# Trade Liberalization, Economic Activity, and Political Violence in the Global South: Evidence from PTAs

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# Why is this an interesting paper

- Growing empirical literature documenting the diverse effects of growing trade integration
- Globalization creates "winners and losers"
- Paper documents this in the case of preferential trade agreements (PTAs)
- Political instability and violence as extreme form of "cost" of trade integration
- this paper looks at localized effects

$\rightarrow$ support in favor of welfare-increasing trade integration and specialisation is endogenous to the lived experience and narratives that arise

# Situating this paper in the wider literature

- Paper motivated by work on trade-induced political shocks
- Find this problematic as work by Autor et al and Colatone et al stories are basically silent of timing
- Existing literature has primarily focused on documenting associations
- Grievances versus timing versus (political) technology shock (social media,...)
- Most papers go from grievance to political fallout without understanding what comes in between

# On mechanisms discussion: heterogenous effects

- Distinguishing of labor intensity of crops
- Political Violence increases in counties that produce crops that are produced but also consumed locally while it decreases in counties producing crops that are consumed elsewhere
- interpret this evidence as showing that asymmetry in the gains from trade between workers vs land and capital owners is a key mechanism through which export exposure increases political violence

# On mechanisms discussion: heterogenous effects

Table 4: Export Exposure and Political Violence - Heterogeneity

| | Political Violence | | | | |
|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) |
| Export Exposure | 0.260* | 0.119 | 0.143 | 0.134 | 0.114 |
| | (0.146) | (0.089) | (0.097) | (0.093) | (0.086) |
| × Urban | 0.172*** | 0.110*** | 0.119*** | 0.110*** | 0.106*** |
| | (0.056) | (0.035) | (0.037) | (0.036) | (0.034) |
| × Far from Border | 0.017 | 0.014 | 0.020 | 0.013 | 0.012 |
| | (0.042) | (0.026) | (0.028) | (0.027) | (0.026) |
| × Far from Coast | -0.201* | -0.135** | -0.139* | -0.141** | -0.130* |
| | (0.110) | (0.068) | (0.074) | (0.071) | (0.066) |
| × Rugged | 0.062 | -0.036 | -0.018 | -0.023 | -0.035 |
| | (0.111) | (0.062) | (0.069) | (0.067) | (0.061) |
| × High in Diamonds | 0.129 | -0.075 | -0.077 | -0.032 | -0.082 |
| | (0.105) | (0.064) | (0.068) | (0.071) | (0.064) |
| × High in Petrol | -0.177*** | -0.031 | -0.058 | -0.047 | -0.033 |
| | (0.053) | (0.037) | (0.038) | (0.037) | (0.036) |
| × Ethnically Diverse | 0.086 | 0.046 | 0.047 | 0.048 | 0.045 |
| | (0.058) | (0.032) | (0.035) | (0.034) | (0.032) |
| County FE | Yes | Yes | Yes | Yes | Yes |
| Year FE | Yes | Yes | Yes | Yes | Yes |
| Country-Year FE | No | Yes | No | No | No |
| Country-specific trends | No | No | Yes | No | No |
| Country-specific flex. trends | No | No | No | Yes | No |
| Country-spec. trends (tr/non-tr) | No | No | No | No | Yes |
| Observations | 197,676 | 197,676 | 197,676 | 197,676 | 197,676 |
| R-squared | 0.665 | 0.716 | 0.702 | 0.703 | 0.705 |

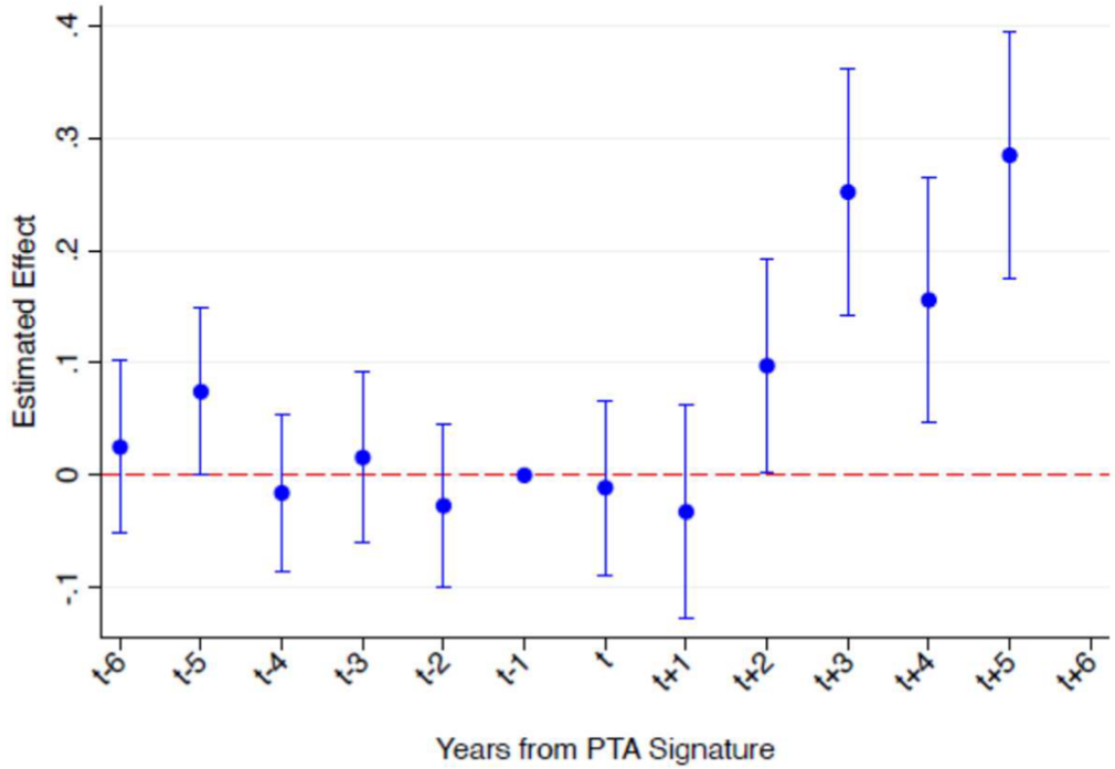


→ violence effects are concentrated in areas that are urbanized and close to sea (points of exports)

# What is missing: more nuanced welfare analysis

Paper is silent on the evaluation of persistent versus temporary effects

**Figure 1L: Export Exposure and Economic Activity: Event Study**




$\rightarrow$ economic upside effects seem to persist

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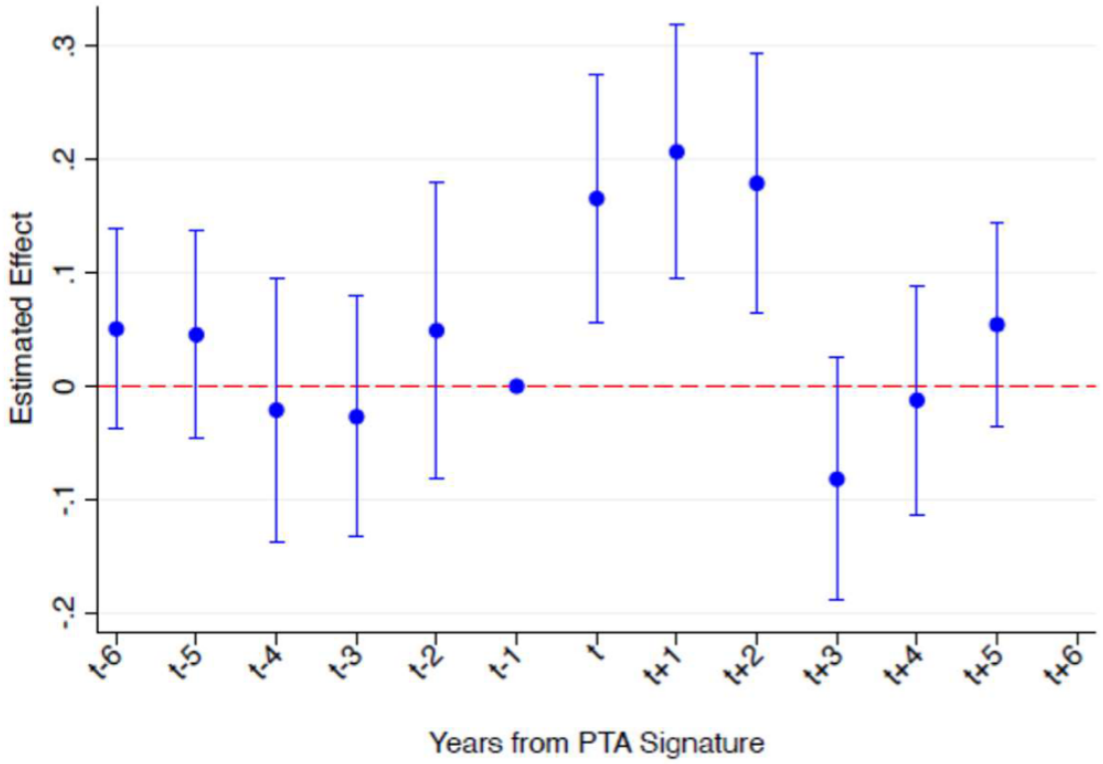
**Figure 1L: Export Exposure and Political Violence: Event Study**




$\rightarrow$ political violence effects seem temporary

# What is missing: Some (more?) robustness?

- Which PTAs or which countries drive the results?
- Does it matter who you have a PTA with?
- Urban and/or near coast suggest that political control of export paths seems most salient
- Economic rents from trade liberalization are contested where they are easily contestable
- Dropping each country in turn ; dropping all PTAs from each continent in turn and re-estimate full effect – concern that effects are driven by Egypt
- Does market size with whom you have a PTA may matter?

# What is missing: role of institutions (mechanisms?)

- Interpret this as shock to distribution of economic power in a country operating mostly via land ownership
- "Political violence" can be interpreted as data representing this "struggle" to rebalance power in a country
- (Temporary?) nature of impact of PTA signature on violence shocks is transitory
- Institutions and state capacity matter and I am surprised this is not discussed at all
- Missing heterogeneity:
  - quality of institutions (elections/democracy/contestability of rents Fetzer and Marden, 2017)
  - degree of (fiscal) centralisation (revenue sharing: Fetzer and Kyburz, 2022)
  - existence and extent of taxation system (Besley and Persson, 2009)
  - existence and extent of welfare system (Fetzer, 2019, 2020)

# Who is the PTA with?

Table A.1: List of Countries and PTAs

| ID | Country | Preferential Trade Agreement |
|---|---|---|
| 1 | Algeria | Algeria-EU (2002) |
| 2 | Cambodia | ASEAN Japan (2008) |
| | | ASEAN Australia New Zealand (2009) |
| 3 | Colombia | Colombia USA (2006) |
| | | Colombia Canada (2008) |
| 4 | Costa Rica | Costa Rica Canada (2001) |
| | | CAFTA DR USA (2004) |
| 5 | Dominican Republic | CAFTA DR USA (2004) |
| 6 | Egypt | Egypt-EU (2001) |
| 7 | El Salvador | CAFTA DR USA (2004) |
| 8 | Guatemala | CAFTA DR USA (2004) |
| 9 | Honduras | CAFTA DR USA (2004) |
| | | Honduras Canada (2013) |
| 10 | Nicaragua | CAFTA DR USA (2004) |
| 11 | India | India Japan (2011) |
| 12 | Indonesia | Indonesia Japan (2007) |
| | | ASEAN Japan (2008) |
| | | ASEAN Australia New Zealand (2009) |
| 13 | Jordan | Jordan US (2000) |
| | | Jordan EU (1997) |
| | | Jordan Canada (2009) |
| 14 | Laos | ASEAN Japan (2008) |
| | | ASEAN Australia New Zealand (2009) |
| 15 | Lebanon | Lebanon EU (2002) |
| 16 | Malaysia | Malaysia Japan (2005) |
| | | ASEAN Japan (2008) |
| | | ASEAN Australia New Zealand (2009) |
| | | Malaysia Australia (2012) |
| 17 | Mexico | Mexico EU (2000) |
| | | Mexico Japan (2004) |
| 18 | Morocco | Morocco EU (1996) |
| | | Morocco US (2004) |
| 19 | Myanmar | ASEAN Japan (2008) |
| | | ASEAN Australia New Zealand (2009) |
| 20 | Panama | Panama US (2007) |
| | | Panama Canada (2010) |
| 21 | Peru | Peru US (2006) |
| | | Peru Canada (2008) |
| | | Peru Japan (2011) |
| 22 | Philippines | Philippines Japan (2006) |
| | | ASEAN Japan (2008) |
| | | ASEAN Australia New Zealand (2009) |
| 23 | South Africa | South Africa EU (1999) |
| 24 | Thailand | Thailand Australia (2004) |
| | | Thailand Japan (2007) |
| | | ASEAN Japan (2008) |
| | | ASEAN Australia New Zealand (2009) |
| 25 | Vietnam | Vietnam US (2000) |
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- Rather than showing country-by-country exercise (Table A6) re-estimate dropping each country in term to document what happens to the ATE looks like

# Which countries drive the result?

Table A.6: Export Exposure and Economic Activity by Country

| | Economic Activity | | | | |
|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) |
| | Algeria | Cambodia | Colombia | Costa Rica | Dominican R. |
| Export Exposure | 0.111*** | 0.006 | 0.003*** | 0.014 | 0.003 |
| | (0.004) | (0.008) | (0.001) | (0.009) | (0.010) |
| | Egypt | El Salvador | Guatemala | Honduras | India |
| Export Exposure | 2.091*** | 0.002 | -0.012* | 0.036*** | 0.090*** |
| | (0.156) | (0.014) | (0.009) | (0.007) | (0.004) |
| | Indonesia | Jordan | Laos | Lebanon | Malaysia |
| Export Exposure | 0.019*** | 0.329*** | 0.061*** | -0.015 | 0.107*** |
| | (0.001) | (0.030) | (0.008) | (0.027) | (0.007) |
| | Mexico | Morocco | Myanmar | Nicaragua | Panama |
| Export Exposure | 0.019*** | 0.103*** | 0.027*** | 0.019*** | 0.036*** |
| | (0.001) | (0.005) | (0.004) | (0.003) | (0.006) |
| | Peru | Philippines | South Africa | Thailand | Vietnam |
| Export Exposure | -0.010*** | 0.017*** | 0.040*** | 0.104*** | 0.161*** |
| | (0.001) | (0.002) | (0.002) | (0.005) | (0.009) |
| Cell FE | Yes | Yes | Yes | Yes | Yes |
| Year FE | Yes | Yes | Yes | Yes | Yes |



- Rather than showing country-by-country exercise (Table A6) re-estimate dropping each country in term to document what happens to the ATE looks like

# Which countries drive the result?

Table A.8: Export Exposure and Political Violence by Country

| | Political Violence | | | | |
|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) |
| | Algeria | Cambodia | Colombia | Costa Rica | Dominican R. |
| Export Exposure | -0.003*** | -0.000 | 0.001** | 0.008** | 0.000 |
| | (0.001) | (0.002) | (0.000) | (0.003) | (0.002) |
| | Egypt | El Salvador | Guatemala | Honduras | India |
| Export Exposure | 0.178** | 0.010* | 0.000 | 0.000 | 0.027*** |
| | (0.073) | (0.006) | (0.001) | (0.001) | (0.002) |
| | Indonesia | Jordan | Laos | Lebanon | Malaysia |
| Export Exposure | 0.001*** | 0.035*** | 0.000 | 0.070 | 0.007*** |
| | (0.000) | (0.013) | (0.000) | (0.057) | (0.002) |
| | Mexico | Morocco | Myanmar | Nicaragua | Panama |
| Export Exposure | 0.002*** | 0.001* | 0.001 | -0.000 | 0.002** |
| | (0.001) | (0.001) | (0.000) | (0.001) | (0.001) |
| | Peru | Philippines | South Africa | Thailand | Vietnam |
| Export Exposure | -0.000* | 0.016*** | 0.011*** | -0.001 | -0.000 |
| | (0.000) | (0.002) | (0.001) | (0.001) | (0.000) |
| Cell FE | Yes | Yes | Yes | Yes | Yes |
| Year FE | Yes | Yes | Yes | Yes | Yes |

*Notes.* (* p-value< 0.1; ** p-value<0.05; *** p-value<0.01) The unit of observation is the FAO-GAEZ cell. Standard errors in parenthesis, clustered at the same level. Export Exposure is the PTA-driven export exposure of spatial unit $i$ in year $t$ that we obtain combining time variation in tariffs with cross-sectional variation in crop suitability, as described in equation 1. The dependent variable is the log of political violence (i.e., the number of hostile and violent events in ICEWS). The coefficient is



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# Sidestepping: arbitrariness of space – SUTVA violation

- Much of the empirical literature in conflict is focused on aggregating conflict-event data to artificial spatial constructs
- What is the "optimal" level of spatial representation of a phenomena such as conflict is a question that depends on the data generating process
  - Accuracy of conflict event data geolocation imposes
  - Spatial resolution of satellite image product
- Ongoing work Barbosa, Fetzer & Souza on "Conflict in Space" tries to suggest an "optimal aggregation" this approach
- Administrative boundaries vs statistical boundaries vs artificial boundaries
- Understanding data generating processes is important from a statistical standpoint and an economic standpoint
- Data generating process can help identify "optimal spatial and temporal aggregation"

$\rightarrow$ in essence: risk of specification mining is much deeper: bias-variance trade off is guided by the way that data is cut in space and time.

# Smaller points

- Endogeneity of the PTA design – why some countries NOT enter PTAs when they could? Are political instability considerations a feature here?
- Temporary versus permanent evaluation is key
- Long time period under consideration – technology is considered as static but we know shifts in labor versus capital intensity
- You are estimating a LATE
- Lack of a pure control

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