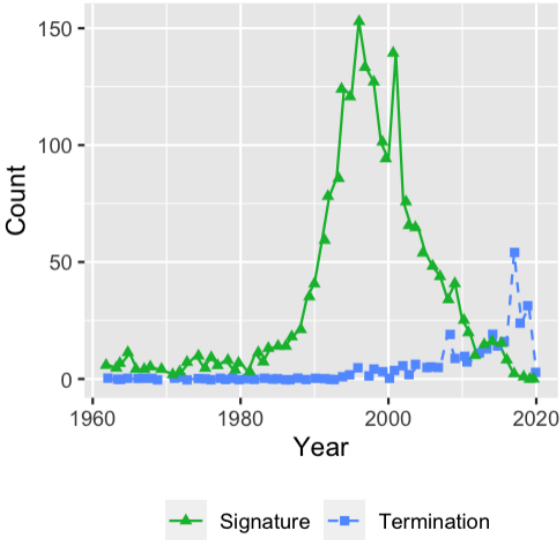# Obsolescent Treaties: Global Value Chains and the Termination of Bilateral Investment Treaties

Zoe Xincheng Ge
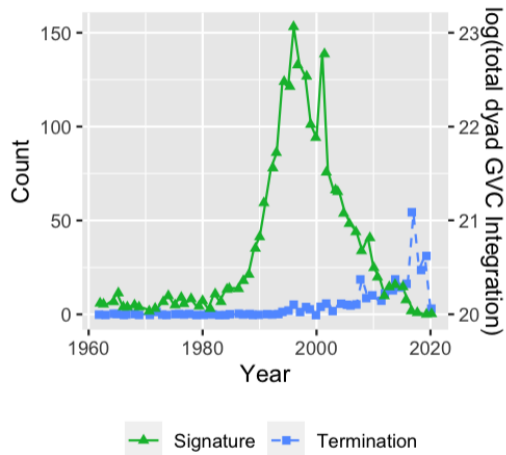
Wilf Family Department of Politics
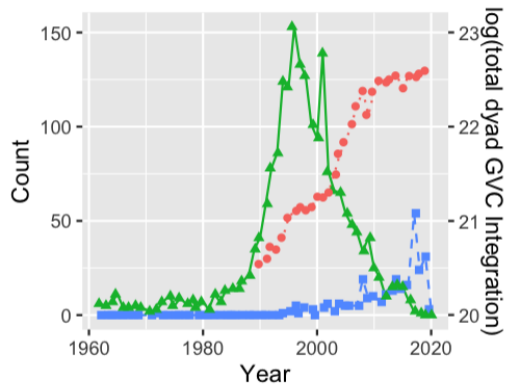New York University

November 29, 2022

Why do states terminate their bilateral investment treaties (BITs)?

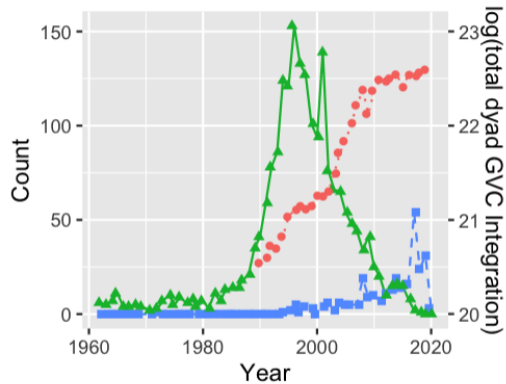# Overview: Global value chain (GVC) integration $\Rightarrow$ BIT termination

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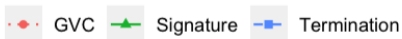# Overview: Global value chain (GVC) integration $\Rightarrow$ BIT termination

For host country government

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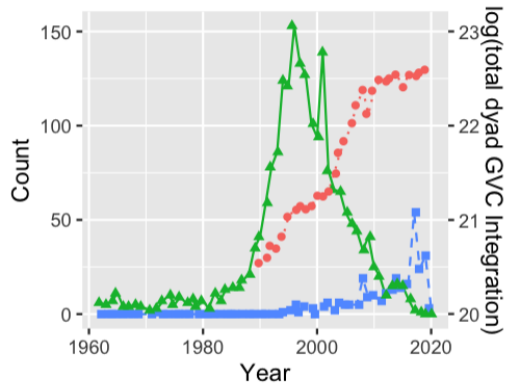
For host country government
- ▶ GVCs create positive spillovers

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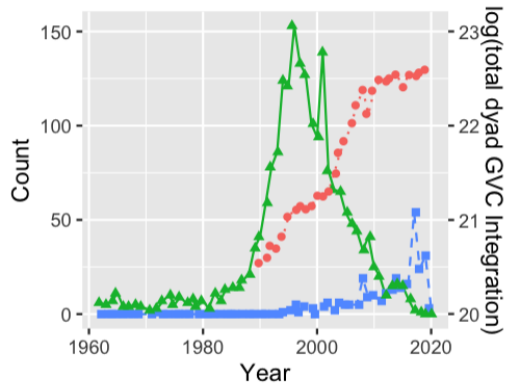
For host country government

- ▶ GVCs create positive spillovers
- ▶ Incentive to expropriate ↓

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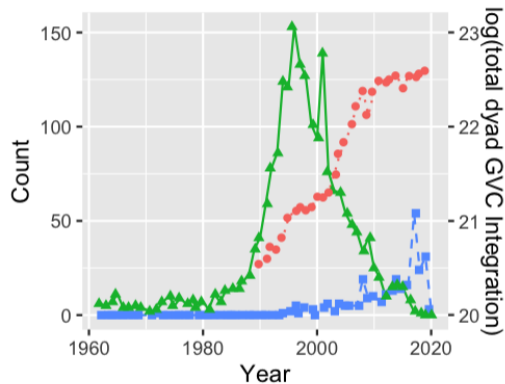
For host country government

- ▶ GVCs create positive spillovers
- ▶ Incentive to expropriate $\downarrow$
- ▶ Need for BIT as a contractual form of asset protection $\downarrow$

Zoe Ge (NYU)

3

Overview: Global value chain (GVC) integration $\Rightarrow$ BIT termination

For host country government

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- ▶ Need for BIT as a contractual form of asset protection ↓

Democracy values GVC spillovers more
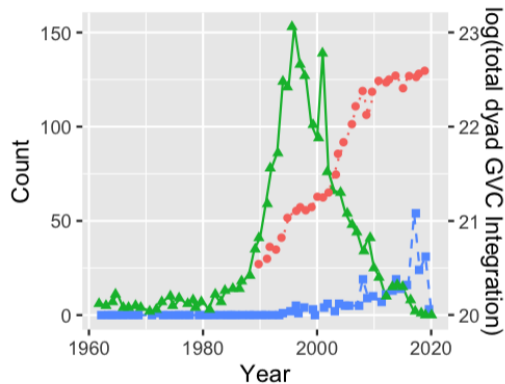
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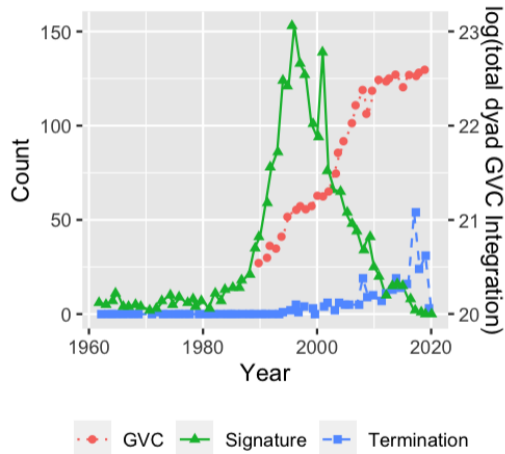
For host country government

- ▶ GVCs create positive spillovers
- ▶ Incentive to expropriate ↓
- ▶ Need for BIT as a contractual form of asset protection ↓

Democracy values GVC spillovers more

- ▶ Stronger substitute effect of GVCs for BITs

Overview: Findings

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▶ GVCs $\uparrow \rightarrow$ BIT termination $\uparrow$

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▶ GVCs ↑→ BIT termination ↑

▶ With shallow GVCs, democracies are less likely to terminate BITs

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- ▶ GVCs ↑→ BIT termination ↑

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- ▶ With deep GVCs, democracies are more likely to terminate BITs

Assumptions

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Assumptions

1. GVCs as a globally fragmented production process
   - ▶ Positive spillovers to economy ⇒ political support
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2. BITs and Investor-State Dispute Settlement (ISDS)
   - ▶ A commitment device

Assumptions

1. GVCs as a globally fragmented production process
   - Positive spillovers to economy $\Rightarrow$ political support
   - GVC integration $\uparrow \Rightarrow$ political support $\uparrow$

2. BITs and Investor-State Dispute Settlement (ISDS)
   - A commitment device
   - A probability that host government pays a compensation upon violation

Argument: Political Calculus of Expropriation

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Host government trades off between

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- ▶ Rents of regulations/expropriations

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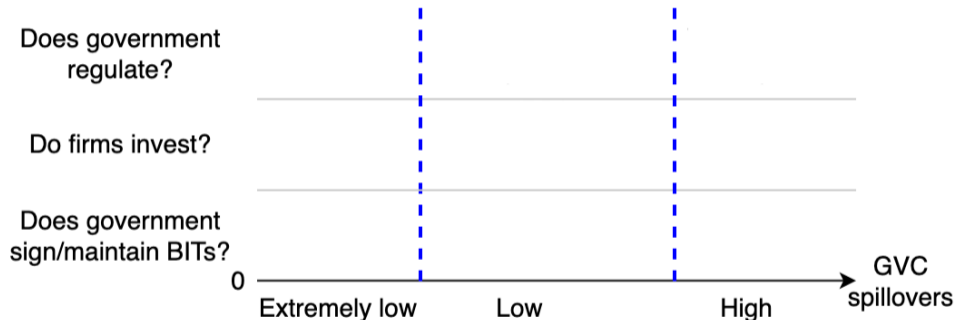- ▶ Political benefits of GVC spillovers

Argument: Political Calculus of Expropriation

Host government trades off between

- ▶ Rents of regulations/expropriations
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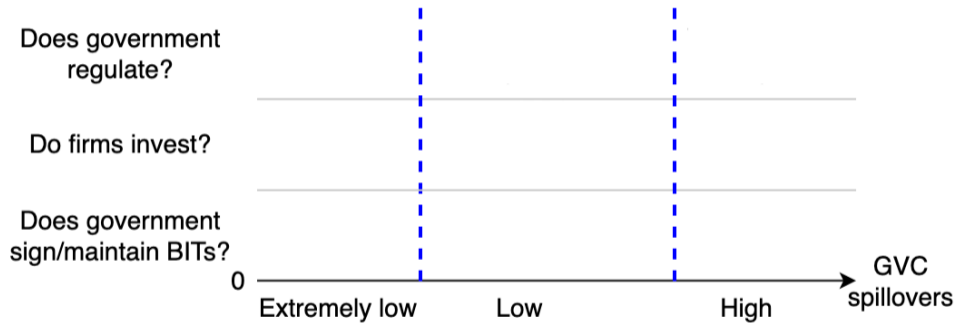
$$\textbf{GVC} \uparrow \rightarrow \textbf{incentive to expropriate} \downarrow$$

Argument: How do GVCs affect BITs?

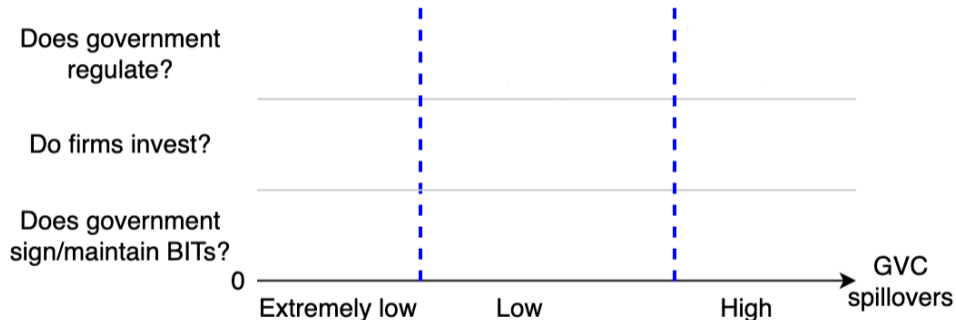# Argument: How do GVCs affect BITs?

When GVC integration is **EXTREMELY LOW**

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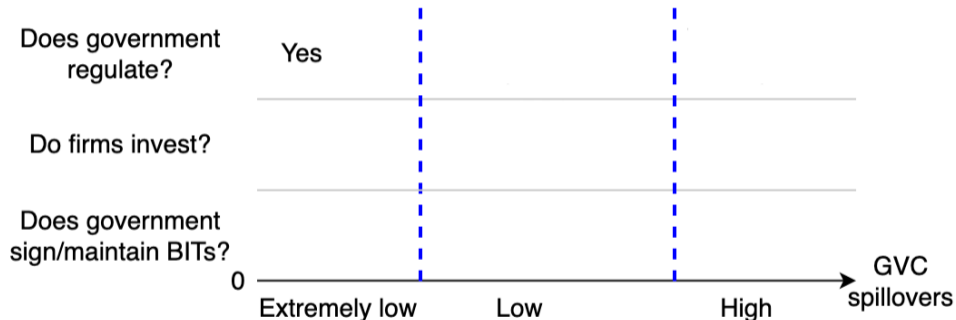When GVC integration is **EXTREMELY LOW** → expropriation is certain
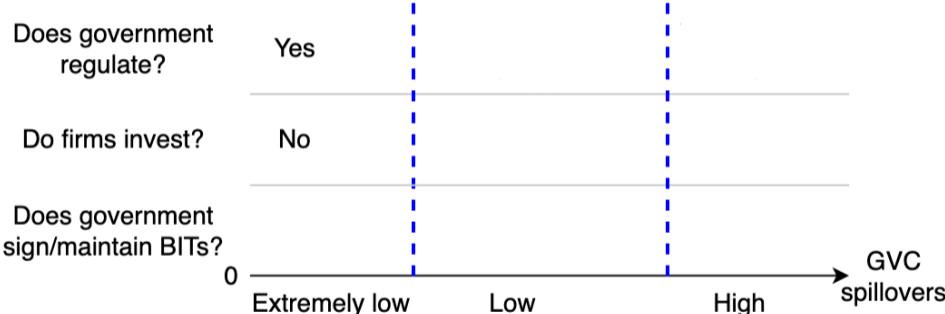
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Argument: How do GVCs affect BITs?

When GVC integration is **LOW**

Does government regulate?	Yes	
Do firms invest?	No	
Does government sign/maintain BITs?	No	

GVC spillovers

0 — Extremely low — Low — High

Argument: How do GVCs affect BITs?

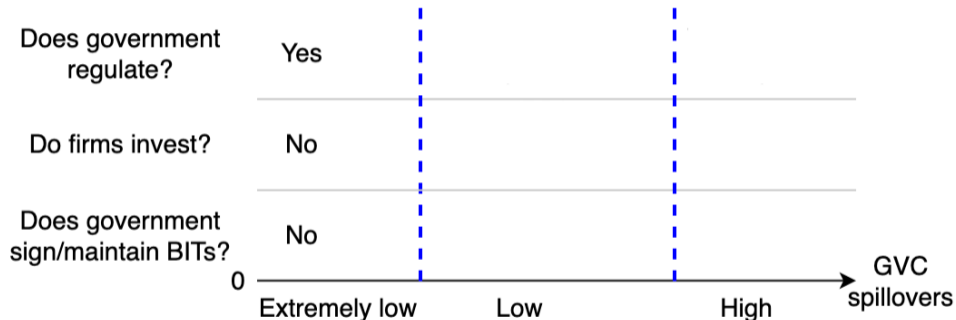When GVC integration is **LOW** → high prob. of expropriation

Argument: How do GVCs affect BITs?

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When GVC integration is **LOW** → high prob. of expropriation

	Extremely low	Low	High
Does government regulate?	Yes	Yes when large enough rents	
Do firms invest?	No	Yes	
Does government sign/maintain BITs?	No	Yes	

GVC spillovers

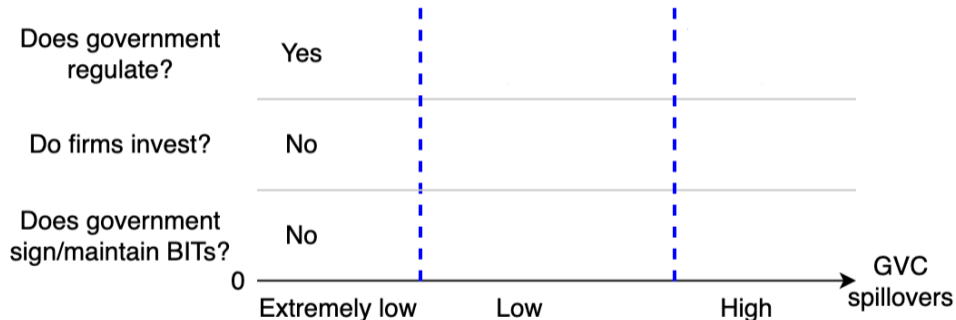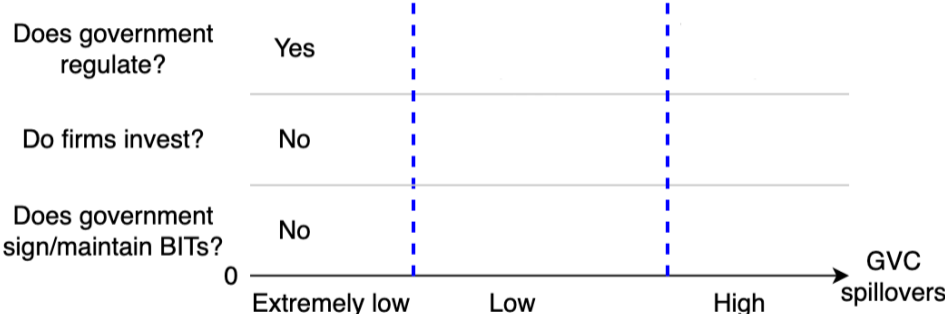# Argument: How do GVCs affect BITs?

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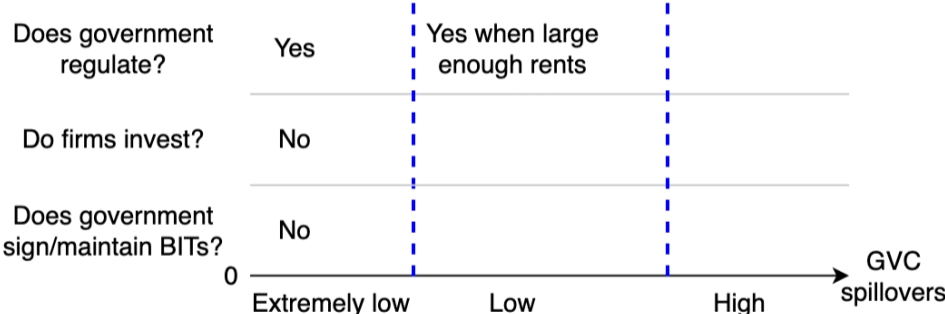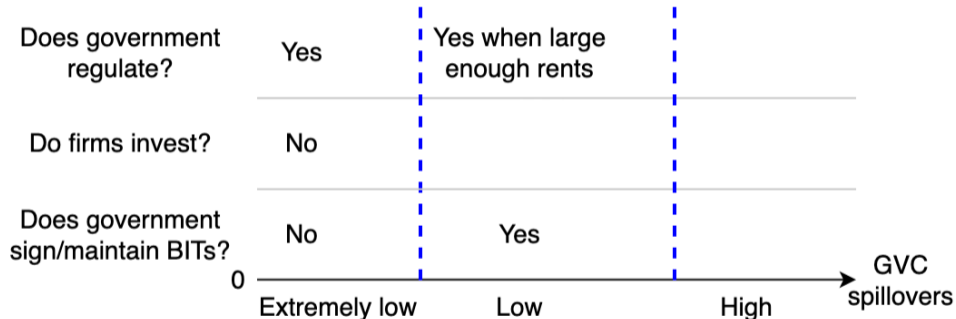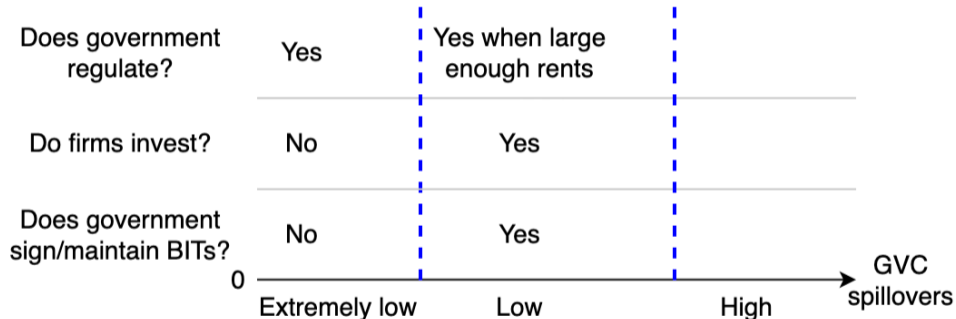
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Argument: How do GVCs affect BITs?

When GVC integration is **HIGH** $\to$ low prob. of expropriation

Does government regulate?	Yes	Yes when large enough rents	Yes when large enough rents
Do firms invest?	No	Yes	Yes
Does government sign/maintain BITs?	No	Yes	No
	Extremely low	Low	High

GVC spillovers

Argument: How do GVCs affect BITs?

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Argument: How do GVCs affect BITs?

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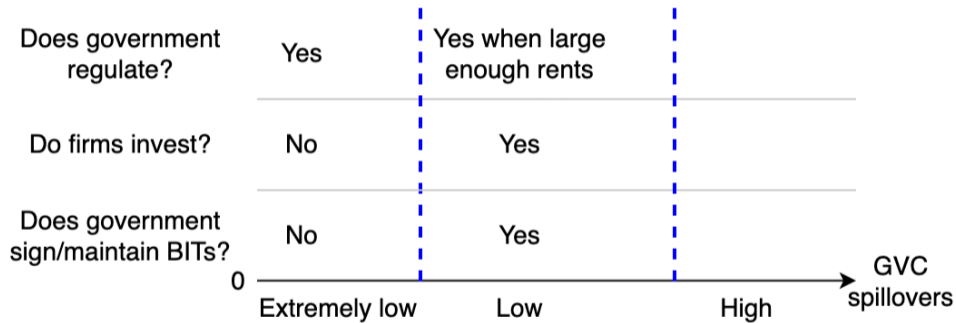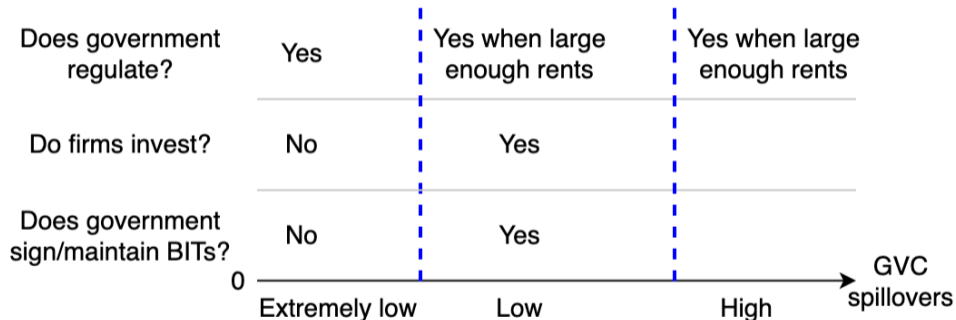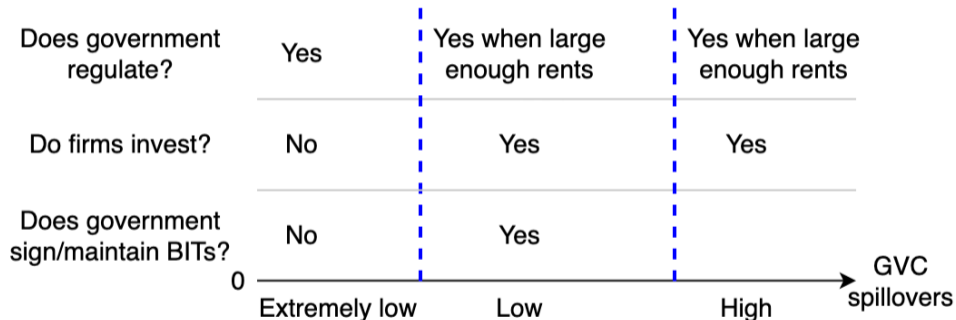|	Does government regulate?	Do firms invest?	Does government sign/maintain BITs?
Extremely low	Not in sample		
Low	Yes when large enough rents	Yes	Yes
High	Yes when large enough rents	Yes	No
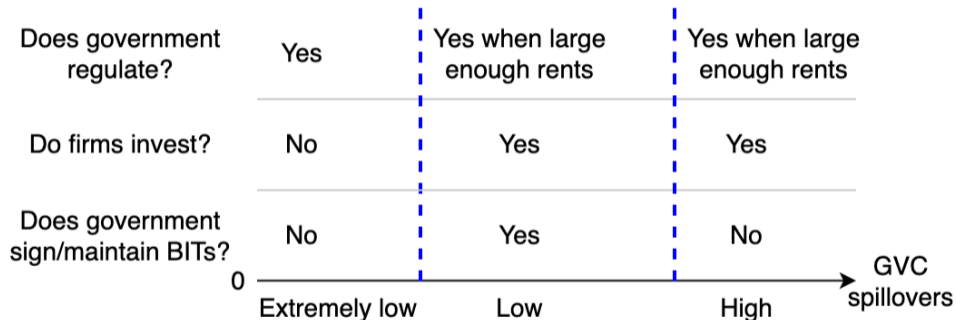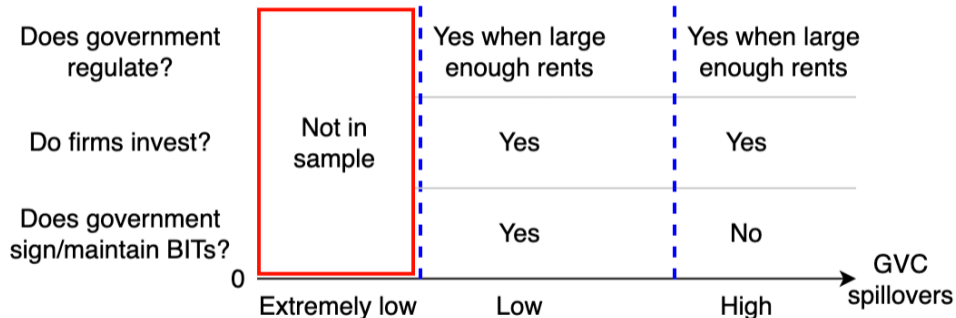
Argument: How do GVCs affect BITs?

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Hypotheses

Hypothesis 1
GVC integration substitutes for BITs

Argument: Heterogeneity in Regime Type

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Democracies put greater weight on GVC spillovers than autocracies

Does government regulate?	Yes	Yes when large enough rents	Yes when large enough rents
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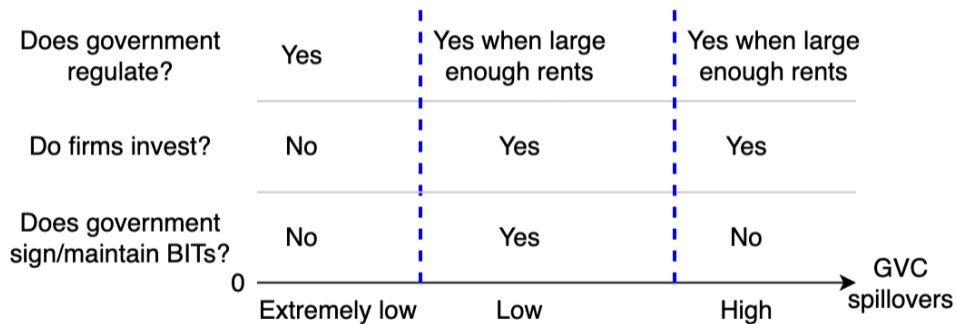
0 → GVC spillovers

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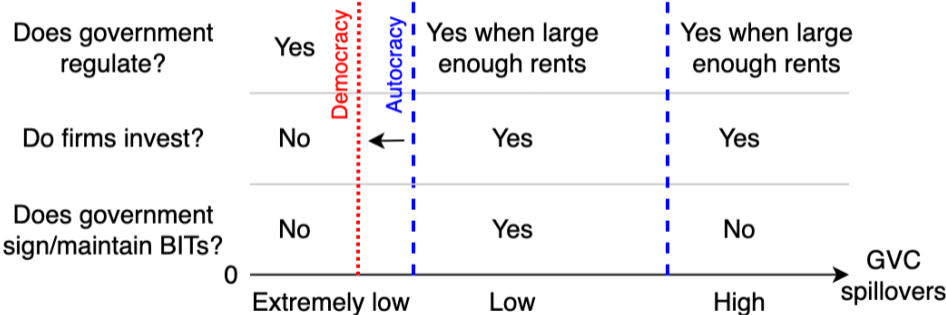
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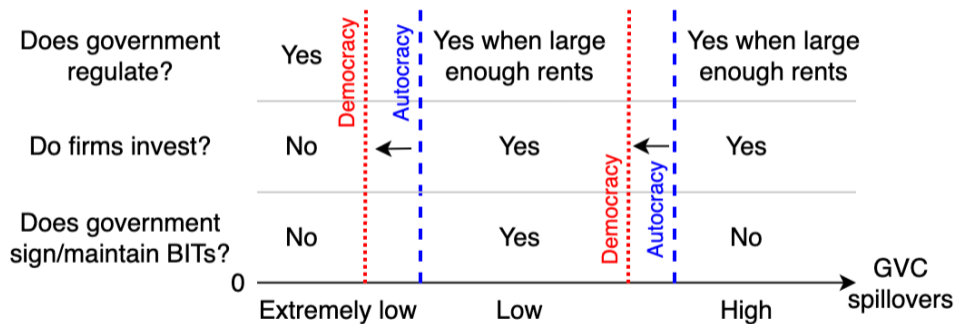
Hypotheses

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With shallow GVCs, democracies are less likely to terminate BITs than autocracies

Hypotheses

Hypothesis 1
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With shallow GVCs, democracies are less likely to terminate BITs than autocracies

Hypothesis 3
With deep GVCs, democracies are more likely to terminate BITs than autocracies

Empirical Specification

▶ DV: whether the dyad experienced BIT termination (/renegotiation)

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▶ Cox proportional-hazards regression model

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- Coefficient estimate: how likely to terminate

Empirical Specification

▶ DV: whether the dyad experienced BIT termination (/renegotiation)

▶ Cox proportional-hazards regression model

▶ Coefficient estimate: how likely to terminate

▶ Sample: dyad-year when a BIT is in force

H1: GVCs and BITs Termination

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	Termination of BIT			
	Full sample			Sample in (3)
	(1)	(2)	(3)	(4)
log(1+GVC)	1.232***	1.227***	1.211**	1.216**
	(4.61)	(3.68)	(3.11)	(3.20)
Cumulative disputes		0.977	0.988	0.987
		(-0.35)	(-0.19)	(-0.21)
PTA		1.370*	1.555**	1.549**
		(1.82)	(2.28)	(2.26)
Between EU members		2.178**	2.252**	2.220**
		(2.39)	(2.38)	(2.34)
Sum(FDI inflow/GDP)			0.499	
			(-0.65)	
Observations	31,494	31,494	28,584	28,584
Control	Y/N	Y	Y	Y
Party 1 RE	Y	Y	Y	Y
Party 2 RE	Y	Y	Y	Y
Year RE	Y	Y	Y	Y
AIC	278.41	281.54	257.89	259.34
BIT	254.47	240.49	215.81	220.51

Note: *p<0.1; **p<0.05; ***p<0.01
Coefficients greater than 1 indicate a positive relationship, and vice versa.
Z scores in parentheses.

H2&3: Heterogeneity in Regime Type

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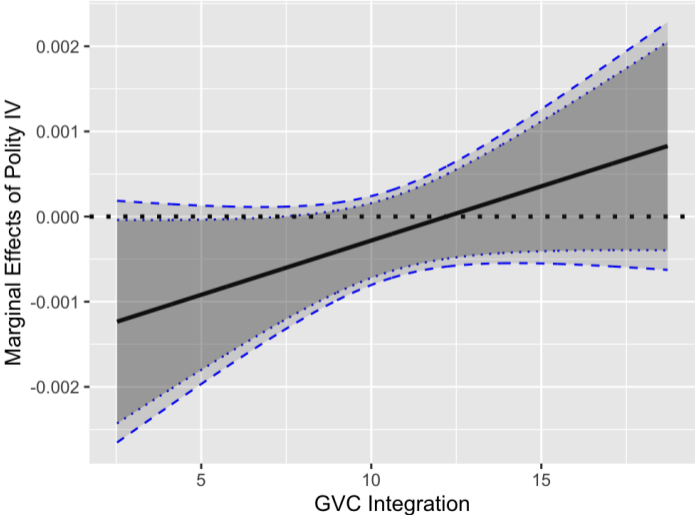
▶ Unit of analysis: directed dyad-year

H2&3: Heterogeneity in Regime Type

▶ Unit of analysis: directed dyad-year

▶ DV: unilateral termination

H2&3: Heterogeneity in Regime Type

▶ Unit of analysis: directed dyad-year

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▶ Marginal effects of regime type on termination given a certain level of GVC

H2&3: Heterogeneity in Regime Type

Conclusion

I find that

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- GVC integration substitutes for BITs

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- ▶ Especially in democracies when GVC integration is deep

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Implications

- ▶ A technological-based explanation for the decline of international institutions

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- ▶ How globalization transforms itself through technological change

Conclusion

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▶ GVC integration substitutes for BITs

▶ Especially in democracies when GVC integration is deep

Implications

▶ A technological-based explanation for the decline of international institutions

▶ How globalization transforms itself through technological change

Thank you very much!
Zoe Ge
xg762@nyu.edu | https://wp.nyu.edu/zoege

Appendix

Empirics

- ▶ Specification ▸ Specification
- ▶ Sample ▸ Sample
- ▶ Deepest GVCs ▸ Top
- ▶ Who terminates ▸ Who
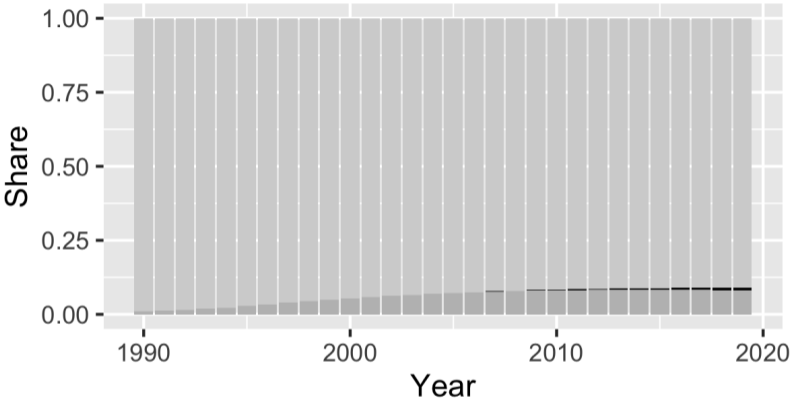- ▶ GVC by BIT status ▸ Status

Empirical Specification

▶ Cox proportional-hazards regression model with time-dependent covariates

$$h(t|Z_{ij,t-1}) = h_0(t)e^{\beta_1 GVC_{ij,t-1}+Z_{ij,t-1}\Gamma+\theta_i+\lambda_j+\gamma_y}$$

▶ e^{β_1} captures the hazard ratio

▶ $Z_{ij,t-1}$: previous disputes, gap in GDP per capital, population, and Polity IV, whether any country has a common law origin, PTA, inflow FDI change

▶ θ_i, λ_j, γ_y: country i, country j, and year-specific frailty

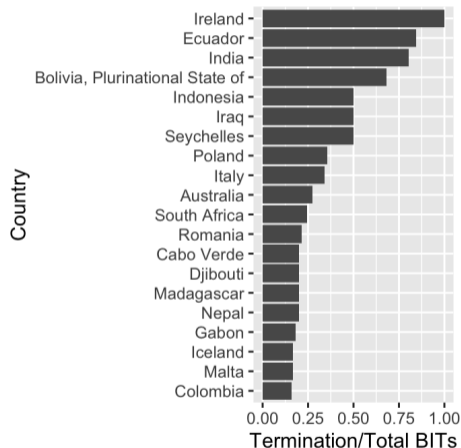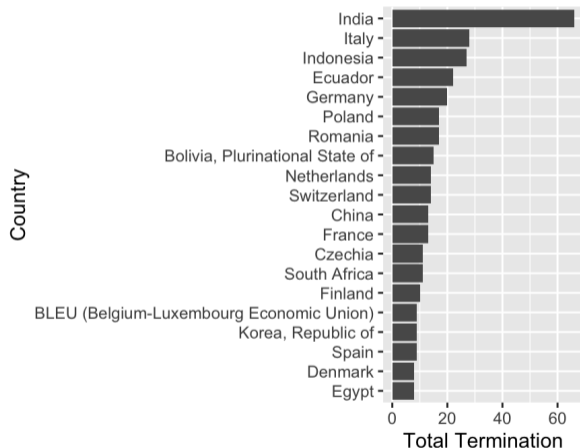▶ Sample: dyad-year when a BIT is in force

▶ Appendix

Sample

Top 20 Dyads with Deepest GVC Integration

Data: Who terminated the most BITs?

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Data: GVCs by BIT Status