significantly altered compared with a situation in which there are few credible outside options[17]. If, however, there is less to be gained outside of the proposed organization than within it, a more effective organization will be formed.

One such way of capturing this argument is by examining the opportunities for trade within the RTA compared with the rest of the world. If little potential for trade exists within a region — due to factor endowments, market size, or other barriers — the incentive to establish an effective agreement is small. When opportunities for trade beyond neighbors are higher relative to local opportunities, the costs of setting up a functioning regional agreement will outweigh the benefits. This could include anything from trading bilaterally with other countries outside of the region; not trading at all and simply directing the outputs of production to the domestic market; or engaging more heavily in multilateral trade, under the auspices of the WTO. Members of the European Union, for example, cannot credibly threaten to leave the agreement in favor of better opportunities elsewhere, and thus we see a relatively well-functioning organization. Even in a comparatively well-functioning organization such as NAFTA, the US can credibly threaten to renegotiate terms, in part because of its tremendous trading opportunities with the rest of the world. Thus, we see a less legalized agreement in comparison to the EU.

Even when the potential trade benefits do not outweigh the costs of creating an effective RTA with a functioning DSM, states may still have an incentive to create some form of RTA. Whether or not they increase trade, the bureaucracies surrounding RTAs can offer substantial private rents for member state governments. It should be noted that our discussion of private rents refers not to the benefits accrued by domestic interest groups, lobbyists, or sectors, as described by Tullock[18] and Krueger[19]. Rather, it designates the private benefits that politicians can squeeze out of thickly institutionalized RTAs.

[16]Bednar 2007; Odell and Eichengreen 1998
[17]Voeten 2001
[18]Tullock 2005
[19]Krueger 1974

The bureaucracy of an intergovernmental agreement can provide politicians with several forms of private rents: for example, the opportunity to engage in clientelistic behavior, by rewarding their cronies with posts; the ability to secure lavish per diems at conferences and meetings; and diplomatic passports, as just a few examples. Member states benefit from pooling rather than simply for providing for their own constituents independently, since supranational organizations have access to resources that domestic-level ones do not.

Weber[20] notes that even the most minimal bureaucracy holds authority to provide public goods such as infrastructure. Control over that process means that public goods can be exploited for private profit. Thus, as intergovernmental organizations, RTAs can potentially create private rents through a well-staffed secretariat that provides jobs, prestige and other perqs to member state nationals.[21] There may be incentives to provide private rents through RTAs when a general environment of corruption and the personal exploitation of public office exists at home. This view is supported by Vaubel[22] — who discusses how politicians can use opportunities for international coordination in a collusive manner, to increase their prestige and to stifle criticism of policy — and extended by Vaubel et al.[23], who show that international organizations have fewer employees when member states have more oversight capacity. This implies that domestic law-makers who scrutinize government spending would frown upon joining a high-cost regional organization that lavishes bureaucrats with perqs. These arguments suggest that a discussion of the benefits of international organizations is incomplete without an awareness of the ability of those organizations to reward not just member states, but also individual politicians.

[20]Weber 1978

[21]Debate surrounds the role that corruption plays in economic development. Some argue that corruption can actually be useful in circumventing bureaucratic and rigid state structures, e.g. Bates, 1981 and Huntington, 1968, Bates 1981; Huntington 1968. Others claim that bloated bureaucracies can impede development in the long term, e.g. Hutchcroft 2002. In this context, our view is that it is possible to have an RTA whose bureaucracy generates private rents, but that does not necessarily preclude an effective RTA. Rather, as we describe, the process driving the creation of an RTA that is broad in scope differs from the process that drives the creation of an effective RTA.

[22]Vaubel 1986

[23]Vaubel, Dreher, and Soylu 2007

The generation of private rents is related to the scope of the agreement; that is, the number and variety of issue areas that the RTA sets out to cover. A high-scope agreement (even if non-functioning) will encompass many different issue areas: e.g. trade in services as well as goods, political integration, common monetary frameworks, and shared regulatory regimes. A low-scope agreement, on the other hand, may focus solely on trade in goods. As agreements grow in terms of the number of issue areas they cover, there is more need (or at least better justification) for more bureaucrats and bigger offices. If an agreement focuses solely on trade, it may be possible (and, indeed, reasonable) not to create a separate bureaucracy at all. Member states can instead rely upon bureaucrats with the various national trade ministries to implement the agreement. Indeed, empirically most low-scope agreements also tend to have small bureaucracies and therefore generate fewer rents (bilateral agreements are a good example of this). As agreements increase in scope, the argument for a centralized bureaucracy strengthens. Many organizations in Africa, for example — including COMESA and SADC — consistently fail to meet their targets for cooperation but persist in part because they provide jobs and and perqs to their member states.

We argue that while the actual amount of rents an agreement generates is a function of the scope of an agreement, the presence or absence of a low-rent environment is, instead, exogenously determined. It is a function of member states' reliance on the state or the grey economy. For example, countries where the private sector offers ample opportunity for employment would be classified as relatively low-rent environments. By contrast, countries where the only opportunities for employment must be generated by the state would fall into the category of high-rent environments. It is possible, then, that overall public sector employment could proxy for a country's "rents" environment. This would additionally be true if levels of corruption in member states were also low; less corruption would indicate smaller bureaucracies at the national as well as supranational levels. That would imply that, consistent with Vaubel et al, states tend to set up smaller and more efficient bureaucracies when there is greater domestic oversight.

We can extract the following primary predictions from our theory:

- H_1: Where the largest state in a proposed agreement has many options for trade beyond the members of the proposed agreement (many exit options), agreements will be ineffective.

- H_2: In an environment where states are accustomed to a public sector that generates high rents, agreements will be high in scope.

The interaction of the these variables — the relative costs and benefits of setting up a functioning DSM and the opportunities for reaping benefits from increased private rents — means there are four potential environments within which RTAs can form: environments that foster a high commitment to regionalism and reward the generation of rents; those that foster a commitment to regionalism but are not conducive to the generation of rents; those that do not foster a commitment to regionalism but do reward rents; and those that foster neither a commitment to regionalism nor rents. The types of RTAs that will arise in each of these environments are summarized in Table 1 below.

TABLE 1 ABOUT HERE

Agreements such as the EU — where exit options are low but where the state provides many opportunities for rents — would fall into the top left cell. These agreements are both high in scope, continuing the tradition of high public employment within member states, and also are effective, since the member states have an incentive to get cooperation right due to relatively big opportunities in trading with their neighbors compared with the rest of the world. Agreements such as NAFTA — where exit options are also low but the state provides relatively few opportunities for rents — would fall in the bottom right cell. States that are not in the habit of providing rents to the public produce low-scope agreements but, as above, the incentives are such that the agreements are effective. The top right cell — among member states whose exit options are high and rent environments are high — would include RTAs such as the Melanesian Spearhead Group, the Gulf

Cooperation Council, and the Economic Community of Central African States. Member states will prefer broad and inclusive agreements that can generate opportunities for their constituents, but the incentive structure will be such that actual cooperation with neighbors is less profitable than cooperation with the rest of the world, and the agreement will be ineffective. The bottom left cell — where rents are low and exit options are high — would generate low-scope but ineffective agreements. We can imagine that the incentives to build such an organization are extremely low, so this cell would include RTAs that are now defunct or "thinner" agreements such as bilateral treaties that are not actually enforced.

3.1 Alternate Hypotheses

As discussed above, a prevailing view in the existing literature is that RTAs' effectiveness can be judged by endogenous factors — that is, the strength of the institutions within an RTA, such as the courts that they set up, as well as the proposed level of integration among member states[24]. We will examine the empirical merit of these arguments in detail in the following section.

Additional exogenous factors could include the relative size of the potential members of the RTA. In regions where one large state dominates, commitment to a regional agreement is likely lower because large states, in general, are less dependent upon trade[25]. Where asymmetry among proposed member states is low, however, we can expect that all participating states will benefit equally from enhanced trade among them. Therefore, such a group of states would create an agreement that would be able to meet its own goals.

The following section pits these alternative hypotheses against our proposed theory.

[24]McCall Smith 2000

[25]Alesina and Wacziarg 1998; Alesina, Spolaore, and Wacziarg 2000; McCall Smith 2000

4 Data

With this theoretical framework in mind, we move to describe and analyze our data. We have collected a new dataset on 24 distinct characteristics of RTAs the world over, as well as an overall scoring of whether the RTA is strong or weak. The data collection process involved conducting expert surveys at the European Commission's Directorate General for Trade, the Regional Trade Agreements and Research and Statistics sections of the WTO, and representatives from the Trade Division of COMESA.[26] Our survey instrument, modeled after Benoit and Laver's[27] expert surveys on party positions in modern democracies, asked participants to rank as many RTAs on which they felt comfortable commenting along a simple scale, from one to 10, for each different dimension. In addition, the respondents were asked to report the importance of each dimension to the particular RTA, from one to 10. We included this "salience" dimension so that RTAs that scored low on a particular issue but for whom that issue was unimportant would not be unduly penalized; for example, an RTA may score low on "international influence" but may have no such aspirations. Similarly, an RTA that scored low on "trade in services" but to whom trade in services was important would be treated differently than an RTA that had no intention of liberalizing trade in services. The full list of dimensions is provided in the appendix. We had fourteen respondents from the European Commission, five from the WTO, and one from COMESA.[28] Surveys were conducted between June and December of 2008.

The WTO's website lists 190 RTAs that have been reported to the organization. Of that list, however, only 34 agreements are more than just bilateral arrangements. Our survey listed those 34 RTAs as prompts, and we also encouraged respondents to comment on any additional RTAs that they felt should be included or felt qualified on

[26] All responses were given anonymously and represent the views of individuals. They in no way represent the views or opinions of the respondent's institution or of their member states.

[27] Benoit and Laver 2006

[28] We approached the United States Trade Representative, as well as officials in NAFTA and SADC, for responses. Representatives from both NAFTA and the USTR declined to participate, while SADC officials failed to deliver the promised surveys.

which to comment. Respondents were also encouraged to only score those dimensions that they felt qualified to evaluate, meaning that participants did not necessarily score every dimension for every RTA that they chose to rank. In aggregate, respondents at the EU coded attributes of 25 different RTAs, while respondents at the WTO coded a total of 30 different RTAs. Unsurprisingly, the better-known RTAs received more responses; the EU received 433 data points, with EFTA, ASEAN, CARICOM, and NAFTA receiving between 175 and 231 entries. On the low end, a few of the bilateral FTAs were scored, but of the larger RTAs, the Mano River Union, the East African Community, and the Arab Maghreb Union received the lowest number of respondents (between 7 and 15 total). More details on the survey, including a list and description of the dimensions, as well as of the scores of individual agreements, can be found in the appendix.

Although we received some responses that scored bilateral agreements, for the purposes of this analysis we are restricting our sample to include only multilateral RTAs of neighboring states that have or could potentially have a secretariat or a dispute settlement mechanism. This stands in contrast to many other studies of RTAs[29]. Although bilateral agreements would not necessarily be excluded from our theory — since they represent possibilities for interstate cooperation with minimal levels of institutionalization — data limitations make inclusion of the whole spectrum of potential RTAs infeasible. The relatively few number of observations for each of the scores of bilaterals would make our estimates unreliable. Thus, we limit our empirical analysis to the RTAs that notify to the WTO as more than bilateral agreements. It should be noted even within this subsample, substantial variation exists on every dimension coded, so selection on the dependent variable should be less of a concern.

Though they are not without limitation, expert surveys represent the best method for obtaining comparable data across numerous RTAs for a wide variety of dimensions. Others have coded data on legalization (including information on dispute mechanisms) by analyzing the contents of treaties. This, however, assumes that what is written in

[29]McCall Smith 2000; Kim and Hicks 2008

the treaty is what is done in practice. As demonstrated earlier, this is clearly not always the case. For other dimensions, hard data is difficult to come by. Budgets, for example, which may provide insights into variables such as scope and rents, are often not publicly available. Thus, these data represent a rich spectrum of the possible angles through which RTAs can potentially be studied. As this paper is concerned primarily with developing a theory for why some RTAs are more effective than others, we will only utilize a few of the dimensions we have collected that are relevant to our argument, though many further theories could be tested through an examination of the other dimensions.

Our first task is to show the relationship between the preexisting measures of legalization and the results of our survey. Table 2 shows the correlations among a few of our most pertinent variables, as well as for McCall Smith's index of legalization.

TABLE 2 ABOUT HERE

Many of the correlations are to be expected; trade agreements with an ability to meet their own goals also have good-quality secretariats (r=.87). To a lesser extent, they also tend to have well-functioning dispute settlement mechanisms (r=.60) and can be highly legalized (.60). Interestingly, trade agreements with broad scope do not score well in terms of those dimensions (correlations with the above dimensions are 0.24, .13, and .08, respectively). This is perhaps an indication that the RTAs that try to tackle several different issue areas are less successful at implementation — or that, as our theory predicts, high-scope agreements serve a different purpose than trade promotion. Note that the correlation between the scope and the ability variable is only .07, indicating that these two dimensions may be motivated by different underlying processes.

It should also be observed that the McCall Smith index, focusing on the *de jure* strength of the dispute settlement mechanism, only correlates strongly with a few of the measures listed here. Though somewhat associated with the scope of the agreement (.34), correlations for the remaining dimensions are low. In some cases, there are surprising negative correlations; its association with ability is -.11 and -.08 with secretariat quality.

This should serve as an initial indication of the practical distinction between a highly formalized dispute settle mechanism and the way these agreements function in practice.

To further demonstrate the differences between our survey data and the existing measures, Table 3 shows the results of an ordinary least squares regression of McCall Smith's DSM variable as a predictor of an agreement's ability to achieve its own goals as measured by our expert survey. Specifically, the question asks respondents to rate the RTA in terms of the degree to which it completes agreed-on goals and targets, in terms of market access, on schedule. Thus, an RTA could have modest goals but still score high on "ability," because it manages to meet the goals it sets. This variable is appropriate because it allows respondents to rank each RTA on its own merits. We then contrast these results by including our survey results that measure of the quality of the dispute settlement mechanism, as well as the legalization of the agreement.

TABLE 3 ABOUT HERE

Even when it is the only explanatory variable, McCall Smith's variable is negatively associated with ability (although as the coefficient does not attain statistical significance), and the model fit is extremely weak, with an R^2 of .01. Including the expert survey assessment of the legalization of the agreement, however, increases the model fit dramatically ($R^2 = .61$), and the new variable is statistically significant at the $p<.05$ level. The same holds true for introducing the survey measure for the strength of the dispute settlement mechanism; the model fit increases to 85 percent, and the variable is of similar magnitude and significance as the measure for legalization. This should support the general theory that higher degrees of legalization should be associated with more competent agreements; measurements of the effectiveness of that legalization, however, are crucial in estimating the actual effect.

Our next set of results examines one aspect of the theoretical framework that we outlined above. We anticipate that arrangements where states have a feasible exit option will lead to a less effective trade agreement. We operationalize "exit options" by taking

into account the possibilities with trade within the region versus trade with the outside world. This would lead them to have less of a commitment to regionalism, and thus to prefer an ineffective trade agreement. To capture this aspect of commitment to regionalism, we calculate the percent of trade that the largest member (that is, the member with the highest GDP) conducts with the members of an RTA as a share of their trade with non-members. This variable is logged to normalize the distribution.

To operationalize the alternative hypothesis that effective agreements are a function of the economic asymmetry of member states, we use a variant of the Herfindahl-Hirschman Index as described by McCall Smith[30]. This index is calculated for each RTA by summing the squares of each country's gross domestic product as a share of the aggregate GDP of the RTA, then subtracting the inverse of the number of countries in the agreement from this figure.[31] This measure ranges from 0 to 1 (the mean here is .25, with a standard deviation of .24), with a value of 1 representing a trade agreement where at least one trading partner is a far larger market than the other members. Thus, a value of 1 would mean within this agreement, at least one country would dominate, such as SAFTA (.85) and the CIS (.80), where India and Russia are the central actors, respectively. Members of trade agreements at the lower end of the scale have greater asymmetry, including the OECS (.007), CACM (.04), and COMESA (.05).

We also include a variable that captures the level of proposed integration in an agreement[32]. We code this variable on a 1 to 5 scale, with 1 representing the lowest possible type of integration, a free-trade area; 2 representing a customs union; 3 representing a common market; 4 representing economic union; and 5 representing monetary union. This variable takes into account the possibility that an RTA's effectiveness is simply a function of the initial design and the intention of the agreement. Finally, we include a variable that measures the average GDP of members, to control for the event that rich countries create effective RTAs and poor countries do not.

[30]McCall Smith 2000
[31]Formally, $p = \sum x_i^2 - \frac{1}{n} \forall$ i
[32]McCall Smith 2000

We show the results of our test of Hypothesis One in the tables below. We model our dependent variable through four different survey questions. Results in the first column are for an organization's ability to meet its own goals; in column two, for the functioning of its dispute settlement mechanism; in column three, for the level of legalization; and for the final column, the ability of an organization to meet its own goals, multiplied by the ambition of those goals.[33] We rescale the survey responses on each dimension so that they range from -5 to 5 and multiply this rescaled score on a particular dimension with its salience. The new variable equals zero when a dimension is not salient for an organization. It is highly positive when an organization scores high on a dimension it cares about, and it is negative when it scores poorly on a dimension it cares about.

TABLE 4 ABOUT HERE

Throughout all these models, the exit options in an agreement are a statistically significant and negative predictor of agreements with the ability to meet ambitious goals. In other words, when trade with the RTA is more attractive than other options outside the RTA, the RTA develops institutions to foster that trade. This indicates that paying the costs of setting up functioning institutions is worthwhile. Similarly, as the largest member state trades more with the other members of the RTA rather than the rest of the world, ambitious and effective RTAs are created. Holding all other variables at their mean values, moving from the mean value of exit options to one standard deviation above the mean increases the ability of an RTA to meet its own goals by 12 points on our scale, or 20 percent of the range of that variable. In substantive terms, that is the equivalent of moving from CEFTA's score (14.66) to that of EFTA (26.35) — the second-best functioning organization in our dataset, behind the EU. When using the quality of dispute settlement as the dependent variable, the equivalent change in exit options

[33]The survey questions read, respectively: "Completes agreed-on goals and targets on schedule" vs. "Does not meet own goals and targets";"RTA provides a formal channel for dispute settlement that is easy for members to use" vs. "No formal channel for dispute settlement"; "High vs. low levels of legalization and formalization in founding treaties and subsequent documents"; "The RTA sets high, ambitious goals" vs. "The RTA's goals are limited".

produces a similar change in the expected value of the quality of the DSM (13.2 on our scale). The equivalent change is slightly less when using the level of legalization as the dependent variable (9 points on our scale), but is still a strong effect.

As robustness checks, we show below the same models but with key observations included. Table 5 shows the results of excluding the European Union, while Table 6 shows the results of excluding NAFTA. These are the two most prominent and active regional agreements, and excluding them excludes that they are not driving our results. The coefficient and significance of our key variable, the "exit options" variable (the ratio of inter-RTA trade to world trade), remains largely unchanged.

TABLES 5 AND 6 ABOUT HERE

Next we test Hypothesis Two; that the presence of a high-rent environment leads to the creation of RTAs with greater scope. Of course, many effective agreements also have broad scope, but the two are not synonymous. This is borne out by a look at the relationship between survey respondents' rankings of whether "The agenda items over which RTA members negotiate go beyond traditional trade issues," for the "Scope" question, and "Has a well-trained staff and well-organized bureaucracy" versus "Has no staff and no separate bureaucratic structure" for the "Quality of Infrastructure/Secretariat" question.

We test this argument by examining the tendency of RTAs to be high in scope but bureaucratically inefficient. We capture this by dividing the scope variable by the secretariat variable (to capture the fact that high values in the "secretariat" variable represent a well-functioning bureaucracy, whereas we are interested in large but poorly functioning agreements). We log this variable to normalize the distribution. We regress this variable on two variables that model the exogenous environment for private rents, as described in our theory above. One is public employment as a percentage of total employment among member states, averaged across RTAs for the year at the time of RTA formation (or the first year of available data, if missing). These data were collected from the International Labor Organization. Higher levels of public employment should indicate that the government is in the habit of providing relatively more opportunities for its citizens than are

available in the private sector. However, such opportunities are not necessarily sources of corruption in and of themselves. To capture fully the tendency of states to extend public office as a source of patronage, we also include a variable for the level of corruption in the economy, from Transparency International. Higher values of this variable indicate *less* corruption in a country. As before, we take the average levels of corruption among RTA member states at the time of RTA formation, or the first year of available data.

TABLE 7 ABOUT HERE

Many least-developed countries do not report public employment statistics to the WTO; therefore, the degree of missingness is somewhat higher than in the previous regressions. Nonetheless, the results generally conform with the expectations of our theory. More corrupt environments as well as environments where the state offers relatively more opportunities for employment tend to also produce trade agreements that have broad scope but do not have the bureaucracies to effectively carry out those missions. and the positive effect is in the direction anticipated by our theory. Less corrupt groups of states (recalling that higher values on the corruption variable mean less corruption) tend to produce smaller-scope and more efficient bureaucracies in their trade agreements.

When scope is the dependent variable, holding all other independent variables at their means, changing the level of public employment from its mean value plus one standard deviation generates a change in the expected value of scope from 15 points on our scale to 23 points – roughly the equivalent of moving from the Organization of Eastern Caribbean States, a group that attempts foreign policy harmonization in addition to economic integration and overseas representation, to the CIS, which has broad scope including human-rights cooperation and cross-border crime prevention. Using the quality of the secretariat as the dependent variable, changing the value of the corruption variable from its mean up one standard deviation changes the expected value of the quality of the secretariat from -2.89 to around 9, the equivalent of moving from the Andean Community to CEFTA.

TABLES 8 AND 9 ABOUT HERE

As above, Tables 8 and 9 show robustness checks, where we exclude possible influential observations. Even removing the EU and NAFTA from the sample, the results remain similar.

5 Conclusion

This paper has begun to open up the black box of regional trade agreements. We have gone beyond the current literature by examining systematic differences within the RTAs that have begun to mark the global economic landscape. We examine the entire range of RTAs, from those which are highly effective to those which are little more than paper agreements, on an array of different variables. Moreover, we have developed a theoretical framework for understanding when and why effective trade agreements are negotiated, and we have highlighted the difference between de jure and de facto legalization.

This has important implications not only for scholarship in the area of economic integration, but also for policy work. Many of the trade policymakers with whom we spoke in the course of conducting our expert survey were quick to acknowledge the wide variation not only across different RTAs, but also the frequently observed gap between the commitments announced in summits and actual fulfillment of those commitments. We are hopeful that our survey will provide a consistent metric for assessing the way these RTAs actually work in practice.

Furthermore, these findings should be of use to researchers concerned with actual levels of integration among states. Our theory and data demonstrate that at even at the bargaining stage, states may have preferences for levels of integration that are not expressed in the language of the treaty or the structure of the bureaucracy. States may seek other rents from regional organization that are not a function of trade alone. By modeling the environments within which states negotiate on integration, we have provided a contextual explanation that accounts for variation not just in the shape of regional

agreements, but their relative effectiveness. This allows us to provide answers to the questions not only for when deeper integration is preferred, but why agreements take the particular forms that they do. This perspective sets our research apart from the many studies that attempt to account for variation in *levels* of economic integration but cannot explain the different types of integration that we observe.

Finally, this paper has only explored a small part of our rich dataset. Future work is required to understand the relationship between the many different dimensions of RTAs. These data will prove extremely useful in exploring, for example, the political functions of regional agreements; the level of influence, or lack thereof, that they have at home and in the world; and their actual contributions to economic welfare. Given the recent surge in regional integration, an understanding of the myriad different levels on which RTAs function, or fail to function, is a critical tool for examining this new era of globalization.

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Table 1: Exogenous Predictors of RTA Characteristics

	Many Exit Options	*Few Exit Options*
High Rent Environment	Not Effective High Scope	Highly Effective High Scope
Low Rent Environment	Not Effective Low Scope	Highly Effective Low Scope

Figure 1: Comparison of McCall Smith Legalization Index with Expert Survey Results

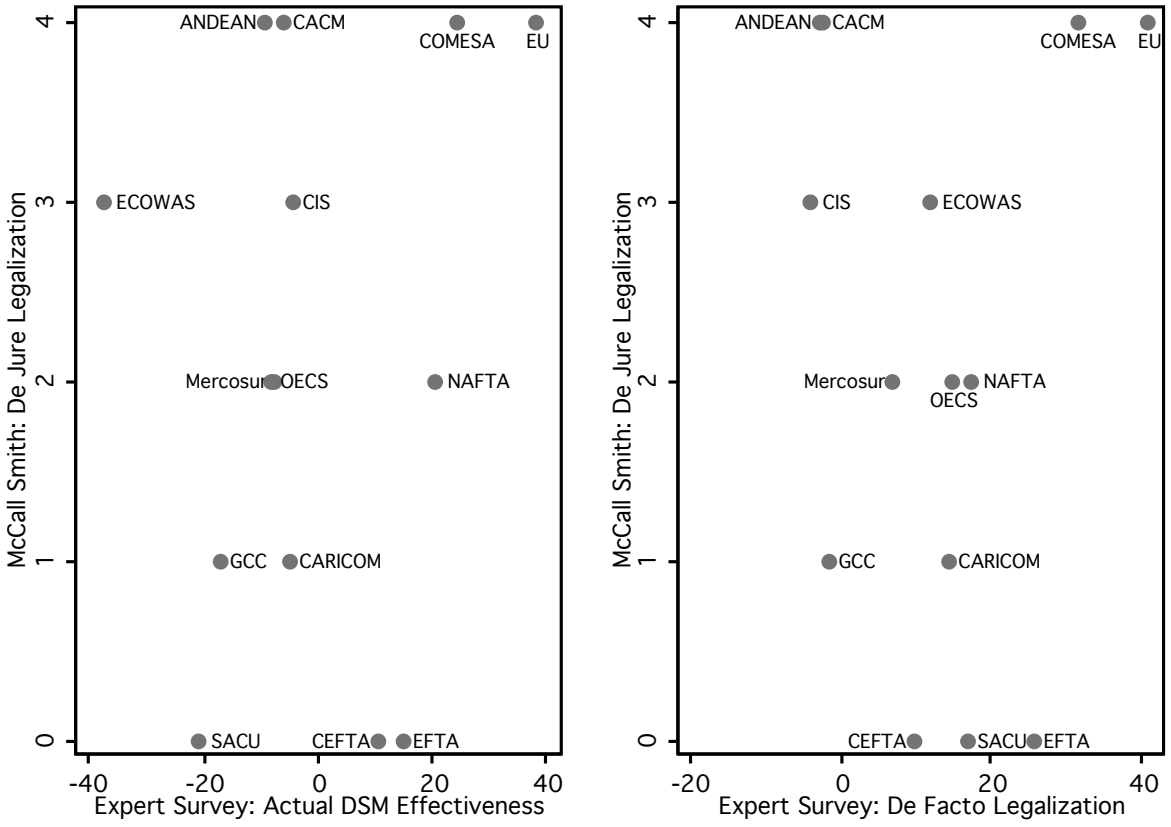

Table 2: **Correlation Matrix of Dimensions of RTAs**

	Ability	**Ambition**	**Scope**	**DSM**	**Legalization**	**Secretariat**	**McCall Smith**
Ability to Achieve Goals	1.00						
Ambition	0.37	1.00					
Scope	0.07	0.55	1.00				
DSM	0.60	0.07	0.13	1.00			
Legalization	0.60	0.47	0.08	0.44	1.00		
Secretariat	0.87	0.45	0.24	0.51	0.66	1.00	
McCall Smith	-0.11	0.09	0.34	0.16	0.00	-0.08	1.00

Table 3: **Performance of McCall Smith Legalization Index on Ability of Agreement to Meet Goals**

Constant	9.39	-2.57	12.24**
	(7.66)	(5.85)	(5.23)
DSM (McCall Smith)	-1.19	-1.56	-2.87
	(2.89)	(1.94)	(2.00)
Legalization	-	.91**	-
		(.22)	
DSM (Expert Survey)		-	.62**
			(.16)
N	15	14	14
R^2	.01	0.61	0.60

Dependent variable is aggregated expert survey rankings of the ability of the agreement to meet its own goals. OLS regression. Standard errors in parentheses.

Table 4: **Test of H_1: The Effect of Exit Options on RTA Effectiveness**

	Ability	**DSM**	**Legalization**	**Ability *Ambition**
Constant	52.61	-0.14	45.09	1250.59
	(39.23)	(41.90)	(41.25)	(1099.91)
HH	-2.99	-1.10	1.14	-48.94
	(1.86)	(2.59)	(2.09)	(54.94)
Exit Options	126.74	128.74	84.27	3682.46
	(31.26)	(34.28)	(32.90)	(879.02)
Proposed	-3.48	-5.08	0.58	-82.49
Integration	(2.34)	(2.80)	(2.50)	(65.89)
logGDP	-2.81	-0.38	-1.80	-62.79
	(1.62)	(1.73)	(1.70)	(45.39)
N	27	23	24	26
R^2	0.50	0.56	0.33	0.51

Dependent variables are aggregated expert survey rankings of the ability of the agreement to meet its own goals; quality of the dispute-settlement mechanism; the level of legalization; and the ability of the agreement to meet its own goals agreement to meet its own goals multiplied by the ambition of those goals. OLS regression. Standard errors in parentheses.

Table 5: **Test of H_1: The Effect of Exit Options on RTA Effectiveness (excluding the EU)**

	Ability	**DSM**	**Legalization**	**Ability *Ambition**
Constant	63.92	2.07	46.59	922.54
	(40.94)	(45.17)	(43.98)	(1150.69)
HH	-2.74	-1.01	1.16	-52.51
	(1.88)	(2.71)	(2.15)	(55.11)
Exit Options	166.19	136.17	89.95	2536.65
	(51.07)	(58.13)	(56.65)	(1463.36)
Proposed	-3.35	-5.03	0.60	-85.00
Integration	(2.35)	(2.88)	(2.56)	(66.00)
GDP	-3.39	-0.49	-1.88	-46.04
	(1.72)	(1.90)	(1.86)	(48.54)
N	27	23	24	26
R^2	0.41	0.42	0.14	0.18

Dependent variables are aggregated expert survey rankings of the ability of the agreement to meet its own goals; quality of the dispute-settlement mechanism; the level of legalization; and the ability of the agreement to meet its own goals agreement to meet its own goals multiplied by the ambition of those goals. OLS regression. Standard errors in parentheses.

Table 6: **Test of H_1: The Effect of Exit Options on RTA Effectiveness (excluding NAFTA)**

	Ability	**DSM**	**Legalization**	**Ability *Ambition**
HH	-3.05	-1.05	1.15	-48.05
	(1.85)	(2.67)	(2.14)	(55.71)
Exit Options	120.23	130.10	84.50	3790.46
	(31.67)	(35.84)	(34.30)	(907.19)
Proposed	-3.48	-5.07	0.58	-82.55
Integration	(2.33)	(2.87)	(2.56)	(66.80)
GDP	-3.33	-0.28	-1.78	-54.37
	(1.68)	(1.84)	(1.83)	(47.88)
Constant	64.41	-2.38	44.64	1056.52
	(40.49)	(44.47)	(44.03)	(1156.08)
N	27	23	24	26
R^2	0.49	0.52	0.32	0.51

Dependent variables are aggregated expert survey rankings of the ability of the agreement to meet its own goals; quality of the dispute-settlement mechanism; the level of legalization; and the ability of the agreement to meet its own goals agreement to meet its own goals multiplied by the ambition of those goals. OLS regression. Standard errors in parentheses.

Table 7: **Test of H_2: The Effect of Rents on Scope and Quality of Bureaucracy**

	Scope	**Secretariat**	**Scope*Secretariat**
Constant	1.01	4.47	580.34
	(60.10)	(40.65)	(1656.80)
Rents	19.09	-1.74	-311.19
(Public Employment)	(10.41)	(7.06)	(286.22)
Rents	-7.77	33.31	839.82
(Corruption)	(12.13)	(8.21)	(335.36)
Average	-1.38	-1.88	-30.97
GDP	(2.14)	(1.43)	(58.86)
N	16	15	15
R^2	0.23	0.57	0.35

Dependent variables are aggregated expert survey rankings of the scope of an agreement; the quality of the secretariat; and the scope multiplied by the quality of the secretariat. OLS regression. Standard errors in parentheses.

Table 8: **Test of H_2: The Effect of Rents on Scope and Quality of Bureaucracy (excluding EU)**

	Scope	**Secretariat**	**Scope*Secretariat**
Constant	28.35	24.79	1669.08
	(51.64)	(31.91)	(775.91)
Rents	18.03	-2.50	-352.41
(Public Employment)	(8.76)	(5.43)	(131.29)
Rents	-15.07	27.57	548.95
(Corruption)	(10.59)	(6.57)	(159.52)
GDP	-2.06	-2.37	-58.33
	(1.82)	(1.11)	(27.27)
N	16	15	15
R^2	0.37	0.63	0.64

Dependent variables are aggregated expert survey rankings of the scope of an agreement; the quality of the secretariat; and the scope multiplied by the quality of the secretariat. OLS regression. Standard errors in parentheses.

Table 9: **Test of H_2: The Effect of Rents on Scope and Quality of Bureaucracy (excluding NAFTA)**

	Scope	**Secretariat**	**Scope*Secretariat**
Constant	12.33	-8.58	-501.09
	(72.48)	(48.15)	(1903.65)
Rents	19.66	-2.45	-366.42
(Public Employment)	(10.95)	(7.37)	(287.55)
Rents	-9.29	35.19	984.61
(Corruption)	(13.53)	(9.11)	(356.27)
GDP	-1.85	-1.34	14.01
	(2.70)	(1.77)	(70.79)
N	16	15	15
R^2	0.23	0.58	0.42

Dependent variables are aggregated expert survey rankings of the scope of an agreement; the quality of the secretariat; and the scope multiplied by the quality of the secretariat. OLS regression. Standard errors in parentheses.

Table A-1: **Expert Survey: Descriptive Statistics for Dimensions**

Dimension	Number of Responses	Mean Score	SD	Minimum	Maximum
Ability to Meet Goals	174	6.42	2.49	1	10
Ambition of Goals	177	7.43	2.47	1	10
Delegation	109	6.02	2.81	1	10
Dispute Settlement	158	6.15	2.78	1	10
Enforcement	142	5.63	2.37	1	10
Escape Clauses	112	6.03	2.47	1	10
Internal tariff	171	7.51	2.33	1	10
International Influence	187	5.1	1.92	1	10
Intra-PTA trade	183	7.23	2.22	1	10
Legalization	138	6.96	2.51	1	10
Market Access in Goods	192	7.14	2.41	1	10
Market Access in Services	165	5.42	2.51	1	10
Monitoring	151	5.86	2.31	1	10
Nontariff barriers	130	5.9	2.4	1	10
Obligation	77	7.1	2.52	1	10
PTA Strong-Weak	115	5.93	2.59	1	10
Political Influence	166	6.61	2.32	1	10
Precision	129	5.56	2.25	1	10
Quality of Infrastructure	173	6.62	2.27	1	10
Rules of Origin	24	4.13	3.51	1	10
Scope of Goals	175	6.75	2.56	1	10
Trade Diversion	105	3.97	2.22	0	10
Trade Negotiator Capacity	163	6.72	2.5	1	10
WTO Compliance	24	6.38	2.25	1	9

Table A-2: **Expert Survey: Descriptive Statistics for RTAs**

RTA	Number of Responses	Mean Score	SD	Minimum	Maximum
AMU	39	3.59	2.96	1	10
ANDEAN	83	4.65	1.36	1	10
APEC	73	4.11	2.25	1	9
ASEAN	258	5.23	1.33	1	10
Bangkok	70	1.84	1.96	1	9
CACM	33	5.27	1.01	4	7
CARICOM	224	6.41	1.48	1	10
CEFTA	98	7.05	1.47	2	10
CEMAC	48	5.36	2.61	1	10
CIS	60	4.65	3.01	1	10
COMESA	47	7.81	2.04	2	10
EAC	25	7.44	2.33	1	10
EAEC	21	5	2.49	1	8
ECCAS	49	5.52	2.76	1	10
ECOWAS	82	6.68	2.49	1	10
EFTA	278	7.35	1.82	1	10
EU	445	8.97	2.06	1	10
GAFTA	36	5.61	2.83	1	10
GCC	169	6.17	1.53	1	10
LAIA	34	2.88	2.89	0	10
MRU	8	1.5	2	1	5
MSG	62	5.5	2.17	1	10
Mercosur	201	5.78	1.32	1	10
NAFTA	223	7.17	1.57	1	10
OECS	83	7.15	1.96	1	10
PICTA	34	6.21	2.15	1	9
SACU	100	6.29	2.2	1	10
SADC	138	6.45	2	1	10
SAFTA	63	4.29	2.13	1	10
SCO	21	3.81	2.62	1	9
SPARTECA	48	2.19	2.04	1	9
UEMOA	74	6.6	2.56	1	10

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