THE POLITICS OF DECENTRALIZATION UNDER DICTATORSHIPS

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A DISSERTATION

Submitted to
Michigan State University
in partial fulfillment of the requirements
for the degree of

Political Science - Doctor of Philosophy

2015

ABSTRACT

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In this dissertation, I argue that dictators face two principal-agent problems of defection and compliance when they find themselves in the dilemma of empowering local elites via decentralization. On one hand, dictators wish to sufficiently empower local elites that they can deliver effective and efficient governance tailored to local needs. On the other hand, dictators do not wish to empower local elites too much so that they are capable of imposing threats on the political survival of authoritarian rule. Thus, dictators (principal) have to face two principal-agent problems in the management of local elites (agent).

First, dictators face the problem of defection if unsatisfied local elites' governing apparatus switch to aid opposition forces conditional on the party system. The dual installation of decentralization and party system decides if the collision of unsatisfied local elites (insider) with opposition elites (outsider) is incentivized in the equation of regime revision. Second, the problem of compliance refers to the local elites' violation of central policy. Elected local elites are motivated to over-commit to international investors so that they fail to comply with central policies of maintain credibility in bilateral investment treaties. The two problems are derived from the lack of an ultimate authority to define, interpret and settle disputes between central and local governments under dictatorship.

Using statistical models, I explain why some decentralized dictatorships are more resistant to authoritarian breakdown as decentralization is simultaneously installed with single party

system; I also ask how decentralization influences authoritarian credulity in bilateral investment treaties that central government signs with foreign countries. I find that decentralization facilitates the signing of BITs in the case of China, but hurts the maintenance of them in dictatorships. Local elites are strategic players in the problem of defection and compliance.

The findings are expected to shed light on the literature of political institutions, democratization and international cooperation for authoritarian rule. As the literature of political institutions under authoritarian regime applauds the institutional effect on the political survival of dictatorship, the combined effect of institutions are left out of discussion. Chapter 2 makes a small step forward in this regard. In addition, the linkage between the literature of political institution and international cooperation is of consequence to global order as more and more dictatorships are engaged in international institutions.

To Mei-jiou Soong, a loving mom

ACKNOWLEDGEMENTS

I would never finish this dissertation without all the generous support throughout the graduate study in MSU and dissertation writing in Taipei. My adviser of PhD dissertation, Jeff Conroy-Krutz has been incredibly patient with a mom graduate student. In every aspect, he is the kind of adviser whose care for students is a legacy to be remembered and passed on. The adviser of guidance committee, Eric Chang never gives up on me in time of frustration. He comes to my life as immense blessings. My committee members Mark Axelrod and Ben Appel provide excellent criticism valuable for my dissertation chapters to step forwards to journal submission. My gratitude also goes to the members of guidance committee members for advising on course plans, Cristina Bodea, Bill Jacoby, Ani Sarkissian and Chuck Ostrom. Also, I appreciate the cutting-edged insights through the courses provided by Sandy Schenider, Michael Colaresi, Steven Kautz, and Corwin Smidt. The staffs in MSU, Karen Battin, Sarah Kraus, and Rhonda Burns are superb in assisting me at all stages.

In the end of my journey to the US, I cannot help looking back and thank the people who make all these possible in the beginning. My adviser of Masters' thesis in NCCU, Szu-yin Ho has placed more faith in me than I do and has done more for me than I deserve. A lighthouse in my life indeed. I am grateful for Yi-Chou Liu, Shing-Yuan Sheng, and Cheng-Tien Kuo who open my eyes to the discipline and pushed me through the admission to higher learning.

The graduate study and dissertation writing are generously funded by student loan vouched by Jia-An Chiang, scholarship of PhD program in the US by the Fulbright Foundation, scholarship of studying overseas by the Ministry of Education, Taiwan, research/teaching assistantship in Department of Political Science, MSU, research grant under the supervision of Yu-Tzung Chang and Yun-han Chu in National Taiwan University, and the pre-doctoral program in the Institution of Political Science, Academia Sinica under the directorship of Yu-shan Wu and mentorship of Chin-en Wu. I greatly appreciate the financial support from these people and institutions.

During my graduate studies, I am extraordinarily lucky to have professors' and cohorts' intellectual stimulation, companions or advice on job hunting. They are Jih-wen Lin, Tom Kou, Szu-chien Hsu, Tse-Kang Leng, Alex Chang, Wen-hsuan Tsai, Yousun Cheng, Feng-yu Lee, Chealsea Chou, Hans Tung, Chiung-chiu Huang, Helen Lee, Shih-hao Huang, Seoyoun Choi, Dominique Conway, Hasaaki Higashijima, Fang-yu Chen, Hsiao-chi Hsu, Tse-hsin Chen, Szuning Ping, Wan-Ling Huang, Teresa Lee, Weiling Chen, Chiahsin Yeh, Luke Chu, Alice Hsu, Yung-hsiu Tang, Tung-wu Hsieh, Po-chun Huang, Lenore Hsu, Bin Hwang, Sienna Hsieh, Yu-hao Lee, Mica Wang, Pei-Lin Lee, Sean Ma, Ling Zhu, Nora Hung, Yuhan Hung, Yingju Lai, Huang-hua Chen, Scott Chiu, Rose Chen, Leo Lin, James Baldus, Alex Hsueh, Nien-Chung Chang Liao, Wei-ting Wu, Chun-chih Chang, Ronan Fu, Judy Wei, Yen-bin Su and Ya-wen Yu.

Lastly, I am grateful for family members' childcare: Sheng-Tong Wu, Sho-Rong Huang, Chi-Ching Wu, Tsui-Chin Chen, Pei-Lan Pan, Hsien-chih Shen, Kate Pan, Sheng-ping Huang and Tze-Zheng Pan. My husband, Wen-Chin Wu, has made all the differences along the less trodden road we've taken. His and our son, Infinity Wu's love sustains my academic survival with significance. This dissertation is dedicated to my mom, Mei-jiou Soong who raises four children after my father's decease at my age of 6. This is the kind of achievement I will never surpass.

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CHAPTER 1
INTRODUCTION

A well-groomed local elite by the ruling party, Hsu Hsin-liang claimed his electoral victory in the magistrate of Taoyuan city, a second-tier municipal body under authoritarian Taiwan ruled by the Nationalist Party (also known as Kuomintang, KMT) in 1977. The ruling party's chair Chiang Ching-Kuo sent his congratulations by revoking Hsu's party membership in return for his unauthorized candidacy in the local election. Hsu soon leveraged his electoral base in Taoyuan city to the rising opposition party (Wu and Chen 1993). In 1997, one year after the authoritarian breakdown, Hsu chaired the major opposition party, the Democratic Progressive Party (DPP), united more local elites defecting from KMT and won the majority of local elections. In 2000, DPP overthrew KMT and finished the first-turn-over test in Taiwan. Local elites' defection can threaten the political survival of authoritarian regime. Even if they remain loyal to the ruling party, they can threaten authoritarian regime by violating central policies.

As one of the founding fathers of People's Republic of China (PRC), Chen Yun (陈云) complained about how local leaders in the coastal provinces were taking matters in their own hands by discounting the central agenda for economic development (Lam 1999). The general secretary of the Communist Party of Vietnam, Nguyễn Phú Trọng, cannot keep the provincial leaders comply with central law because the local elites keep a large flow of foreign direct investment to generate rents at their disposal (Malesky 2008). Dictators face the same dilemma: how to share power with local elites and yet keep them under control.

1.1 Decentralization under Dictatorship

The politics of decentralization under dictatorship[1] is different from that under democracies in how conflict between leader and local elites is resolved. For democracies, conflict is ultimately resorted for the judicial review for dispute resolution. The highest judicial court is responsible for interpreting and/or reinterpreting how the constitution regulates the relationship between central and local governments. But dictatorships lack an independent judicial power to settle the disputes between dictators and local elites. Just like other political institutions under dictatorships, the lack of an independent and ultimate authority drives the politics of authoritarian rule (Svolik 2012b).

According to previous research, decentralization refers to a multi-tiered governing system with a shift of authority from central governments to local governments in charge of issues confined within specific geographical locales (Rodden 2004).[2] The policy power granted to local governments generally include fiscal, administrative and political decentralization (Falleti 2010; Green 2005; Treisman 2002). Fiscal decentralization refers to the independent authority to make and execute policies with regard to revenue and expenditure of local governments. Administrative decentralization means that local governments have independent discretion over the personnel. Political decentralization points to the electoral source of ruling legitimacy via local elections.

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[1] Throughout the dissertation, I use dictatorship and authoritarian regime interchangeably to refer to non-democracies defined by Geddes, Wright, and Frantz (2014).

[2] Political decentralization and federalism are used in previous literature. Recently researchers gradually replace federalism with political decentralization to broadly include the countries without de jure entitlement of federalism, but with de facto practice of independent decision-making power for local governments such as Spain.

Decentralization is understudied in the literature of authoritarian institutions. Nevertheless, the theoretical framework of dictator's power sharing with elites is useful for understanding the dynamics of decentralization. Decentralization is an institution where dictators share power with local elites in the interests of efficient and effective governance, which arguably benefits their political survival.

Thus, local elites refer to the elites who possess in-depth knowledge, maintain personal connections and even bear moral legitimacy in sub-national levels to stabilize social orders. The identities of local elites are local people with the background of (1) family leaders, (2) local bureaucrats, and/or (3) local faction leaders. To qualify as local elites, they have to maintain a strong bond with local people. In other words, a sufficiently long period of stay in the region is required. The longer local elites stay in sub-national levels, the more likely they accumulate information about local governance and build up relationship with local people.

However, it is not easy to manage local elites because they are political players unique in the geographical nature of their governing resources. It is very difficult to either rotate or replace local elites because their in-depth knowledge, personal connections and moral legitimacy are all rooted in specific regions. Rotation will cancel the very resources they can contribute to dictatorships. On the other hand, replacing local elites will result in the governance crisis in efficiency, efficacy or even legitimacy.

Why do dictators install decentralization? Dictators share power with local elites in exchange for their political support. Dictators' power-sharing helps local elites accumulate their governing resources in regions. In other words, dictators are also invested in local elites' governing resources while local elites are invested in dictators' political survival. Given the benefits in governance, the management of local elites is important for dictators.

1.2 The Two Principal-Agent Problems

The principal-agent problem refers to the situation when dictators (principal) have a hard time motivating local elites (agent) to act in their best interests rather than in agents' own interests (Miller 2005). I argue that dictators have to face two principal-agent problems if they decentralize: defection and compliance problem. The two problems are distinct in whether local elites chip in their governing apparatus in the opposition party or not.

The former is an internal issue of elite cohesiveness within the ruling party while the latter stems from incompatible preferences between dictator and local elites. The management of two problems influences dictator's duration and quality of governance, respectively. I will introduce the two problems as follows.

1.2.1 The Problem of Defection

Facing the problem of defection, dictator fails to monopolize local elites' resources invested in the political survival of authoritarian rule. If local elites' governing resources aid opposition party, they are considered defecting from dictators or regime front to opposition force. In order for dictators monopolize local elites' governing apparatus, local elites are empowered with limited governing apparatus. Also, they are blocked out of any party outside of regime front that makes an available and feasible outside options to them.

1.2.2 The Problem of Compliance

The problem of compliance involves with dictator's capacity to keep local elites follow central policies. Given that local elites do not aid the opposition party, they can still threaten the quality of governance in international cooperation for authoritarian regimes. The central (principal) delegates local (agent) governments to comply with BITs which central government signs with foreign countries. Political decentralization facilitates the signing of bilateral investment treaties (BITs), but it results in more violation of BITs afterwards. The signing and violation of BITs are indicators of dictator's capacity to control local elites for the following reasons.

1.3 Plan of the Dissertation

In Chapter 1, I introduce the two major principal-agent problems of defection and compliance derived from the establishment of decentralization for dictatorships. The next three chapters will elaborate the policy consequences of the two problems.

In Chapter 2, *Political Decentralization, Party System and Authoritarian Breakdown*, I discuss about the combined effect of political decentralization and party system on authoritarian breakdown. I contend that the simultaneous installation of political decentralization and party system determines if unsatisfied insiders (local elites) and outsiders (opposition elites) are incentivized to overthrow authoritarian regime. The level of political decentralization is positively related to the size of governing apparatus under local elites' control. The existence of party outside of regime front provides a focal point for the unsatisfied local elites and opposition elites to take collective action to revise the regime system.

In Chapter 3 and 4, I examine the policy consequences of the problem of compliance. Whether local governments comply with central policies matters to authoritarian credibility in international institutions. In Chapter 3 *Political Decentralization and Violation of Bilateral Investment Treaties*, I investigate if decentralization increases the number of BITs violation. I argue that political decentralization electorally empowers local elites are motivated to over-commit with foreign investors in competition for limited inflow of FDI and later fail to follow through the terms in BITs committed by the central government with foreign countries.

In Chapters 4, *Decentralization and China's Bilateral Investment Treaties*, I conduct a quantitative study on the case of China. I explain how dictators handle the problem of defection. In China's BITs, I explore how as proxies to decentralization, leadership and institution influences China's BITs. I argue that leader's preferences about decentralization influence the de facto practice of decentralization in signing as more BITs as possible.

Chapter 5 concludes the major findings along with the implications. The findings of the dissertation are expected to further the understandings in the politics of decentralization, an important and yet understudied power-sharing institutions under dictatorships. First, I intend to further the understandings in the politics of decentralization, an important and yet understudied power-sharing institutions under dictatorships. Specifically, I look at how power-sharing with local elites matter to the maintenance of authoritarian rule in terms of duration and quality.

Second, I identify the principal-agent problems of defection and compliance that drive the politics of decentralization under the framework of power-sharing. The problem of defection unearth the mutually exclusive nature between decentralization and party system in prolonging political survival, especially when party has been recognized beneficial to authoritarian resilience (Geddes 2005a; Magaloni 2008; Svolik 2012a).

Third, I take a step forward on linking the two lines of literature of authoritarian institution and international cooperation to discover the domestic source of international cooperation for authoritarian regimes with an ever more importance in global order. A booming literature of authoritarian regime closely examines how institutions influence the policy performance for dictatorships. Meanwhile, the research on international institutions are widely recognized as a credibility tool to prevent default on international cooperation in global order (Axelrod and Keohane 1985; Martin and Simmons 1998; Simmons 2000; Simmons, Dobbin, and Garrett 2008). A case study on China's participation in international institutions enriches the understanding across the two literatures by showing how informal leadership can determine the change and continuity of institutional effect on international cooperation.

To sum up the outcome and explanatory variables, data, sample and method in each chapter, I provide Table 1-1 to outline the structure of this dissertation as follows.

Table 1-1: Plan of Dissertation

Principal-Agent Problems	**Problem of Defection**	**Problem of Compliance**	
Chapter	2	3	4
Outcome	Authoritarian breakdown	BITs violation	BITs conclusion
Explanatory Variable	Political decentralization and party system	Political decentralization	Leadership and institution as competing proxies to decentralization
Data	Time-Series-Cross-Sectional		
Sample	Dictatorship		China
Method	Regression analysis (BTSCS)	Regression analysis (NBRM)	Regression analysis (BTSCS)

Source: Author

CHAPTER 2
POLITICAL DECENTRALIZATION, PARTY SYSTEM, AND AUTHORITARIAN BREAKDOWN

2.1 Introduction

In October 1977, Hsin-liang Hsu was elected the county magistrate of Taoyuan city, a second-tier municipal body under authoritarian Taiwan ruled by the Nationalist Party (also known as Kuomintang, KMT). Hsu was soon ousted by the KMT for his “unauthorized” candidacy in local election and later recruited by non-party democrats who initiated the first opposition party in 1986, Democratic Progressive Party (DPP) (Wu and Chen 1993). Two decades later, the DPP won the majority seats in magistrate elections under Hsu’s chairmanship and support of local elites previously chained to the KMT’s clientelism. The victory in local elections paved the way to pass the first turn-over test for Taiwan’s democratization since 1996 by defeating the KMT in 2000 presidential election.[3]

Hsu is not the only local elite who bit the authoritarian hand that feed. In Mexico, the ruling Institutional Revolutionary Party (PRI) has nurtured a generation of elites defecting to opposition parties under the increasing electoral pressure (Greene 2007). Some of them participated in state-level elections to compete with ruling the PRI, including Manuel Clouthier in Sinaloa and Addy Coldwell in Quintana Roo for the National Action Party (PAN), and Andrés Obrador, Cuauhtémoc Cárdenas, and Marcelo Ebrard in Mexico City for Party of the Democratic Revolution (PRD). Successful or not in state elections, they’re recognized for significant contributions to democratization in Mexico.

Local elites are important political players. Dictators face the dilemma of empowering local

[3] Coined by Huntington (1991), turn-over test refers to peaceful power transition for democratic consolidation.

elites and blocking their defection. On one hand, dictators install political decentralization via local elections to enhance their legitimacy of rule by electorally empowering local elites with governing apparatus. On the other hand, the hierarchical advancement to central positions with greater advantages within the ruling party inevitably produces unsatisfied local elites capable of crushing authoritarian regime.

Previous literature indicates that election and party are useful tools to manage elites via information acquisition of their loyalty and performance (Blaydes 2008; Brownlee 2007; Magaloni 2006, 2008), co-optation in accordance to their performance or sheer influence (Ames 1970; Boix and Svolik 2011; Bueno de Mesquita et al. 2003b; Diaz-Cayeros, Magaloni, and Weingast 2007; Gandhi and Przeworski 2006; Geddes 2005a; Gehlbach and Simpser 2014; Haber 2006; Landry 2008; Lazarev 2005; Lust-Okar 2005; Magaloni 2006; Wintrobe 2000; Wright 2008; Zhong and Chen 2002), and deterrence into compliance with central policies (Geddes 2005; Simpser 2013; Magaloni 2006; Greene 2007). However, how decentralization and party system are interconnected is so under-specified that a synthetic look at the effect of two institutions on elite management requires more academic attention.

This chapter investigates how political decentralization and party system incentivize unsatisfied local elites to collide with opposition elites in overthrowing authoritarian rule when they a dim prospect in the hierarchical career-ladder to central positions attached with greater spoils. Specifically, I argue that it paves the way for unsatisfied insiders (local elites) within ruling party to collude with outsiders (opposition elites) to simultaneously install high political decentralization at executive and legislative branches and dominant-party system tolerating the existence of party outside of regime front. The likelihood of authoritarian breakdown is highest when high political decentralization greatly empowers local elites' governing resources and dominant-party system provides them with an outside option opposition elites have created. On the contrary, the probability of authoritarian breakdown is lowest when low political decentralization in legislature limits local elites' resources and single-party system deprives them of any outside option.

Political decentralization reveals local elites' political preferences derived from their electoral base characterized in economic status, ethno-lingual composition, natural endowments, etc. Additionally, the degree of political decentralization provides local elites with governing apparatus. When local elites are locally elected in executive and legislature bodies, they are highly empowered. Not only do they represent people's interests in the legislature, but also they conduct the policymaking via executive resources including formal and informal personnel, in-depth knowledge in local affairs, local social-economic networks and infrastructure. Local elites are lowly empowered when they are only locally elected in legislature. Although local elites remain influential to various policy outcomes via legislature (Gandhi 2008; Manion 1996; Wright 2008), they are restricted to voice local people's needs, which are ultimately up to appointed executive's discretion to meet their demand or not.

However, the hierarchical promotion within ruling party inevitably produces unsatisfied local elites with a limited chance to occupy central position attached with greater privileges. Party system incentivizes unsatisfied local elites to collude with opposition elites or not. As dominant-party system tolerates the existence of party outside of regime front, unsatisfied and highly empowered local elites are motivated to defect from ruling party to ally with opposition elites and go against authoritarian regime. On the other hand, as single-party system forbids the existence of party outside of regime front, unsatisfied and lowly empowered local elites are trapped in the ruling party. Accordingly, dictatorships with a dominant-party system and local legislative elections are more likely to collapse as local elites have more opportunities to challenge the regime with the opposition parties than other dictatorships without local elections.

To test this argument, I construct a dataset covering 41 party dictatorships from 1975 to 2008. The empirical evidence suggests that among various combinations of political decentralization and party system, the combination of high decentralization and dominant party system produces a higher likelihood of regime breakdown except for the set of high decentralization and single party system. In addition, lower political decentralization at the legislative branch and the existence of parties only in regime front is least likely to cause authoritarian breakdown. These findings indicate that the dual installation of political decentralization and party system as tools of elite management incentivize local elites to maintain or overthrow authoritarian regimes.

The rest of this chapter is organized as follows. Next section discusses the definition of political decentralization and different types of party system under dictatorships. In the third section, I elaborate on a theory about the relationship among political decentralization, party system, and authoritarian breakdown. I argue that both political decentralization and party system are dictators' tools of managing elites when sustaining their authoritarian rules. Then I move to argue that different combinations of political decentralization and party system would affect the probability of authoritarian breakdown.

Specifically, I argue that the degree of political decentralization and the existence of party outside of regime front determines are most likely to experience authoritarian breakdown, because unsatisfied local elites would collude with opposition elites of ruling party. I test my argument in empirical sections. The final section concludes.

2.2 Definition

Decentralization refers to a multi-tiered governing system with a shift of authority from central governments to local governments in charge of issues confined within specific geographical locales (Rodden 2004).[4] The policy power granted to local governments generally include fiscal, administrative and political decentralization (Falleti 2010; Green 2005; Treisman 2002). In this chapter, I focus on political decentralization, the installation of local elections which foster a group of local elites whose capacity to mobilize the mass into their favor matters to the consolidation or demise of authoritarian regimes (McDonough 1995; Scobell 2014; Tarrow 1995; Welzel 2006).[5]

One may argue that authoritarian elections are mere window-dressing with limited information about local elites' capacity to mobilize the mass to bargain with central government. But, some researchers argue otherwise. Elections not only potentially render ruling legitimacy at home (Heberer 2006; Mozaffar 2002; Schatz 2006; Schedler 2002; Waterbury 1999), but also abroad (Waterbury 1999). Even electoral fraud itself is a device to force bureaucracy into to demonstrate their loyalty and capacity (Gehlbach and Simpser 2014). Therefore, electoral results signal local elites' capacity to mobilize and/or coerce the mass into their favor.

The significance of political decentralization rests in the unique nature of dictatorship. The definition and settlement of disputes with regard to the distribution of power between central and

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[4] Political decentralization and federalism are used in previous literature. Recently researchers gradually replace federalism with political decentralization to broadly include the countries without de jure entitlement of federalism, but with de facto practice of independent decision-making power for local governments such as Spain.

[5] As Treisman (2007) points out, political decentralization is of different meanings for researchers. However, the selection of local leaders with decision making power via local election is widely considered a more decentralized form in a political system.

local governments is of great uncertainty. While democracies can always resort to a higher authority, constitutional (or judicial) review to peacefully clarify and resolve the disputes between central and local governments, dictatorships lacking such authority must eventually turn to sheer violence to thwart the worst case scenario of being overthrown as all other means are exhausted (Svolik 2012b).

Party system under dictatorship is described as one-party system, including single-party and dominant-party systems. For both systems, the ruling party always rules as long as dictatorship lives (Magaloni and Kricheli 2010). However, the two systems differ in the tolerance of opposition party in election (Magaloni 2010; Sartori 1976a). As Magaloni and Kricheli (2010) have summarized, the ruling party under single-party system prohibits the electoral participation of party outside of regime front while the dominant-party dictatorships do not.[6] Therefore, I adopt the distinction between single-party and dominant-party systems in this chapter to discuss how party system structures elected local elites' loyalty under dictatorship.

2.3 Political Decentralization, Party System, and Elite Management

Dictators count on violence to be their last resort of maintaining authoritarian rule (Svolik 2012b; Wintrobe 2000), but they have to share power with elites who may bite dictator's feeding hand. Thus, elite management has been dictators' great concerns in the literature of comparative authoritarianism (Svolik 2012b). In particular, existing studies have pointed out that dictators could establish institutions to manage elites and achieve authoritarian survival. In other words, the surviving dictatorships since the World War II have aroused intensive discussions on the

[6] Dominant party system is also termed as hegemonic party (Sartori 1976b), electoral authoritarian regime (Diamond 2002; Linz 2000; Schedler 2002), or competitive authoritarian regime (Way and Levitsky 2002).

source of authoritarian resilience, especially after more and more of them adopt façade democratic institutions such as election and party after the Cold War in the 1990s (Geddes 2005a; Magaloni 2006; Svolik 2012a).

For the last decade, approximately 70% of dictatorships hold elections and tolerate more than one party to take part in the electoral market.[7] Scholars of comparative authoritarianism suggest that dictators utilize election and party to manage elites to prevent authoritarian breakdown via information acquisition, and cooptation and deterrence of elites (Gandhi 2008; Geddes 2005; Brownlee 2007; Landry 2008; Magaloni 2006; 2008; Lust-Okar 2008; Gandhi and Lust-Okar 2009; Gehlbach and Simpser 2014; Simpser 2013; Svolik 2012a).

First, election and party provide information about elite's types. Dictators use electoral results to differentiate loyal and competent party members from others in mobilizing voters into electoral support (Blaydes 2008), detect popular grief by opposition party's vote share (Brownlee 2007; Magaloni 2006), and split doves from hawks in the opposition force by tolerance of electoral participation (Magaloni 2008).

Second, co-opting elites is feasible through elections and party. Dictators use elections to co-opt party members (Magaloni 2006), elites from various social fabrics (Gandhi 2008; Gandhi and Przeworski 2006; Wright 2008) and elites in general (Boix and Svolik 2013). Party is an engine for clientelism, a career ladder for long-term commitment, a platform for bargaining, and a credibility tool to power-sharing commitments.

First, party is an engine for clientelism. Ruling party provides elites with eco-social privileges for party members to keep them invested in authoritarian regime (Bueno de Mesquita et al. 2003a; Geddes 2005a; Wintrobe 2000). With the selective co-optation of opposition elites,

[7] Calculated from Svolik (2012a).

dictators can bump up the difficulty of coordination among opposition elites (Diaz-Cayeros, Magaloni, and Weingast 2007; Lust-Okar 2005; Magaloni 2006, 2008).

Second, the career ladder within a party ensures long-term commitment for party members interested in exclusive privileges. Landry (2008) argues that merit-based hierarchical promotion system within the ruling party keeps local elites loyal and motivated for good governance. Svolik (2012a) emphasizes that party members are hostages for the sunk costs and the future benefits they have invested over the course of seniority system so that their loyalty is fixed across time.

Third, party is a platform to contain power-bargaining. Dictators strategically adopt multi-party system to divide and rule opposition forces (Blaydes 2011; Bueno de Mesquita et al. 2003a; Smith 2005). For instance, Blaydes (2011) argues that the ruling party in Egypt make Muslim Brotherhood a major opposition power so that opposition forces fail to unite to cause authoritarian breakdown. Also, party broadens the social appeals by collecting diversified ideas, bargaining with opposition elites and addressing social demands (Gandhi and Przeworski 2006).

Fourth, party is a credibility tool to solve the commitment problem when dictators use party to institutionalize a time-consistent promise of sharing power with potential opposition elites (Brownlee 2007; Haber 2006; Lazarev 2005; Magaloni 2008) and elites in general (Boix and Svolik 2011; Svolik 2012b). Boix and Svolik (2013) contend that the existence of party guarantees mutual retaliation between dictator and elites once either party violates commitment of power-sharing.

Lastly, some studies take a synthetic view at election and party in managing power elites in general. Electoral results help ruling party to distribute spoils in accordance to party member's performance on vote collection and thus facilitate clientelism trapping voters reliant on state transfers (Blaydes 2008, 2011; Greene 2007; Lust-Okar 2008; Pepinsky 2007; Wintrobe 2000;

Zhong and Chen 2002) or to adjust allocation of resources according to the revealed weak and strong spots for ruling and opposition parties (Ames 1970; Brownlee 2007; Magaloni 2006).

Moreover, election and party deter rebellion. To prolong authoritarian rule, a landslide but manipulated victory in election can deter coup d'état and opposition elites by showing how well the government grips on power (Geddes 2005a; Simpser 2013), intimidate opposition elites by how much resources ruling party can mobilize (Geddes 2005a; Greene 2007; Magaloni 2006) or undermine the support base for opposition parties by adjusting policies with a more clear direction to pour more resources (Magaloni 2006).

Nevertheless, the literature of party and elections on elite management under dictatorships is clouded with the following issues. First, the level of election begs a deeper investigation. For one thing, 46.8% of dictatorships install political decentralization by holding local elections.[8] When researchers take the existence of national election as a metric of institutionalization for dictatorships (Blaydes 2011; Gandhi and Lust-Okar 2009b; Geddes 2005b; Pepinsky 2007), they underestimate some of the most resilient dictatorships in the sample of analysis. For instance, Qaddafi's Lybia, East Germany, and Vietnam do not hold elections in the national level, but in the sub-national level. Also, local election generates local elites unique in geographical nature for dictators to accommodate with. Existing research indicates that local election can become a greenhouse for political opposition because it builds up alternative patronage systems and regional power base (Treisman 2007; Ochoa-Reza 2004).

Second, the type of governing resources granted to elected politicians is under-specified. Control of executive and/or legislative branches decides how much elected local elites could chip

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[8] Calculated from Keefer et al. (2012) as dictatorships are defined by Geddes, Wright and Frantz (2014).

in revolution. When local elites are elected in executive and legislature bodies, they are highly empowered to represent people's interests in the legislature and conduct the policymaking via executive resources. Local elites are lowly empowered in elected legislature influential to various policy outcomes (Gandhi 2008; Manion 1996; Wright 2008), but they are subject to appointed executive's discretion.

Third, the articulated effects of ruling party on elite management are problematic. Given that central positions in the hierarchical career ladder are loaded with greater spoils (Landry 2008; Svolik 2012a), it is not clear why the majority of local elites will remain loyal to the ruling party when their future gains can never surpass sunk costs at their dead end of career. Moreover, the fairness of merit-based promotion constantly calls into question due to low transparency in authoritarian regime. In sum, the lack of procedural justice and transparency for high-end leadership will drive out some insiders of ruling party in search for better opportunities.

Fourth, interactions between insiders and outsiders of authoritarian regime front are missing. Some scholars focus on how election and party consolidate the loyalty of supportive insiders of regime front (Greene 2007; Lust-Okar 2008; Pepinsky 2007; Wintrobe 2000), while others emphasize how the two institutions keep opposition outsiders away from the regime front in check (Boix and Svolik 2013; Gandhi and Przeworski 2006; Landry 2008; Smith 2005; Svolik 2012a).

However, the interactions and fluidity between the two kinds of elites constantly challenge dictators' task of elite management. As discussed in the beginning of this chapter, some prominent opposition figures in Taiwan and Mexico were former party members of ruling parties, and it is widely recognized that they make significant contributions to democratic transitions in both countries.

2.4 Effects of Political Decentralization and Party System on Authoritarian Breakdown

In this chapter, I argue that the combination of political decentralization and party system incentivizes unsatisfied insider (local elites) to collude with outsider (opposition elites) of ruling party in regime revision under dictatorship. The degree of political decentralization determines how much governing resources local elites take control. The openness of party system decides if there exists a feasible and available outside option for local elites once they are not satisfied with their career development within ruling party. Moreover, political decentralization enables unsatisfied local elites to find their peers sharing career grievances because they reveal their political preferences derived from their electoral base with economic status, ethno-lingual composition and natural resources, etc. Together, the resources and options boost the chance in the equation of regime revision for authoritarian regimes. The logic is elaborated in details as follows.

Under political decentralization, local elites are highly empowered in elections when local executive and legislature are both elected. They can not only update and voice people's preferences in legislature, but also steer the making and implementation of policy accordingly in executive. Local elites are lowly empowered in election when only legislature is locally elected. The elected local legislature can only collect and present people's preferences to the centrally appointed executive heads who retain the discretion to incorporate people's preferences in the policies or not.

Given that spoils trickle down from central to local positions, the hierarchy of career development within party inevitably produces unsatisfied local elites with dim prospect to move up. Their limited chance to occupy positions in the central government excludes them from greater privileges. The majority of non-promoted local elites thus become a potential pool of unsatisfied elites in search for outside options when they cannot balance the investment and gains in ruling party. Equipped with electoral resources, they are capable to turn against ruling party and impose a threat on authoritarian breakdown.

One may challenge that not *all* local elites seek central posts. They may care more about the certainty of spoils rather than the size of them. Local elites may arguably be content with the highest possible position they can get. But, once local elites stop maximizing their power, they risk being replaced as their capacity to impose a threat on authoritarian rule is limited (Bueno de Mesquita et al. 2003a; Svolik 2012b).

Party system incentivizes unsatisfied local elites to collude with opposition elites or not. For local elites, defecting to party outside of regime front is a viable option conditional on the existence of it in the first place. On one hand, single-party system forbids the existence of party outside of regime front, lowly empowered local elites are trapped in the ruling party whether they are satisfied or not. Organizing a party outside of regime front from scratch is too costly to restrain unsatisfied local elites from defecting ruling party.

On the other hand, dominant-party system tolerates the existence of party outside of regime front. When highly empowered local elites are not satisfied with their promotion within ruling party, they have incentives to defect from ruling party to ally with opposition elites to go against authoritarian regime once their prospect of promotion within the party is little. Their participation in the opposition party can expect to leverage more political interests if ruling party is replaced by the opposition party or the authoritarian regime is democratized. In short, a party outside of authoritarian regime front provides a focal point for unsatisfied local elites to cooperate with opposition elites.

For opposition elites, political decentralization reveals information about local elites' political preferences and resources, which help classify local elites into potential friends or foes. Moreover, they are incentivized to recruit or even solicit the defected local elites from dominant parties because their expertise and resources are valuable assets for the opposition party to grow. To precipitate authoritarian breakdown, a party outside of regime front makes an alternative target of political investment for unsatisfied local elites and opposition ones to lower the costs of collective action.

To summarize, the degree of political decentralization can range from low (locally elected legislature) to high (locally elected executive and legislature). The types of party system covers single party (existence of parties only in regime front) and dominant party (existence of party outside of regime front). As Table 2.1 demonstrates, the two variables, political decentralization and party system, constitute four sets, including (Low, Single), (Low, Dominant), (High, Single), and (High, Dominant) denoting the combination of political decentralization and party system respectively. I will discuss each of these four categories in details in the following paragraphs.

In Table 2.1, the set of (Low, Single) represents the combination of low political decentralization and single-party system. This set is expected to be most resistant to authoritarian breakdown. Local elites are only elected in legislature. In addition, the single-party system forbids the existence of any party outside of regime front. Authoritarian rule is prolonged because local elites are electorally empowered to a limited degree and they are deprived of any feasible outside option. They are trapped in the ruling party so that authoritarian regime demonstrates resilience to democratization.

Table 2-1: Political Decentralization and Party System under Dictatorship

Party System	**Political Decentralization**	
	Low	High
Single-Party System	(Low, Single)	(High, Single)
Dominant-Party System	(Low, Dominant)	(High, Dominant)

Note: The combination of (political decentralization, party system) in parenthesis.

Malaysia makes a good case to illustrate the logic of authoritarian resilience under low political decentralization and single party system. Despite that state legislatures are elected in thirteen Malaysian states, none of local executive heads are elected. Nine states are governed by hereditary leaders who are entitled as Sultans (Johor, Kedah, Kelantan, Pahang, Perak, Selangor, and Terengganu), Yamtuan Besar (Negeri) or Raja (Perlis). Four states are governed by centrally appointed governors in Penang, Malacca, Sabah, and Sarawak (Shair-Rosenfield, Marks, and Hooghe 2014). In terms of party system, Barisan National (BN) dictates Malaysian politics in 1973 and remains a ruling party alliance including three major parties, United Malays National Organization (UMNO), Malaysian Chinese Association (MCA), and Malaysia India Congress and ten satellite parties in regime front.[9] The authoritarian rule in Malaysia has been challenged as the MCA dropped out of cabinet due to race riot against Chinese Malaysians. As the Chinese Malaysians have been under-represented and under-promoted in executive positions across all levels of governments, unsatisfied Chinese leaders could have taken advantage of the race riot

[9] The website of component party in Barisan Nasional show that the satellite parties are United Traditional Bumiputera Party, Sarawak United People's Party, Malaysian People's Movement Party, People's Progressive Party, Liberal Democratic Party, United Sabah People's Party, United Pasokmomogun Kadazandusun Murut Organization, United Sabah Party, Sarawak Progressive Democratic Party, and Sarawak People's Party. See http://barisannasional.org.my/en/component-party (Access on February 5, 2015).

and imposed a threat on authoritarian breakdown (Freedman 2000). But the MCA quickly returned to the ruling alliance and sustained authoritarian rule. Besides the minority status, the unsatisfied Chinese in Malaysia lack executive resources and a feasible option outside of regime front eventually retards its action against the government. The first hypothesis is thus derived as follows:

H1: Compared with other sets of political decentralization and party system, low political decentralization in the legislative level and single-party system tolerating only parties within regime front denoted as (Low, Single) generates the lowest likelihood of authoritarian breakdown.

On the other extreme, the set of (High, Dominant) represents the combination of high political decentralization and dominant party system. It is expected to be the most vulnerable to authoritarian breakdown. Local elites are not only elected in legislature, but also in executive branch. Also, the dominant-party system tolerates the existence of party outside of regime front.

The demise of authoritarian Philippines makes an example for this category. Philippines have suffered factionalism in local politics (Machado 1971). The party system in Philippines is considered fragmented, personalized and under-institutionalized (Montinola 1999; Ufen 2008). Under Ferdinand Marcos' rule, the ruling party, New Society Movement (Kilusan Bagong Lipunan, KBL), was confronted with challenges on the integrity of governance and elections. One of the major opposition party was the People's Power Movement-fight (Lakas Ng Bayan-Laban) led by Benigno S. Aquino, Jr., originally a mayor of Concepcion City in the province of Tarlac. After his assassination in 1983, the United Nationalist Democratic Organization (UNIDO) was formed to unite prominent figures including local leaders like Cesar

Climaco (mayor of Zamboanga city), Evelio Javier (governor of Antique), and Joe Lingad (governor of Pampanga). In 1986, Corazon Aquino, the widow of Benigno S. Aquino, Jr., assumed the presidency when the exile of Marcos brought democratization for Philippines. I come up with the second hypothesis as follows.

H2: Compared with other sets of political decentralization and party system, high political decentralization in the legislative and executive level and dominant-party system tolerating the existence of party outside of regime front denoted as (High, Dominant) produces the highest likelihood of authoritarian breakdown.

The probabilities of authoritarian breakdown for (Low, Dominant) and (High, Single) are somewhere between those for (Low, Single) and (High, Dominant). (Low, Dominant) represents the combination of low political decentralization and dominant party system. Local elites are only elected in legislature. In addition, the single-party system forbids the existence of any party outside of regime front.

The fate of authoritarian Egypt illustrate the case when authoritarian resistance to democratization seems to persist, but eventually ends up in regime breakdown in 2011. Since 1960, governors are appointed for twenty-six regions and legislature is elected in Egypt (Calingaert 2006). Although Egypt maintained a multi-party system with over thirty registered parties across ideological spectrum, the National Democratic Party has ruled Egypt since 1978 (Albrecht 2005; Kienle 1998). Although unsatisfied local elites are electorally empowered to local legislature, the lack of executive resources greatly shrinks the political capital local elites can chip in collective action against authoritarian rule. Nevertheless, opposition party can potentially take advantage of accumulated frustration to overthrow authoritarian regime with the assistance of local elites because opposition parties in Egypt exist outside of ruling party's control.

On the other hand, (High, Single) represents the combination of high political decentralization and single-party system. Local elites are elected in legislature and executive. The ruling party may set up a few satellite parties within regime front. Any party outside of ruling party's control is strictly banned.

China has been widely discussed for its prospect of democratization or authoritarian consolidation with regard to political decentralization and party system (Blanchard and Shleifer 2000; Landry 2008). There are nine parties registered in China.[10] All of them are under tight control by the regime front, referring to the ruling party, the Chinese Communist Party (CCP) in China. The provincial leaders are elected by the local legislature, which are directly elected under the supervision of CCP. So far, All of them belong to the regime front. Unsatisfied local elites are electorally empowered to local legislature and executive, but any feasible outside option is not permitted under the CCP's authoritarian rule. Before taking a post in the politburo standing committee, the highest power organ in CCP, power elites must serve as provincial leaders. However, powerful local elites are of potential to harm political stability in China, especially when members of the politburo standing committee are involved.[11] Thus, a certain level of risk of local elites involved in the scene of causing authoritarian breakdown does exist.

[10] The nine registered parties are the Revolutionary Committee of the Chinese Kuomintang, Chinese Democratic League, National Democratic Construction Association, China Association for Promoting Democracy, Democratic Party for Chinese Peasant and Labor, and Jiu San Society. See http://cpc.people.com.cn/BIG5/64162/122148/7430696.html (Access on March 5, 2015).

[11] Allegedly, Bo Xilai, the former leader in Liaoning province and party chief in Chongqing, has been involved with a conspiracy of coup along with Zhou Yongkang, a member of politburo against the current general secretary, Xi Jingping.
http://www.bbc.com/news/world-asia-china-17673505 (Access on March 5, 2015).

2.5 Research Design

To test the effect of political decentralization and party system on the authoritarian breakdown, I compile a time-series-cross-sectional (TSCS) dataset covering 41 party dictatorships from 1975 to 2007 on the basis of several datasets. The first is Barbara Geddes, Joseph Wright and Erica Frantz's dataset (hereafter GWF) on authoritarian regimes. The second dataset is Philip Keefer and the World Bank's Development Research Group's *Database of Political Institutions* (hereafter DPI) for the existence of local elections defining the degree of political decentralization. The third is Jose Antonio Cheibub, Jennifer Gandhi and James Raymond Vreeland's dataset (hereafter CGV) on party system under dictatorship.

The research interests of this chapter focus on the dual installation of political decentralization and party system, so the sample is limited to dictatorships with local election and party system. The former is defined by the DPI dataset while the latter is defined in the CGV dataset. A list of dictatorships in my sample is in the Table A-1 in the Appendix.

The dependent variable in my empirical analysis is authoritarian breakdown. It is measured by *regime failure*, a binary variable provided by GWF dataset. If an authoritarian regime should fail in a given year, it is recorded as 1 and otherwise 0. According to GWF's codebook, an autocratic regime is considered as having failed if the following occurs: (1) "a competitive election for the executive, or for the body that chooses the executive, occurs and is won by a person other than the incumbent or someone allied with the incumbent; and the individual or party elected is allowed to take office", (2) "the government is ousted by a coup, popular uprising, rebellion, civil war, invasion, or other violent means, and replaced by a different regime", or (3) "the ruling group markedly changes the rules for choosing leaders and policies such that the identity of the group from which leaders can be chosen or the group that can choose major policies changes” (Geddes, Wright, and Frantz 2014, 7–8).

Since the TSCS data structure can cause issues in temporal dependence and heteroskedasticity, and since the dependent variable in my analysis is binary, I use binary time-series-cross-sectional (BTSCS) models to conduct statistical analysis (Beck, Katz, and Tucker 1998). According to Beck and coauthors, BTSCS models use time splines to detect the temporal dependence for repeated observations on the same country. For the research interest of this paper, the (non)occurrence of regime breakdown in the past can take place repeatedly in the future for each country. In other words, history matters so that the observations are not independent. Therefore, I follow the suggestion of Cartet and Signorino (2010) and include three time polynomials for regime duration in the BTSCS models.

The other issue derived from TSCS data structure is the heteroskedasticity of standard errors in cross-sectional comparison. In this chapter, each country experiences regime breakdown for various reasons derived from its unique features in history, geography, demography, etc. These factors are beyond the model’s reach so that I use clustered standard errors to deal with heteroskedasticity in cross-sectional feature in BTSCS models.

2.5.1 Independent Variables

The first independent variable is the degree of political decentralization. It is measured by the existence of local election ranging from 0 to 2. Sponsored by World Bank, the DPI codes an ordered variable, *STATE* indicative of whether state/province governments are locally elected. Note that the DPI does not code cases in which the executive is locally elected, but the local legislature is appointed.

To accommodate with research interests, the sample only includes dictatorships with the installation of political decentralization. Thus, I drop the observation with a value of 0 for *STATE* means that neither local executive nor local legislature is locally elected. I keep the value of 1 denoting if the executive is appointed, but the legislature elected, and 2 denotes if they are both locally elected (Beck et al. 2001, 20).

The variable, *STATE*, is chosen as an indicator of political decentralization for two reasons. First, the highest level is defined as the "state/province" level across all levels of sub-national governments. At this level, the total number of local elites for a dictatorship is limited so that unsatisfied local elites' costs of collective action are minimized for collectively opting out the ruling party (Olson 1965).

Moreover, local election is coded when "indirectly elected state/province governments, where directly elected municipal bodies elect the state/province level, are not considered locally elected. Indirectly elected state/province governments elected by directly elected state/province bodies are considered locally elected" (Keefer 2012, 20).

The second independent variable is the openness of party system. The CGV's dataset contains an ordered variable of *defacto2* presenting the existence of parties outside of regime front ranging from 0 to 2. Dictatorships are coded as 0 for the non-existence of party, 1 for "one party or multiple parties, but they belong to regime front" and 2 "multiple parties" (Cheibub, Gandhi, and Vreeland 2009, 5). Because the sample is limited to party dictatorship, I exclude dictatorships without party from my sample. The party system is denoted as single when the value of *defacto2* is 1 and as dominant when the value is 2.

Since the variables for political decentralization and party system are both dichotomous and qualitatively different, I generate four dummy variables, (Low, Single), (High, Single), (Low, Dominant) and (High, Dominant) to exhaust the four possible combinations of political decentralization and party system with distinct effects on authoritarian breakdown.

To compare the dual installation of political decentralization and party system, I compute four dummy variables for four combinations. To denote the combinations in each parenthesis, the former denotes the degree of political decentralization and the latter refers to the type of party system in each parenthesis.

2.5.2 Control Variables

I include a battery of controls covering domestic and international factors indicated to influence authoritarian breakdown in BTSCS models. The domestic factors include history of past regime transition to dictatorship, endowment of natural resources, military expenditure, and economic performance while the international factor models contain democratic diffusion in the region and foreign direct investment. The major independent variable and control variables are lagged by one year to mitigate reverse causality. I will introduce the variables in the two major sets of models in the following paragraphs.

For domestic factor models, first of all, a record of regime breakdown in the past will result in more regime breakdown in the future. The consolidation of either regime system is so difficult that the probability of authoritarian breakdown is expected to be high. Thus, the history of frequent regime transitions to dictatorship is controlled by incorporating *stra*, a count variable from the CGV's dataset.

Second, it takes resources to maintain a winning coalition in the interest of minimizing the tendency of authoritarian breakdown, as Bueno de Mesquita et al. (2003a) suggest. Income from natural resources is one of the most important types of income to maintain authoritarian rule. Scholars debate the effect of natural resources on the longevity of authoritarian regime (Haber and Menaldo 2011; Ross 1999; Singer 1988)**.** Despite the mixed effect, I control this by using Haber and Menaldo's variable coding the ratio of revenue from natural resources covering oil, gas and metals over population. I also take log of it for smoothing great variation resulted from extreme values.

Third, higher military spending represents intensive investment in state violence to suppress any upheaval potentially leading to authoritarian breakdown for dictatorship. Previous research finds that the maintenance of physical capacity is crucial to prevent authoritarian breakdown (Albertus and Menaldo 2012). Heavy investment in state force is negatively associated with the probability of authoritarian breakdown. Little investment works the opposite way. In the model, I include military spending provided by the Correlates of War Project version 4.0 (Singer 1988). To eliminate the great variation in dictatorships, I take the log of the variable plus one for each dictatorship.

Fourth, a good economy arguably influences the likelihood of authoritarian breakdown under dictatorships in both directions. Modernization theory also predicts that economic development will breed middle class politically inclining for democracy (Lipset 1959). Some argue irrelevance between the two variables (Przeworski 2000). To curtail the great variation, I log the real GDP per capita, taken from the World Development Index, World Bank. I also include a squared term of GDP per capita to control for potential non-linear effects of this variable on regime breakdown.

For international factor models, the international environment is believed to command a domino effect in authoritarian breakdown (Leeson and Dean 2009). The first variable deals with the neighborhood effect of democratic diffusion. Being surrounded by more democracies will raise the probability of democratization. The three waves of democratization are good examples embodied the relationship of democratization and geographical proximity (Huntington 1991). I incorporate the measure of percentage of democracies in region calculated by Haber and Menaldo (2011) in the model.

The other international control is the volume of foreign direct investment, which is one of the most important external revenues for dictatorships. The effect of foreign direct investment on authoritarian breakdown is expected to be negative. With more inflow of foreign direct investment per capita, the more likely dictatorship is safe from being overthrown (N. Jensen 2008). The World Development Index developed by World Bank contains a variable recording the sum of foreign direct investment in current USD. I include the variable in the log form in the model. The summary statistics is presented in Table A-2 in the Appendix.

2.6 Results

To test two hypotheses previously mentioned, I estimate the effect of political decentralization and party system on authoritarian breakdown. Each hypothesis is tested in three models containing domestic controls (including regime transition, natural resources, military spending, and GDP per capita and squared GDP per capita), international controls (including regional democracies and foreign direct investment) and full controls.

I first estimate the effect of political decentralization and party system on authoritarian breakdown with the baseline of (High, Dominant) denoting the set of high political decentralization in the legislative and executive level and dominant party system tolerating the existence of party outside of regime front. According to H1, I expect that in comparison with other sets of political decentralization and party system, (High, Dominant) produces the highest likelihood of authoritarian breakdown. Next, I switch the baseline to the dual installation of low political decentralization in the legislative level and single-party system tolerating only one party. According to H2, (Low, Single) generates the lowest likelihood of authoritarian breakdown than other sets of political decentralization and party system.

Table 2.2 reports the estimation results of BTSCS models with the battery of controls in domestic and international factors. While Model 1 contains domestic controls, Model 2 covers international controls. Model 3 is comprised of all domestic and international factors as controls.

From Model 1 to Model 3, (Low, Single) consistently shows a negative relationship with the probability of authoritarian breakdown. The results are also significant at the p<0.1 level or better**.** Meanwhile, (Low, Single) presents negative coefficients with significance at the p<0.1 level in Model 2 and Model 3, but not in Model 1. Although (High, Single) is not significantly less likely to cause authoritarian breakdown than the baseline category, it shows negative signs in line with the hypothesized causal direction.

To test H2, I switch the baseline to (Low, Single), which is expected to be least likely to result in authoritarian breakdown. With (Low, Single) as the baseline category, Model 4 suggests that (High, Single), (Low, Dominant) and (High, Dominant) are more likely to cause authoritarian breakdown at the p<0.1 level with a full set of controls.

As for the control variables, the results for regime transitions and foreign direct investment reveal expected sign with significance. However, military spending, natural resources, GDP per capita, squared GDP per capita and regional democracies are not significant although the expected direction fall square on expectation.

Meanwhile, the control of regime transition is positively correlated with the likelihood of authoritarian breakdown at the p<0.5 level or better. A history of constantly switching back and forth between democracy and dictatorship makes a dictatorship vulnerable to authoritarian breakdown. Failure to consolidate either regime system raises the prospect for authoritarian breakdown. The other control that shows significant outcomes across models is the volume of foreign direct investment. The coefficient is negatively related to the authoritarian breakdown at the $p<0.5$ level as previous literature concludes (N. Jensen 2008). The effect of foreign direct investment prevents the collapse of authoritarian regime by benefiting its economy.

Table 2-2: Effects of Political Decentralization and Party System on Authoritarian Breakdown

	Model 1	**Model 2**	**Model 3**	**Model 4**
(Low, Single)	**-1.411***	**-2.669*****	**-2.921*****	
	[0.768]	[0.857]	[1.077]	
(High, Single)	-0.253	-0.488	-0.207	**2.714****
	[0.753]	[1.065]	[1.087]	[1.184]
(Low, Dominant)	-0.818	**-0.905***	**-1.143***	**1.778****
	[0.550]	[0.494]	[0.591]	[0.865]
(High, Dominant)				**2.921*****
				[1.077]
Regime transitions	0.865***		0.805**	0.805**
	[0.263]		[0.396]	[0.396]
Military spending	-0.196		-0.211	-0.211
	[0.183]		[0.169]	[0.169]
Natural resources	-0.036		0.143	0.143
	[0.085]		[0.115]	[0.115]
GDP per capita	-0.008		-0.137	-0.137
	[0.330]		[0.380]	[0.380]
GDP per capita (squared)	0.011		0.029	0.029
	[0.033]		[0.033]	[0.033]
Democracies in the region		0.009	0.010	0.010
		[0.017]	[0.013]	[0.013]
Foreign direct investment		-0.200**	-0.223**	-0.223**
		[0.078]	[0.103]	[0.103]
N	41	38	38	38
No. of observations	665	530	518	518
Wald Test (Prob > chi2)	0.000	0.027	0.006	0.006
Log pseudolikelihood	-101.317	-77.778	-71.318	-71.318

Note: Clustered standard errors in brackets. Three time polynomials and constant not shown.
* p<0.1, ** p<0.05, *** p<0.01.

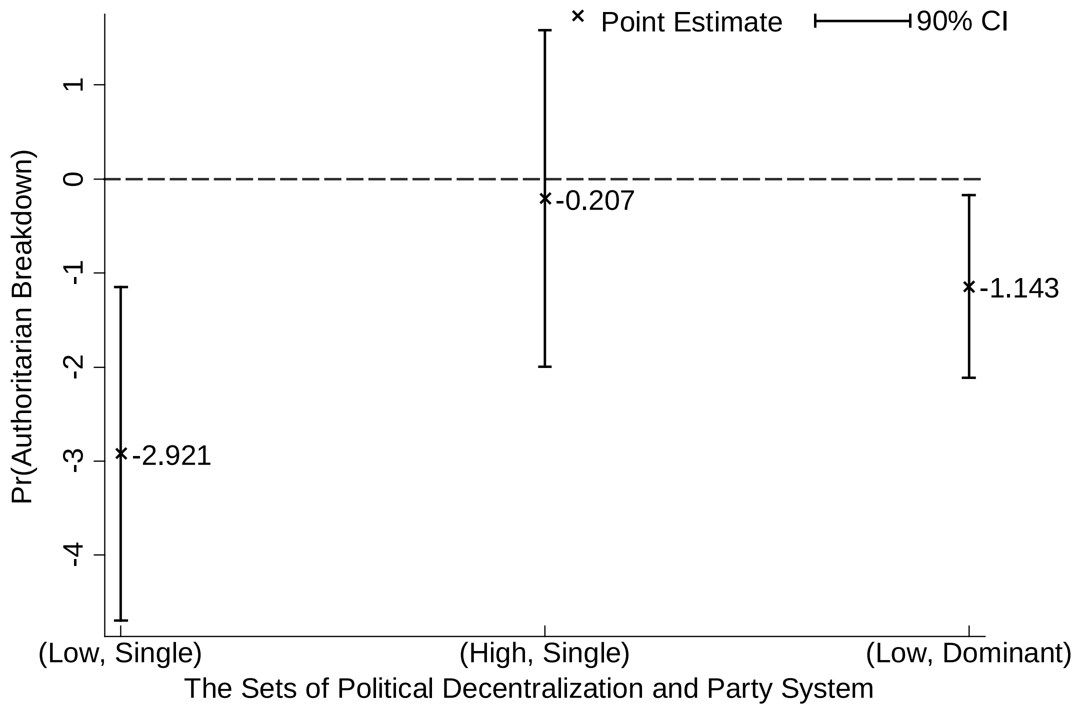
Based on Model 3, I simulate the predicted probabilities of effect of political decentralization and party system on authoritarian breakdown with King, Tomz and Wittenberg's *Clarify* package (King, Tomz, and Wittenberg 2000). The baseline is set at (High, Dominant) with all other variables fixed at their means. According to H1, (High, Dominant) is expected to be most likely to lead to authoritarian breakdown, compared with other combinations of political decentralization and party system.

The simulation results are presented in Figure 2-1. The predicted probabilities of (Low, Single) and (Low, Dominant) on authoritarian breakdown are negative. The results show that the effects of two sets on authoritarian breakdown are significantly negative in comparison with the baseline of (High, Dominant).

The predicted probability of (High, Single) on authoritarian breakdown is weakly supportive of H1. The results are negative as expected. But the 90 percent confidence intervals come across the value zero. Thus, I cannot rule out the possibility of indifference in the effect on authoritarian breakdown between (High, Single) and (High, Dominant). Nevertheless, the point estimate of simulated effects for (High, Single) on authoritarian breakdown is negative in comparison with the baseline of (High, Dominant).

In sum, the empirical evidence partially supports the argument that the dual installation of high political decentralization and dominant party system makes dictatorships vulnerable to regime breakdown. (High, Dominant) is more politically resilient than (Low, Single) and (Low, Dominant). Given high political decentralization, single party system does not necessarily outperform dominant party system in terms of sustaining authoritarian rule. Thus, H1 is statistically confirmed for (Low, Single) and (Low, Dominant), but not for (High, Single) in my sample.

Figure 2-1: Effect of Political Decentralization and Party System on Authoritarian Breakdown: (High, Dominant)

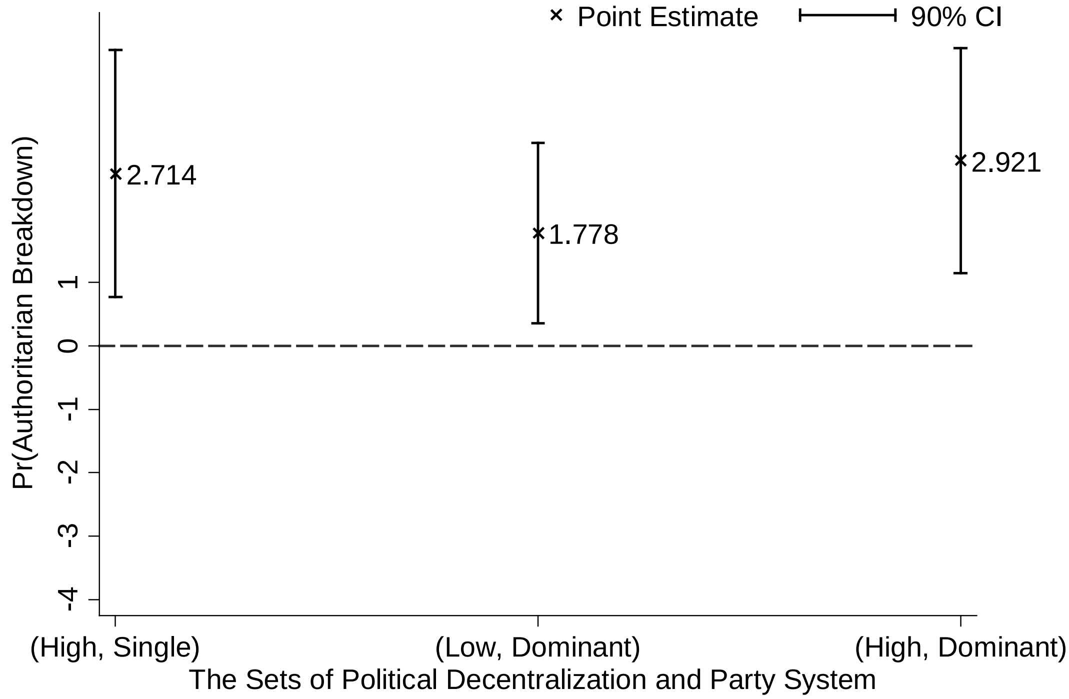


Note: The graph is drawn across 3 sets of (political decentralization, party system)

Based on the estimates of Model 4 with (Low, Single) as the baseline, I simulate the predicted probability of regime breakdown across other three sets of political decentralization and party system under dictatorship. As H2 proposes, the probability of authoritarian breakdown is lowest for (Low, Single) among all sets of political decentralization and party system.

Figure 2-2 illustrates th2e simulated predicted probabilities of authoritarian breakdown with the estimates of Model 4. As illustrated in Figure 2-2, (High, Single), (Low, Dominant) and (High, Dominant) are more likely to result in authoritarian breakdown than (Low, Single). In other words, (Low, Single) is mostly resistant to authoritarian breakdown as local elites are limited in their resources and blocked out any alternative choice of defection.

Figure 2-2: Effect of Political Decentralization and Party System on Authoritarian Breakdown: (Low, Single)



Note: The graph is drawn across 3 sets of (political decentralization, party system)

To conclude, the empirical evidence partially supports H1, but strongly confirms H2. Specifically, (Low, Single) and (Low, Dominant) support H1, but (High, Single) does not. Given high political decentralization, single party system does not necessarily outperform dominant party system in terms of sustaining authoritarian rule. Meanwhile, (Low, Single) is least likely to result in authoritarian breakdown, as suggested by H2. Thus, closing the door of outside option with lowly empowered local elites best sustain authoritarian rule.

2.7 Conclusion

This chapter intends to take a synthetic view analyzing how different formula with regard to political decentralization and party system influence authoritarian breakdown. No one can govern alone, and dictators are no exceptions. To share power with elites who govern along, dictators face the dilemma of empowering local elites and managing their loyalty via election and party, which are believed to provide information, reward and punish elites. As a maximizer of political interests, local elites become unsatisfied when they have little hope to climb higher in the hierarchical career-ladder to central positions linked with greater advantages. The degree of political decentralization determines how much resources unsatisfied local elites can offer for overthrowing authoritarian rule. On the other hand, the type of party system decides how much costs opposition elites can lower in the equation of regime revision. By just electorally empowering local elites to voice local people's needs under executive discretion and blocking any alternative party outside of regime control makes a good tool to sustain authoritarian rule. As unsatisfied local elites are limited in their organizational power to mobilize the mass and a feasible outside choice to turn to, their loyalty is monopolized whether they are satisfied or not.

On the other hand, the empirical evidence partially supports the argument that the simultaneous installation of high political decentralization and dominant party system increases the probability for regime demise. Fixed at high degree of political decentralization, dominant party system does not significantly results in more authoritarian breakdown. When unsatisfied local elites are electorally empowered to voice and execute independent policies at people's will without discretion, the lack of feasible outside party may not necessarily stop them from overthrowing dictatorships to bid for greater political gains.

Based on the statistical analysis of 41 dictatorships from 1975 to 2007, empirical evidence supports the argument that the dual installation of high political decentralization and dominant party system is detrimental to authoritarian regimes. In addition, the estimation results also indicate that the dual installation of low political decentralization and single party system is mostly resistant to authoritarian breakdown.

The findings imply that over power-sharing with supporting elites and tolerance for opposition party can be lethal for dictators. The simultaneous installation of dictator’s over power-sharing with insiders (local elites) of ruling party and their tolerance of outsiders (opposition elites) to build up a party outside of regime front can ironically cause authoritarian breakdown as they pave the way for two types of elite to pool in resources and to lower costs in collective actions against authoritarian regimes. Current literature of authoritarian institutions looks at the effect of a single institution on authoritarian breakdown, but overlooks how institutions interplay with each other to influence elites’ strategic behaviors. A synthetic view of institutions is expected to enrich our understanding in how elites act in the context of authoritarian regime for future research.

Additionally, most scholars explain why dictators set up ruling party, but few of them explain why they tolerate the existence of party outside of regime front. This chapter explains that as dictators choose to share power with local elites, their choice of tolerating the existence of party outside of regime front may not be the worst choice to the political survival of authoritarian regime.

CHAPTER 3
POLITICAL DECENTRALIZATION AND VIOLATION OF BILATERAL INVESTMENT TREATIES

3.1 Introduction

Dictatorships have gained greater significance in an increasingly competitive game for global capital. According to the World Bank, global inflow of FDI has been up to 1.17 trillion USD in 2010, of which dictatorships occupy 62.89 %.[12] But dictatorships are believed to be less credible in attracting FDI due to the lack of executive constraints, political stability, transparency in policy change, and protection of human rights compared with democracies (Jensen 2003; 2008; Blanton and Blanton 2007; Rosendorff and Shin 2012).

To gain international investors' trust, dictatorships need to rely on international institutions to lend credibility to their treaty compliance (Fang and Owen 2011; Rosendorff and Shin 2012). Given dictatorships' preference for bilateral treaties over multilateral ones (Garriga 2009), BITs make a reasonable choice of commitment tool for authoritarian regimes. The number of BITs has increased to 3,060 engaging 174 signatory states from 1959 to 2014, of which 47.6 % involves at least one dictatorship, as reported by the United Nations Conference on Trade and Development (UNCTAD).[13]

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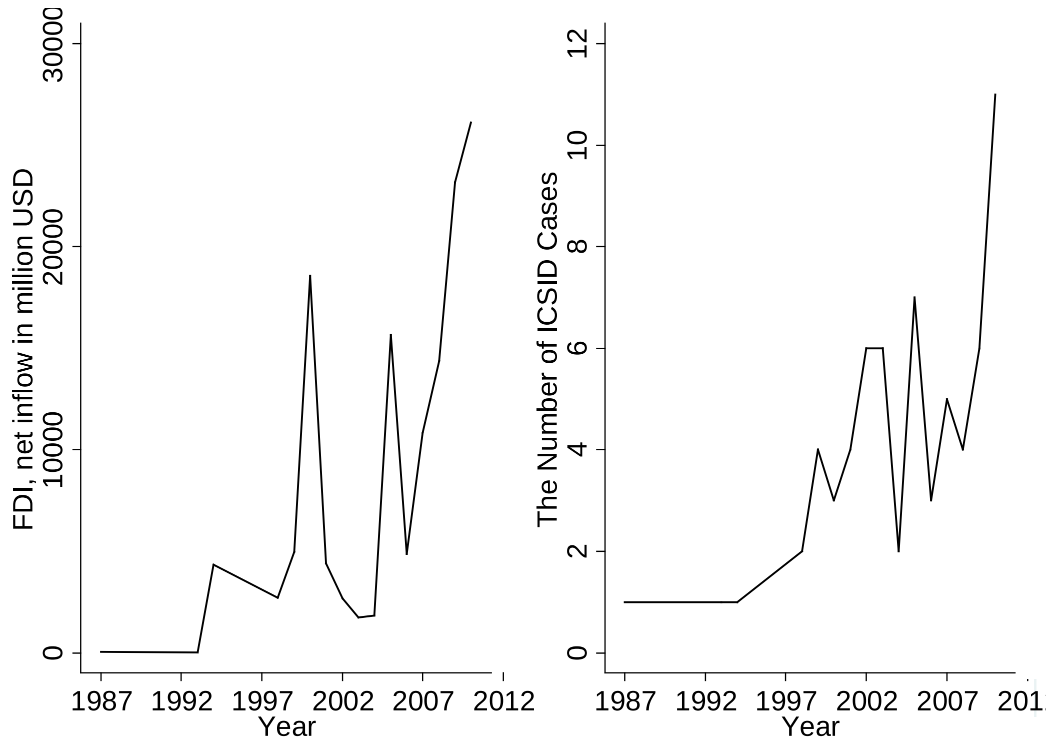
[12] Calculated from the inflow of foreign direct investment by World Development Indicators, World Bank accessed by STATA.

[13] Calculated from International Investment Agreement on UNCTAD website: http://investmentpolicyhub.unctad.org/IIA (Access on March 4, 2015).

Figure 3-1: The Trend of FDI Inflow and ICSID Cases Invoked by BITs for Dictatorship



Source: UNCTAD and WDI

Many believe that signing BITs not only signals the host country's intention to protect FDI (Haftel 2010; Neumayer and Spess 2005), but also punishes the BIT's violation by reducing FDI in the future (Allee and Peinhardt 2011).

However, dictatorships and international investors do not live happily ever after BITs are concluded. As I present in Figure 3-1, a growing inflow of FDI to dictatorships is accompanied by an increasing number of ICSID lawsuits against them. Moreover, some dictatorships have been accused of BIT violations often, while others have not. For instance, Egypt and Venezuela have been sued for BIT violations at least ten times before International Center for Settlement of Investment Disputes (ICSID), while Singapore and Cuba maintain a perfect record of not being sued. The question is what makes some dictatorships more likely to be sued before ICSID cases than others after BITs are signed? For those signing BITs as international institutions committed to international market, what is the domestic determinant that makes some countries good compliers to their commitment and some not?

Existing literature of fiscal decentralization sheds light on this puzzle. Camps of scholars debate about whether decentralization matters to the increase and protection of FDI, which is the purpose of enforcing BITs. Some scholars argue that decentralization facilitates FDI because it produces a group of local elites in fierce competition for limited inflow of FDI and thus fosters an efficient capital market, innovative polices, and limited central intervention (Montinola, Qian, and Weingast 1995; Oates 1972; Qian and Weingast 1996, 1997; Tiebout 1956; Xu and Zhuang 1998). Those conditions are attractive for international investors. Some refute this claim and argue that decentralization does not benefit FDI. Instead of facilitating market efficiency, competition for capital among local elites incentivizes them to help enterprises to find the loopholes in central government's policy (Cai and Treisman 2004, 2005, 2006; Treisman 2007).

However, the debates fall short to develop a general argument, inadequately apply the measure of fiscal decentralization to dictatorships, and weakly address the distinction between developing countries and dictatorships. To contribute to the literature, I employ a quantitative study to examine the effect of political decentralization on BIT violation under dictatorships. Political decentralization refers to the existence of local elections which electorally empowers a group of local elites capable of amassing the votes into their favor in specific regions of political interests (McDonough 1995; Scobell 2014; Tarrow 1995; Welzel 2006). Given that local elites are electorally connected with interest groups, they tend to protect interest groups' profits at the cost of violating BIT. The conflict of interest between central and local governments takes place in democracies as well. However, authoritarian regime lacks an ultimate authority to regulate the relationship between central and local governments. Therefore, the conflict can be resort to judicial review in democracies, but not dictatorships. The unsolved conflict eventually results in international litigation.

As illustrated in Figure 3-2, the general trend shows that dictatorships with political decentralization are more likely to be sued in ICSID cases invoked by BITs than those that are not. Under the auspice of World Bank, the Dataset of Political Institutions provides the variable of political decentralization. The number of ICSID cased invoked by BIT is calculated from the record published on the ICSID website [14]. The t-test shows that the installation of decentralization does significantly lead to a higher number of ICSID cases at the $p < 0.001$ level.

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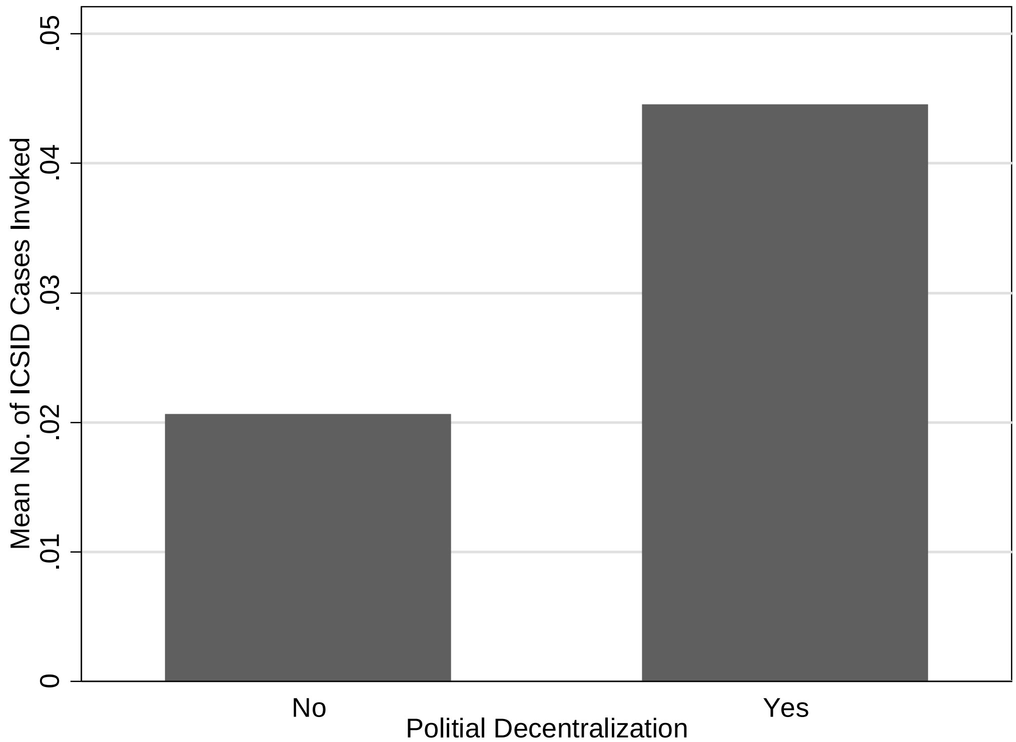
[14] ICSID website: https://icsid.worldbank.org/apps/ICSIDWEB/icsiddocs/Documents/List%20of%20Contracting%20States%20and%20Other%20Signatories%20of%20the%20Convention%20-%20Apr%202014.pdf (Access on April 4, 2015).

Figure 3-2: The Mean Number of ICSID Cases by Decentralization for Dictatorships



Source: DPI and ICSID

In this chapter, I argue that political decentralization exacerbates the principal-agent problem between central and local governments. After concluding BITs the central government (principal) delegates the mission of BIT compliance to local elites (agents), as FDI takes physical roots in regions. Under the framework of BIT, electorally minded local elites tend to attract limited inflow of FDI by bidding up terms, such as tax reduction, subsidy, land grant and etc. The extra and detailed terms automatically qualify the target of protection by BIT. elected local elites seek rents for provision of public/private goods in the interest of sustaining their political survival. FDI is one of the sources to boost economic development from which local elites can extract rents.

However, Local elites are incentivized to over-commit the extra terms to outbid their counterparts. Those terms are conditional on local elites' capacity and intention to fulfill.

However, local elites' capacity and intention to carry out the terms may change over time so that they have time-inconsistency issue with regard to BIT compliance. When local elites are caught in the dilemma between BIT compliance delegated by central government and interest groups' needs, electorally minded local elites will succumb to the latter as they face the time-inconsistency issue.

This is particularly serious for dictatorships because they lack an ultimate authority to define, interpret and settle the disputes between central and local governments with regard to the BIT violations. Thus, BIT violations become a possible outcome jeopardizing a dictatorship's international reputation, a common good among local elites who are incentivized to free ride each other's efforts to maintain it.

This chapter is organized as follows. In the next section, I review the literature on how decentralization influences the protection of FDI, the very purpose of signing BITs with dictatorship in the first place. Next, I argue that political decentralization leads to more BIT violations where local elites tend to overcommit to international investors in BITs. BIT violation is a tempting choice in face of time-inconsistency problem. In the empirical sections, I first discuss the research design and then present empirical evidence to support my argument. The final section concludes the findings and implications to literature.

3.2 Fiscal Decentralization, FDI Inflow and BIT Violations under Dictatorship

The introduction of international institutions imports credibility for dictatorships lacking credibility in international cooperation (Fang and Owen 2011; Rosendorff and Shin 2012). To clear the doubts of hold-up problems, home states tend to sign investment treaties to signal their intention to protection the property rights of international investors' investments. BITs are international agreements to prevent home counties of FDI from facing “obsolescing bargain” with host countries holding up investor’s assets for greater profits after FDI is settled (Vernon 1985). Since dictatorships favor bilateral over multilateral treaties (Garriga 2009), BITs are commitment tools to engage international investors’ home countries.

To protect FDI from being held up by an authoritarian regime, BITs stipulate the terms and conditions for protection and exercise of property rights, preferential tariff levels, free transfer of production means, resolution of disputes, access to loans, tax terms, and so on. The hold-up problem concerns international investors because the costs for reallocation of assets are huge. Once foreign investments are settled in specific regions, relocation takes extra costs, which may not be economically efficient. BIT is an important tool for dictatorships to build up international credibility to relieve international investors from the concerns over hold-up problem (Allee and Peinhardt 2014; Kerner 2009; Neumayer and Spess 2005).

Although the ongoing debate shows mixed results in whether signing BITs induces more FDI (Tobin and Busch 2010; Tobin and Rose-Ackerman 2011; Büthe and Milner 2008; Kerner 2009; Salacuse and Sullivan 2005; Haftel 2010; Egger and Pfaffermayr 2004), it is confirmed that being sued can lead to significant reduction in FDI (Allee and Peinhardt 2011). According to Allee and Peinhardt’s calculation (2011, 423–426), the net FDI inflow reduces by $55 million USD for each pending case in an annual base on average. The figure goes up to an average of $791 million USD if a respondent country has lost an ICSID case within the last two years.

Since FDI is affected by BIT violations, I look at how decentralization results in BIT violation.

Previous literature presents two competing lines of argument about the effect of decentralization on international cooperation in terms of protecting FDI, for which BITs are devised. For the camp taking a positive view on the effect of decentralization for securing FDI, scholars argue that decentralization facilitates FDI because it produces a group of local elites in fierce competition for limited inflow of FDI and thus fosters an efficient capital market attractive for international investors (Montinola, Qian, and Weingast 1995; Qian and Weingast 1996, 1997; Tiebout 1956; Xu and Zhuang 1998).

Some authors attribute double-digit economic growth rate in China to market-preserving federalism, which adds three more criteria upon Riker’s two criteria (Montinola, Qian, and Weingast 1995; Qian and Weingast 1997; Riker 1964). Riker (1964) proposes two criteria, “(1) a hierarchy of governments, that is, at least "two levels of governments rule the same land and people," each with a delineated scope of authority so that each level of government is autonomous in its own, well-defined sphere of political authority, (2) the autonomy of each government is institutionalized in a manner that makes federalism's restrictions self-enforcing”.

Weingast and his coauthors (1995) adds three more criteria to define market-preserving federalism:” (3) subnational governments have primary regulatory responsibility over the economy, (4) a common market is ensured, preventing the lower governments from using their regulatory authority to erect trade barriers against the goods and services from other political units, and (5) the lower governments face a hard budget constraint, that is, they have neither the ability to print money nor access to unlimited credit.”

For instance, Weingast and his coauthors (1995; 1996) argue that the decentralization system in China is of market-preserving features since the start of economic open policy in 1979. The Chinese central government limits the degree of central planning in economy and empowered local elites to experiment on innovative methods of boosting economic development in regions. To ensure a constant inflow of FDI, fiscal decentralization empowers local elites dedicated to market security hinged on binding BITs China has concluded with international investors' home countries.

On the contrary, some scholars posit that the installation of decentralization corrodes market efficiency (H. Cai and Treisman 2004, 2006; Treisman 2007). Cai and Treisman contend that the market-preserving federalism argument is overly optimistic about the central government's capacity to collect tax or to impose regulations. When the central government is incapable of enforcing policy goals, market efficiency is not derived when local governments compete for capital. Local elites are motivated to attract investment by aiding tax or regulation evasion for enterprises. Under this logic, local elites' competition harms market efficiency. Thus, decentralization carries negative effect on the inflow of FDI.

In the case of China, Weingast and his coauthors argue that fiscal decentralization is irrelevant to China's dazzling economic development. First, the causal sequence is wrong. The initiation of economic openness precedes the practice of decentralization. Second, fiscal decentralization does not improve fiscal discipline in state enterprises. Also, taxation consumes the premium of revenue. The Chinese economic miracle is actually rooted in competing central factions with ideological rivalry and local networks

Nevertheless, the debates are not satisfying in the following regards. First, the debates are limited to the discussion on the cases of China and Russia. The literature begs an examination on dictatorships in general. In addition, the sole focus on China and Russia neglects greater variation within dictatorships, especially since China and Russia are both territorially huge states with the legacy of communism. Most dictatorships do not share the characteristics unique in the two countries.

Second, previous literature focuses on the measure of fiscal decentralization, which is arguably inappropriate to address the issue of BIT compliance. Rampant corruption and low transparency under authoritarian regime makes it hard to evaluate the continuance and change of fiscal and administrative decentralization. For instance, under-the-table revenues and informal hired hands can under-estimate how much organizational power local elites can leverage to bargain with central government. It is also likely that the central government still keeps an upper hand in economic planning even when it maintains a high tax share for local governments. Either way compromises the integrity of dataset in fiscal or administrative decentralization.

Lastly, the debates neglect the distinction between developing countries and dictatorships. Despite that most dictatorships are in developing countries, not all developing countries are dictatorships. The nature of regime type is of great political significance for any country to engage in international commitment like BITs. The terms in BITs are left for bilateral negotiations between two countries. Once deposited to ICSID for a third-party intervention in time of disputes, the judgement is made upon the given terms of BITs accordingly. Therefore, the nature of regime type is of greater importance than the level of economic development as I elaborate the discussion on BITs violation.

3.3 Political Decentralization, Over-Commitment and Authoritarian Credibility in BITs

In this chapter, I focus on how treaty compliance with international commitments under dictatorships is conditional on political decentralization, where local elections exacerbate the principal-agent problem between central and local governments. To be specific, I argue that political decentralization results in more BIT violations because elected local elites are motivated to over-commit in competition for inflowing FDI and ignore BIT compliance, the implementation of policy central government delegates to local elites.

The principal-agent problem refers to the situation when dictators (principals) have a hard time motivating local elites (agents) to act in principal's best interests rather than in agent's own interests (Miller 2005). In the case of BITs, the principal (central government) and the agent (local governments) both agree that signing of BITs is in both parties' best interests because it can bring more FDI beneficial to economic development (Borensztein, De Gregorio, and Lee 1998; Zhang 2001). To attract FDI, local agents support their central government's signing BITs with the terms of favorable subsidy, land appropriation, tax reduction, and various policy preferential treatments to foreign investors. Once a BIT is signed, the central government delegates the policy of BIT compliance to local elites, as FDI takes physical roots in regions. But the maintenance of credibility in BITs is problematic after the BITs are concluded.

The existence of local elections diverge central and local governments on the issue of complying with BITs. For the central government, complying with BITs ensures a constant inflow of FDI. Once international reputation is tarnished by being sued for BIT violation before international court, the volume of inflow FDI will decrease (Allee and Peinhardt 2011).

FDI is one of the sources to boost economic development from which local elites can extract rents. After central government signs BIT with foreign countries, local elites are motivated to outbid each other with extra terms in the interest of maximizing the inflow of FDI in the region of their rule. The extra terms are automatically enrolled in the protection of BITs. With more inflow of FDI, local elites benefit from extracting more taxes derived from growing economy. In turn, they can use tax income to provide supporters with provision of public/private goods in the interests of sustaining their political survival.

As elected local elites face the issue of time inconsistency, local elites are tempted to prioritize local needs at the cost of BITs violation, resulting in tension between central and local governments. The issue of time inconsistency refers to the change in local elites' preferences in

BIT compliance derived from the change in conditions of signing BITs from time t to (t+1). For instance, political or economic shocks, such as recession, coups, wars and so on so forth, can severely shrink local elites' capacity or incentive to fulfill the promises they make in BITs.

The time-inconsistency issue is particularly serious for dictatorships due to the lack of an ultimate authority to define, interpret and settle the disputes in BITs compliance between central and local governments. Given the logic of over-commitment, BITs violation jeopardizes a dictatorship's international reputation, a common good among local elites who are incentivized to free ride each other's efforts to maintain it.

For instance, the provincial leaders are elected by local legislatures, which are directly elected under the supervision of CCP. Under the political decentralization system, local elites in China are agents who need to comply with 108 BITs the Ministry of Commerce in central government has so far concluded. Provincial governments violate BITs so that China has engaged in two lawsuits because they are accused of violating BITs. The first case is Ekran Berhad v. People's Republic of China (ICSID Case No. ARB/11/15). Ekran Berhad, a Malaysia-based company, accused Hainan province of violating Malaysia-China BIT signed in 1988 (Shan and Su 2015). Hainan province committed a land usage to Ekran Berhad, but later revoked the right of lease on land use by asserting that Ekran Berhad failed to develop the land under local regulations stipulated in local legislation. The case was registered in 2011. The other lawsuit is invoiked by South Korea-China BIT signed in 2007. Ansung Housing Co., Ltd. v. People's Republic of China (ICSID Case No. ARB/14/25) is an investment dispute in property development for a golf country club and condominiums in Jiangsu province.[15] Ansung accuses

[15] Herbert Smith Freehills Law Corporate's website: http://hsfnotes.com/arbitration/2014/11/10/china-sued-by-south-korean-property-developer-at-ics

Jiangsu province of intruding on its right to delay the schedule of an investment plan.

Based on these discussions, I empirically test the following hypothesis in this chapter:

Hypothesis: The installation of local election is positively related to the number of ICSID cases invoked by BITs for dictatorships.

3.4 Research Design

In this chapter, I examine the effect of political decentralization on BIT violations among dictatorships. To fit the research interest, the sample is restricted to dictatorships engaged in effectively enforced BITs. I include cases where a dictatorship is sued and drop the cases where non-state actors are sued.[16] I also adopt Geddes, Wright and Frantz's variable to identify non-democracies (2014). The effectively enforced BITs come from the dataset of International Investment Agreements, which was collected and updated under the auspices of UNCTAD. The duration of BIT is determined by the time span of a signed and enforced BIT. The unit of analysis is the country-year. The dataset covers 81 dictatorships dating from 1959 to 2013.

The dependent variable is a count variable coding the total number of cases invoked by BITs registered to ICSID for a given dictatorship in a given year. The data on this variable is collected via the historical records of dispute settlements published on the website of ICSID.[17] Until 2014, 150 states have signed the *Convention on the Settlement of Investment Disputes between States and Nationals of Other States* and deposited their instrument of ratification to the

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id/ (Access on April 4, 2015).

[16] I drop two observations where respondent is a non-state actor in the case. The case numbers are ARB/76/1 (Société Serete S.A) and ARB/07/3 (PT Kaltim Prima Coal and others).

[17] ICSID website: https://icsid.worldbank.org/apps/ICSIDWEB/Pages/default.aspx (Access on January 14, 2015).

ICSID at the World Bank.[18] The coverage of state members and BITs in ICSID is comprehensive enough to cover the legal actions initiated with regard to signed BITs. The legitimacy of the ICSID is confirmed by statistical examinations by empirical legalists (Franck 2010).

One may argue that it is inappropriate to operationalize BIT violations as the number of being sued in ICSID case because claimants can use lawsuits as a strategic measure to blackmail host states of FDI, in efforts at re-negotiation for better terms. In other words, respondents in lawsuits for violating BITs may not actually have violated them. Besides, lawsuits represent the claimant's subjective evaluation and unilateral action against the respondent states. Treating the sheer existence of lawsuits as violation of BITs can overestimate the likelihood of BIT violation.

However, this objection could not be sustained by empirical evidence. On average, a registered case takes 4.6 years and millions US dollars before a case is concluded. This is quite a toll for private nationals to file a lawsuit against a state.[19] During the proceedings, the assets and capital under disputes are greatly limited for liquidation, which further prevents promiscuous and groundless accusations against the host states.

In this regard, claimants would have exhausted all possible means to settle the disputes before resorting to international trials. It is highly likely that host states would have violated BITs before they are filed for dispute settlement in the ICSID by claimants. The observations on

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[18] Calculated from ICSID website. See footnote 17.

[19] The Figures are calculated from ICSID website. The ICSID rules published on website as well. According to the costs of proceedings governed by ICSID rules, claimants are private nationals who have to make payments including the party's expenses, the advances paid to ICSID and the lodging fee paid by the party instituting proceedings. The average years are calculated from the duration from the date registered to the date of outcome of proceeding for concluded cased published on ICSID website.

lawsuits thus would only under-estimate rather than over-estimate the occurrence of BITs violation. As stated previously, lawsuits invoked by BITs before international court may underestimate the presence and prevalence of BITs violation as high costs induced by lawsuits may deter claimants from seeking legalist solutions.

In addition, lawsuits invoked by BITs are arguably an objective indicator of treaty violation. A direct measurement and identification of BIT violation cannot be objective because home and host states engaged in BITs disputes may provide biased interpretations of terms and selective presentation of evidence to their favor. Therefore, the ICSID is an objective measure not only it is recognized as an objective third-party in BITs deposition, but also the outcomes of litigations prove the objectivity of litigation in an ex post way. In the ICSID cases against dictatorships, 69.2 percent of concluded cases end up with outcomes favorable to claimants, including awards and settlements. 21.2 percent of cases end up in discontinuance of proceeding without information with regard to disputes. And only 9.6 percent end up proving authoritarian respondent innocent with an outcome of annulment.

I choose negative binomial regression models (NBRM) based on the nature of dependent variable. Moreover, being sued at time t may change the likelihood of being sued in time (t+1). Compared with Poisson or ordinary least square (OLS) regression models, NBRM accounts for the contagious dynamic in the dataset, produces standard errors without downward bias, and avoids downward biased p-values (Brandt et al. 2000; King 1988; Cameron and Trivedi 1986; 1998).

3.4.1 Independent Variable

The key independent variable of this chapter is a binary variable that measures the existence of political decentralization. I operationalize political decentralization as the existence of local elections. Philip Keefer and colleagues constructed the Database of Political Institutions (DPI) that contains an ordered variable, *STATE*, to indicate whether state/province governments are locally elected (Beck et al. 2001, 20). The variable of *STATE* is coded 0 for non-existence of local election, 1 for elected legislature, and 2 for elected executive and legislature. Note that the DPI does not code cases in which the executive is locally elected, but the local legislature is appointed. I re-compute the 3-category variable into a dichotomous variable where the existence of local election is coded as 1 and 0 otherwise. According to my previous discussions, the existence of political decentralization is expected to increase the number of being sued in ICSID cases invoked by BITs for a dictatorship, since politically decentralized dictatorships are more prone to encounter the problem of over-commitment incurred by elected local elites.

The use of political decentralization has two major advantages. First, the dataset of fiscal and administrative decentralization is suspiciously contaminated by the lack of transparency or government manipulation, whether local elections are installed or not is linked to local elites electoral concerns.

Second, the significance of political decentralization rests in the unique nature of dictatorships. The definition and settlement of disputes with regard to the division of power between central and local governments is of great uncertainty. While democracies can always resort to a higher authority, there exists constitutional (or judicial) review to peacefully clarify and resolve the disputes between central and local governments. But, dictatorships lack such authority so that the disputes may end up deadlock. On account of the reasons stated above, the choice of political decentralization is a better measure to evaluate whether local elites are electorally connected to interest groups whose need may conflict with central government's policy with regard to BIT compliance.

3.4.2 Control Variables.

I include a battery of political, economic, and institutional controls from domestic and international factors (Simmons 2014; Allee and Peinhardt 2011; 2014). When the presumed conditions for states to engage in BITs change, states' preferences change so that they fail to adhere to international commitments. Domestic and international institutions are installed to facilitate states' observation of BITs (Allee and Peinhardt 2011). I will elaborate the operationalization of each control in the following paragraphs.

3.4.2.1 Domestic Politics Controls

I include political, economic, and institutional controls in the models of domestic politics. To account for political instability in domestic politics, I borrow the unweighted and annual count of domestic political shocks ranging from 1 to 8 for a given dictatorship from Banks and Wilson's Domestic Conflict Event Data (n.d.). The count adds up the number of general strikes, government crises, anti-government protests, riots, purges, revolutions and guerilla warfare, which corrodes the legitimacy of leadership or even the dictatorship. Allee and Peinhardt also include the same variable in the evaluating the reputational effects of investment treaty disputes on FDI (2011). Dictators are tempted to confiscate foreign properties to finance ongoing civil war. I calculate the total number of civil war from intrastate war dataset from the Correlates of War Project (COW) in an annual fashion (Sarkees and Schafer 2000). The effect of civil war is predicted to be positive on the count of BIT violations.

As for domestic economic factors, I use Laeven and Valencia's dataset (2013) to incorporate the number of domestic economic shocks in the form of banking, currency or debt crises a dictatorship experiences each year. Economic shocks can dampen dictatorships' ability to keep up with the terms to which they commit in the BITs, as Allee and Peinhardt address in their study (2011). The higher the number of domestic economic shocks in a dictatorship, the more likely it violates BITs.

Moreover, economic fluctuations revise local elite' preferences or capacity to the maintenance of BITs. For instance, a lesser-developed economy or a soaring inflation rate raises the risk of hold-up problem for FDI, the target of protection by BITs. The GDP per capita measures the level of development whereas the inflation rate is an indicator of the stability of general economy (Aizenman and Glick 2008). I adopt the logged variables of GDP per capita and the percentage of inflation rate over GDP from the World Bank (Sarkees and Schafer 2000). For the two economic variables, the expected direction of effect on BIT violations is mixed.

Next, domestic institutions play a crucial role in treaty adherence. Some of them are even specifically established to produce credibility in the global market in order to conclude more BITs. They include policies and practices with regard to protection of property rights, capital openness, and types of dictatorships. Taken from the PRS group's International Country Risk Guide, I use the untransformed index of property rights protection ranging from 0 to 30, with higher scores indicate better protection of property rights. The index is composed of four indicators evaluating investment profiles, bureaucratic quality, corruption, and law and order (2015). Another economic policy is capital openness, which measures the openness of capital account (Ito and Chinn 2008). The variable is expected to decrease the BIT violations.

Party dictatorships are believed to perform better in various policy outcomes, such as leadership constraints and policy transparency, that are beneficial to international cooperation

(Lai and Slater 2006; Mattes and Rodríguez 2013; Weeks 2008, 2012). I generate three dummies of military, monarchy, and personal dictatorships and treat party dictatorship as a base from the Geddes, Wright, and Frantz's dataset (2014). Compared to the base, party dictatorship, the three dummies are expected to show positive signs on BITs violation.

3.4.2.2 International Politics Controls

The source of BITs violation can also result from international factors, including political, economic and institutional controls. To capture the political volatility in international society, I employ the total number of interstate wars engaged by a dictatorship in a yearly fashion. The prevalence of international war in the region and world is measured by the dataset of the Militarized Interstate War (MID, version 4.1) of COW (Palmer et al. 2015). I generate two variables to measure the count of interstate wars in the region and world to account for the spillover effect of conflicts. International economic shocks carry spillover effects as well. I aggregate the number of domestic economic shocks in the region and world, including banking, financial and economic crises (Laeven and Valencia 2013). In addition, I take the log of the inflow of FDI, reserves including gold, and the percentage of remittances over GDP from World Bank (Sarkees and Schafer 2000). The inflow of FDI represents international investors' vote of confidence in authoritarian credibility. A larger inflow of FDI makes the maintenance of BITs more likely, thus rewarding the honoring of international commitments. The relationship between FDI and BIT violation is expected to be positive.

The volume of international reserve is a tool to combat financial turmoil (Ouyang, Rajan, and Willett 2008). Large volume of international reserve decreases the likelihood of BITs as the dictatorship ensures its capacity of liquidation. On the other hand, remittances can be a replacement for FDI. The larger the percentage of remittance over GDP for an authoritarian regime, the less essential FDI is. Therefore, the significance of BITs is lower. A negative relationship exists between remittance and ICSID cases. To reduce variation, I log the three variables in the models.

Lastly, international institutions exert binding effects. From ICSID website (ICSID, World Bank 2015), I calculate the total numbers of enforced BITs signed by a given dictatorship in a given year and in the given region as well. I also calculate the total number of lawsuits involved in the region. The more BITs a dictatorship concludes, the more costs it has to pay in order to digest all the preferential terms included in BITs (Tobin and Rose-Ackerman 2010). The signing and violating BITs can diffuse in neighboring states to capture unobserved factors. In my models, I expect a positive relationship between the three variables and BIT violation. Table A-4 in the Appendix presents the summary statistics for all variables in models.

3.5 Results

Table 3-1 and Table 3-2 present the results of statistical analysis controlling for domestic and international factors, respectively. The two groups of models are further divided by political, economic, and institutional controls. In Table 3-1, I examine the relationship between political decentralization and BIT violations with controls in domestic factors. The empirical results suggest that political decentralization is positively related to a higher number of ICSID cases at the $p<0.05$ level in five models. Financial openness significantly increases the number of ICSID cases at the $p<0.05$ and $p<0.01$ level in Model 4 and Model 5, respectively. Greater financial openness increases the probability that dictatorships will violate BITs, as they are too financially

Table 3-1: Effect of Political Decentralization on BITs Violation: Domestic Factors

DV: ICSID cases	**Model 1**	**Model 2**	**Model 3**	**Model 4**	**Model 5**
IV: *Political decentralization*	1.029**	1.376**	1.264**	1.258**	1.417**
	[0.489]	[0.591]	[0.503]	[0.637]	[0.689]
Domestic political shocks		-0.044			-0.066
		[0.071]			[0.078]
Intra-state conflicts		-1.693			-1.487
		[1.069]			[1.098]
Domestic economic shocks			-0.740		-0.264
			[1.038]		[1.074]
Inflation			0.034		0.153
			[0.166]		[0.198]
GDP per capita			0.587***		0.124
			[0.205]		[0.347]
Property rights				0.020	-0.047
				[0.087]	[0.068]
Financial openness				1.728***	1.707**
				[0.722]	[0.647]
Military dictatorship				0.547	0.818
				[0.803]	[0.853]
Monarchy dictatorship				0.565	0.494
				[0.858]	[0.992]
Personal dictatorship				0.065	0.108
				[0.628]	[0.764]
N	1312	1203	1083	742	605
Countries	81	78	76	57	54
Log likelihood	-168.603	-142.493	-153.952	-125.029	-111.621

Note**:** Clustered standard errors in brackets. Three time splines and constant not shown.
* p<0.1, ** p<0.05, *** p<0.01

open to global economic fluctuations. The rest of controls are not of significant effect on the dependent variable across models

In Table 3-2, the models contain international factors. Again, the empirical results confirm that the relationship between the existence of political decentralization and ICSID cases is positive at the p<0.05 level or better. NBRMs contain international factors, including political controls (inter-state conflicts, inter-state conflicts in region, and inter-state conflicts worldwide), economic controls (economic shocks worldwide, FDI inflows, foreign reserves, and remittances, and institutional controls (BITs signed, BITs signed in the region, and ICSID cases in the region).

For controls in international political instability, none of them remain significant in all models. As for international economic instability, the number of economic shocks in the world is negatively correlated to ICSID cases at the $p<0.05$ level. Global financial crisis actually decreases the likelihood of being sued in ICSID cases. In order to avoid the escape of FDI inflow due to global economic crisis, dictatorships have to try harder to maintain their credibility in BITs as they are by nature less credible in global economy (Saiegh 2005; Archer, Biglaiser, and DeRouen 2007).

Foreign reserves and remittances are positively related to ICSID cases at the $p<0.01$ level. Foreign reserves and remittances are substitute sources for FDI. Therefore, higher foreign reserves and remittances will reduce the importance of FDI. For controls international institution, more BITs signed leads to more ICSID cases at the $p<0.1$ level or better. As more BITs are signed, more costs are incurred to maintain the preferential policies in international investors' favor. The higher costs can go beyond a dictatorship's capacity causing a breach in BITs. The rest of controls are not of significant effect on the dependent variable across all models with domestic controls in politics and economy.

Table 3-2: Effect of Political Decentralization on BITs Violation: International Factors

DV: ICSID cases	Model 6	Model 7	Model 8	Model 9
IV: Political decentralization	1.025**	1.364**	0.948**	1.370***
	[0.488]	[0.635]	[0.471]	[0.521]
Inter-state conflicts	-0.379			-0.590**
	[0.267]			[0.278]
Inter-state conflicts (region)	-0.007			0.011
	[0.044]			[0.057]
Inter-state conflicts (world)	0.010			0.004
	[0.009]			[0.011]
Economic shocks (world)		-0.119**		-0.165**
		[0.052]		[0.068]
FDI inflows		-0.328**		-0.219
		[0.153]		[0.149]
Foreign reserves		0.932***		0.779***
		[0.221]		[0.180]
Remittances		0.356**		0.541***
		[0.163]		[0.154]
BITs signed			0.130*	0.156**
			[0.071]	[0.075]
BITs signed (region)			-0.002	-0.002
			[0.002]	[0.002]
ICSID cases (region)			0.043	0.041
			[0.034]	[0.032]
N	1312	798	1312	798
Countries	81	62	81	62
Log likelihood	-166.818	-101.266	-166.469	-96.515

Note: Clustered standard errors in brackets. Three time splines and constant not shown.

* p<0.1, ** p<0.05, *** p<0.01

In sum, the empirical results support the hypothesis of this chapter. With the existence of local elections, dictatorships are more likely to commit more BITs violations. This finding goes in line with my argument that the installation of political decentralization is more likely to increase the likelihood of being sued for authoritarian regimes.

3.6 Conclusion

International institutions are constantly employed as a tool to avoid the hazard of default on international cooperation consequential to the global economic order (Axelrod and Keohane 1985; Martin and Simmons 1998; Simmons 2000; Simmons, Dobbin, and Garrett 2008). With more and more dictatorships engaging in globalization along with a booming literature on authoritarian institutions, a dialogue is needed between the two lines of literature to discover the domestic source of international cooperation for authoritarian regimes.

In this chapter, I use the case of BIT violations to examine the domestic source of treaty compliance for dictatorships. Specifically, I look into how the number of BIT violations is influenced by political decentralization where the existence of local elections exacerbates the principal-agent problem between central and local governments to maintain international commitment under dictatorships.

I argue that elected locally minded elites over-commit to foreign investors in competition for limited inflow of foreign direct investment and later fail to fulfill the commitments stipulated in BITs, which central governments sign with the home countries of FDI. Dictatorships lack an ultimate authority to settle the disputes between central and local governments with regard to BIT violations. Electorally empowered local elites will prioritize local needs at the costs of BITs violation in the face of time-inconsistency in their preferences in complying BITs.

Based on the dataset on the ICSID litigations from 1987 to 2013, the empirical evidence supports my argument that the installation of political decentralization increases the number of being sued in BITs lawsuits registered in ICSID.

This chapter contributes to understanding authoritarian credibility in international cooperation in two ways. First, I echo Allee and Peinhardt’s call (2011) to focus on the ex post behavioral records after treaty is concluded to evaluate the credibility of treaty compliance. As more and more authoritarian regimes intensively engage in international cooperation, they have to pay attention if the arrangement of domestic institutions makes them more credible.

Second, I emphasize the importance of political decentralization, as it is one of the important institutions left under-investigation. Political decentralization is of great political significance. It produces local elites with geographical concerns different from major political actors such as dictators or central elites, who are constantly mentioned in previous literature. However, the literature of authoritarian institutions has not yet fully investigated the cause and consequences of decentralization on international cooperation.

CHAPTER 4
DECENTRALIZATION AND CHINA'S BILATERAL INVESTMENT TREATIES

4.1 Introduction

Since 2011, China replaces Japan and becomes the second largest economy in the world. To maintain the momentum of economic growth, China has been an aggressive in attracting foreign direct investment (FDI) in global capital market. Based on the World Development Indicators (WDI) under the auspice of World Bank (WB), China is the greatest holder of over 347 billion USD of FDI inflow, which is about 19.9% of global share as of 2013.

To attract FDI inflow, China follows what academic recipes prescribe. In discussion of international institution and regime type, dictatorships imports credibility from international institutions in protecting FDI via investment treaties to overcome institutional handicaps such as the lack of executive constraints, political stability, transparency in policy change, and protection of human rights (Jensen 2003; 2008; Blanton and Blanton 2007; Rosendorff and Shin 2012). Also, dictatorships prefer bilateral rather than multilateral treaty due to the ease of smaller win-set in pairwise international cooperation (Garriga 2009). BITs make a commitment devise to derive credibility in hosting FDI for authoritarian regimes. Lastly, signing bilateral investment treaties (BITs) not only signals the host country's intention to protect FDI (Haftel 2010; Neumayer and Spess 2005), but also introduces the international forum to execute punishment on the BITs violation by reducing FDI in the future (Allee and Peinhardt 2011).

The empirical evidence shows that signing BITs with China is an enthusiastic trend. As reported by the United Nations Conference on Trade and Development (UNCTAD),[20] Figure

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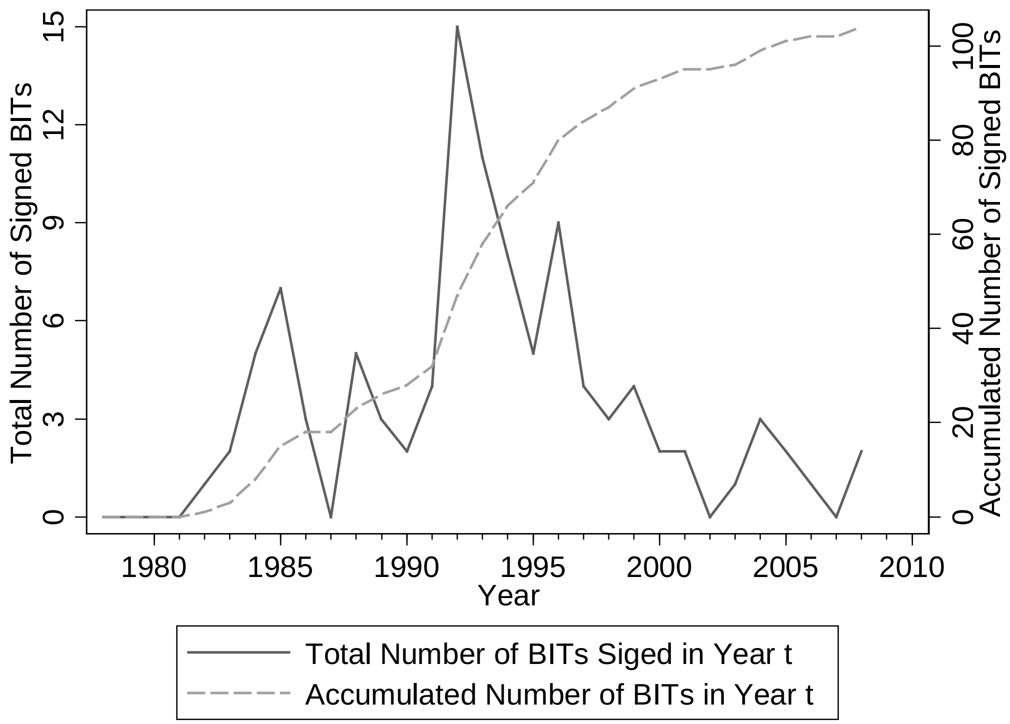
[20] Calculated from International Investment Agreement on UNCTAD website: http://investmentpolicyhub.unctad.org/IIA (Access on April 4, 2015).

Figure 4-1: The Number of China's BITs and FDI Inflow: 1982-2009



Source: UNCTAD

4-1 shows that the peak in the annual number of China's BITs falls around 1993 when Chinaenters the Convention of International Center for Settlement of Investment Disputes (ICSID).[21] Although ongoing debates show mixed results in whether BITs induces more FDI (Tobin and Busch 2010; Tobin and Rose-Ackerman 2011; Büthe and Milner 2008; Kerner 2009; Salacuse and Sullivan 2005; Haftel 2010; Egger and Pfaffermayr 2004), BITs draws more FDI for China as the trend of BITs is accompanied by that of FDI in a positive way. Note that the slope of accumulated number of BITs appears flatter somewhere around 1997 as there are not many countries that have not yet signed BITs with China in the world system.

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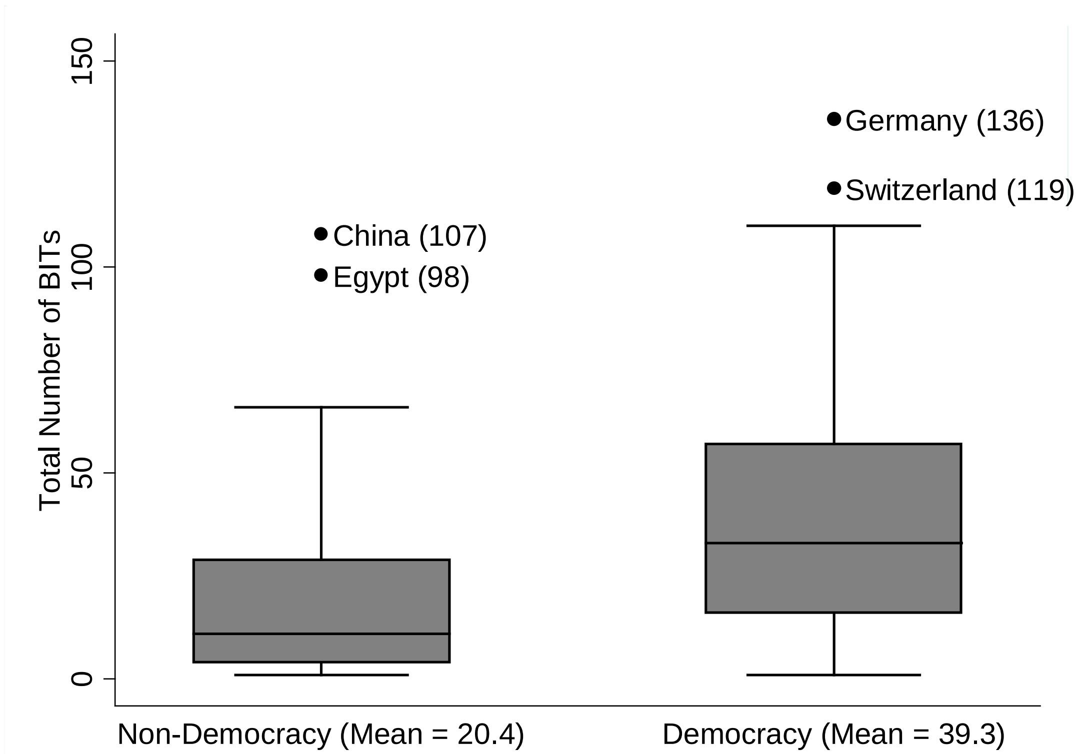
[21] Calculated from ICSID website. See footnote 17.

Figure 4-2: Total Number of Countries Signed BITs by Regime Type



Source: UNCTAD

Through the comparative lens, China has signed 107 BITs than most democracies and all dictatorships. According to Figure 4-2, the mean number of BITs signed for democracies is 39.3 while that for non-democracies is 20.4. For democracies, only Germany and Switzerland surpass China in terms of total number of BITs. China makes an exceptional case for existing research testing the effect of regime type on singing BITs (Elkins, Guzman, and Simmons 2006; Tobin and Rose-Ackerman 2010). Among dictatorships, China signs the highest number of BITs.

But, what makes China more capable of signing BITs? Specifically, what are the domestic determinants in China that makes it uniquely capable of being credible to engage other countries in BITs? Current literature deploys a debate with regard the attribution of decentralization to economic miracle of double-digit growth in China with a focus on FDI, the purpose of singing

BITs in the first place.

Some scholars posit that decentralization increases FDI because local elites are empowered to avoid central intervention and foster an efficient capital market via competing for footloose FDI (Montinola, Qian, and Weingast 1995; Oates 1972; Qian and Weingast 1996, 1997; Tiebout 1956; Xu and Zhuang 1998). To outbid counterparts in capital game, local elites are incentivized to embrace innovative polices. Weingast and his coauthors coined the term, market-preserving federalism, to describe the decentralization system in China. They attribute the economic miracle to the pro-market features attractive to foreign investors (Montinola, Qian, and Weingast 1995; Qian and Weingast 1996, 1997).

Some contend otherwise. Decentralization system in China is not the key to the booming FDI inflow. Instead of facilitating market efficiency, competition for capital among local elites dampens it. As a matter of fact, local elites in China help corporations evade central tax regulations (Cai and Treisman 2004; 2005; 2006; Treisman 2007). They argue that power struggle among central factions rather than empowered local elites decide the devise, change and continuity of innovative policies in provincial level. Others contend that social homogeneity matters to the issue of distribution so that it conditions the effect of decentralization on FDI (Rodden and Rose-Ackerman 1997; Treisman 1999; Cai and Treisman 2004; 2005; 2006).

In this chapter, I argue that informal Chinese leader's preference to decentralization policy determines whether local elites are empowered enough to sign BITs for the sake of attracting FDI. To be specific, Deng Xiaoping (Deng) preferences on empowering local elites determine the de facto practice of China's decentralization policy, leading to the high number of China's BITs. To test the arguments in the literature of authoritarian institutions and dynamics of power elites, I use leadership turnover and installation of tax-sharing system (TSS) as proxies to the measure of decentralization in China. Based on the empirical evidence from 1983 to 2009, the number of China's BITs is significantly influenced by Deng's influence from the start of economic openness policy in 1978 to his decease in 1997. TSS does not decrease the number of China's BITs until Deng died.

The layout of this chapter is as follows. Next, I review the literature on how decentralization in China influences the protection of FDI, the purpose of signing BITs with dictatorship in the first place. Next, I argue that decentralization leads to more China's BITs where Deng exerts influence on empowering local elites. After he passed away, the recentralization institution, TSS, decreases the number of China's BITs as local elites are less empowered. To present the empirical evidence, I first explain the research design and show empirical results to support my argument. The final section discusses the findings and the implications to existing literature.

4.2 Decentralization, FDI and Signing BITs under Dictatorship

Whether decentralization facilitates China's double-digit economic growth, two branches of competing literatures present contradictory arguments about the effect of decentralization on international cooperation in terms of protecting FDI, for which BITs are devised. For the camp with a positive view on the effect of decentralization for securing FDI in China, scholars argue that decentralization is benign to attracting FDI because empowered local elites are forced to be innovative enough to outbid their counterparts in competition for limited inflow of FDI (G. Montinola, Qian, and Weingast 1995; Qian and Weingast 1996, 1997; Tiebout 1956; Xu and Zhuang 1998). An efficient capital market is thus born to benefit the virtuous circle of aiding economic growth.

Weingast and his coauthors describe decentralization policy in China as market-preserving federalism, which contributes to the double-digit economic miracle in China. The market-friendly features heaps three more criteria upon Riker's definition (Montinola, Qian, and Weingast 1995; Qian and Weingast 1997; Riker 1964). They include Riker's (1964) two criteria, "(1) a hierarchy of governments, that is, at least "two levels of governments rule the same land and people," each with a delineated scope of authority so that each level of government is autonomous in its own, well-defined sphere of political authority, (2) the autonomy of each government is institutionalized in a manner that makes federalism's restrictions self-enforcing". In addition to Riker's two criteria, Weingast and his coauthors (1995) adds three more:" (3) subnational governments have primary regulatory responsibility over the economy, (4) a common market is ensured, preventing the lower governments from using their regulatory authority to erect trade barriers against the goods and services from other political units, and (5) the lower governments face a hard budget constraint, that is, they have neither the ability to print money nor access to unlimited credit."

Under the market-preserving federalism, Chinese central government refrains itself from central intervention and empowered local elites to boldly test innovative and custom-made policies to facilitate economic development in specific regions. To ensure a constant inflow of FDI, they adopt fiscal decentralization to measure how much local elite are empowered.

The head-to-head line of argument maintain that fiscal decentralization hurts market efficiency (Cai and Treisman 2004; 2006; Treisman 2007). Cai and Treisman contend that in the case of China, fiscal decentralization is irrelevant to China's economic performance. First, the causal sequence is wrong. The economic openness reform starts earlier than fiscal decentralization. Second, fiscal decentralization induces cheating over tax sharing and encourages extraction of corporate revenue. The Chinese economic miracle is actually derived from ideological struggles among central factions with various local networks.

Nevertheless, the debates are not satisfying in the following regards. First, the quality of data in fiscal decentralization in China is no satisfying. In general, the datasets of dictatorships contain a lot of missing data (Hollyer, Rosendorff, and Vreeland 2011). Treisman's dataset on fiscal decentralization is seriously missing. Computing from a given timespan, Treisman provides one observation for China. The variation is extremely limited. The dataset in China are suspiciously manipulated by officials (Holz 2004, 2005; Wallace 2014). Fiscal decentralization is no exception.

Second, de jure decentralization does not necessarily account for the de facto function. The prevalent corruption and lack of transparency makes China a difficult case to observe evaluate the continuance and change of decentralization. For instance, under-table revenues and informal hired hands can under-estimate how much organization power local elites can leverage to bargain with central government. On the contrary, it is also likely that central government still keeps an upper hand in economic planning even when it maintains a high tax share for local governments. Leaders' preferences are arguably to be greatly consequential to the function of decentralization in China. Their influences do not necessarily reflect on the sheer existence of institutions.

Lastly, developing countries and dictatorships are fundamentally different. Although most dictatorships are developing countries, not all developing countries are dictatorships. The nature of regime type is of great political significance for any country to engage in international commitment like BITs. The lack of transparency makes foreign investors hesitate on investing in dictatorships, but not developing countries.

4.3 Leadership and Institution as Proxies to Decentralization and China's BITs

In this chapter, I examine the policy effect on China's BITs via leadership or institution as proxies to decentralization in China. To be specific, I test which proxy best keeps the policy consequences of signing BITs.

A burgeoning literature of authoritarian institutions suggests that institutions reflect temporal equilibrium of leadership dynamics under authoritarian regimes (Brownlee 2007; Lai and Slater 2006; Weeks 2012). The same institution functions differently as the dynamics of leadership change across time. Under thumb of the Chinese Communist Party, China is categorized as a party dictatorship (Boix and Svolik 2013; Geddes, Wright, and Frantz 2014; Svolik 2012a). The form of authoritarian rule produces the most desirable policy outcomes.

On the other hand, if institutions are tools of power-sharing commitment to overcome the time-inconsistency issue (Boix and Svolik 2013; Svolik 2012b), institutions remain effective regardless of leadership change. China has revised the central-local relations via several transitions in institutions.

Existing literature on China's decentralization policy takes two approaches. The first one is leadership approach. The literature examines top leader's preferences about empowering local elites. Also, there are two types of top leaders in China: the de jure leaders and the de facto ones. The two types of leaders are not necessarily the same person. For de jure leaders, the general secretary of CCP Deng is recognized as the top rule of China. However, Deng is considered the highest mater without the crown of general secretary of CCP. The other approach takes an institutional look by investigating the devise and consequences of TSS, a recentralization institution to weaken local elites' power in 1994. In the following paragraphs, I will elaborate these two lines of arguments.

4.3.1 Leadership

In China, prime minister of central government answers to general secretary of CCP, the top leader in the party-state. However, de jure institution functions differently across leaders. However, formal leader in China is not necessarily the true leader, especially during Deng's era since he is recognized as the "core of leadership". The discussion of leadership will take two folds. The first is about the CCP General Secretaries while the other is about Deng with regard to their preferences about empowering local elites.

Since the start of economic openness reform since 1978 until the latest BITs China signs in 2009, there are five CCP top leaders with various preferences in decentralization policy. They are Hua Guofeng (Hua, 华国峰, 1976 - 1981) , Hu Yaobang (Hu1, 胡耀邦, 1982 - 1987), Zhao Ziyang (Zhao, 赵紫阳, 1988 - 1989) , Jiang Zemin (Jiang, 江泽民, 1989 - 2002) and Hu Jintao (Hu2, 胡锦涛, 2003 - 2012). Whether they are called either chair or general secretary, they are the de jure ruler of the party-state.

Among the five general secretaries, Hua was removed from his general chairmanship of CCP because he fails his ideological battle with Deng (Fontana 1982; Xu and Zhuang 1998). He insisted on the central planning economy over liberal economy. Therefore, his prefers not to empower local elites with regard to economic policies. During his tenure, China concluded zero BIT because power elites was still in struggle for ideological differences. Hu1 ensures that local elites are sufficiently empowered to conduct policy experiments in regions (Lin 1992). Zhao supports the liberal economic development in the coastal provinces by loosening the central control over local fiscal policies (Bachman 1986). Local elites have autonomy in promoting FDI inflows with free hands in conducting custom-made policies in coastal regions.

After the outbreak of Tiananmen Incidence in 1989, conservatives in CCP urged for major revision of central-local relations as local elites are too strong to go against a weak central government as the booming economic development emboldens local elites' economic power.[22] The regional disparity in economic development between coastal and inland provinces grows the tension between provincial elites and central governments (Bachman 1986). In latter phase of Jiang's tenure, Jiang initiates recentralization by shrinking local elites' fiscal control and strengthen central government's capacity to subsidize inland provinces (Zheng 2000).

In Figure 4-3, I present the accumulated number of China's BITs by leadership turnover. China signs the first BITs in 1982. During Hua's rule, the ideological struggle battles over the economic openness policy including attracting more FDI in China. Under his tenure, China did not sign any BITs. The slope is steep in the tenures of Hu1, Zhao and the first half of Jiang's tenure so that their preferences for decentralization reflect on China's BITs behavior. The slope turns flat in the latter half of Jiang's tenure and even flatter for Hu2's rule. Note that there are not many countries left to sign BITs with China during Hu2's tenure.

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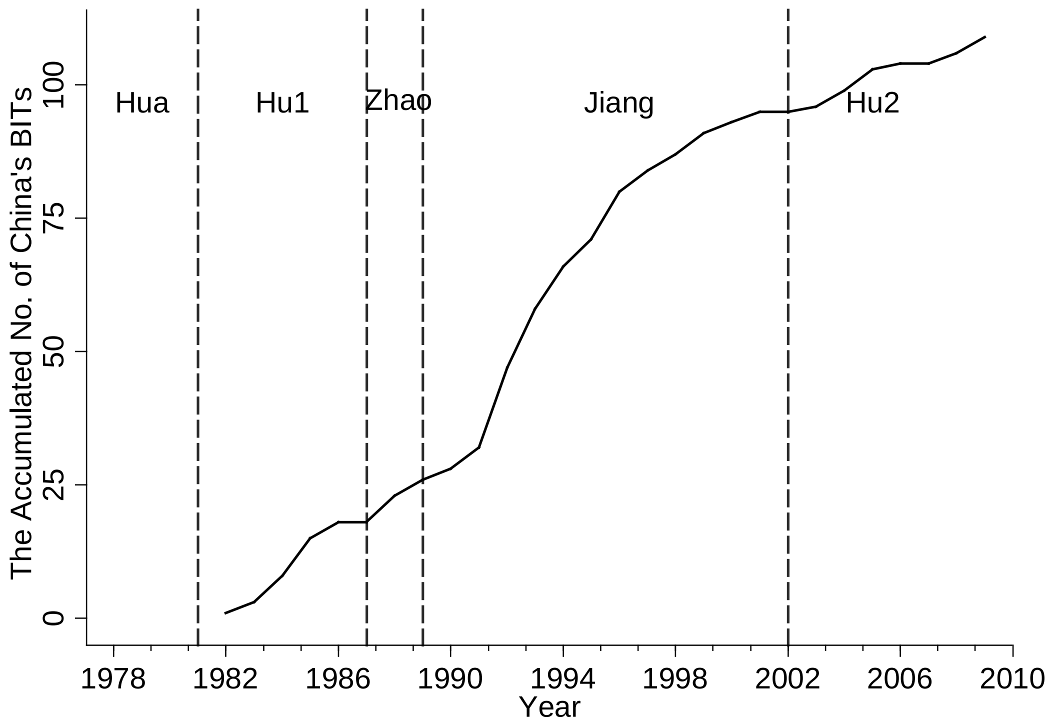
[22] See http://www.epochtimes.com/b5/1/7/19/n111179.htm (Access on April 4, 2015).

Figure 4-3: Accumulated China's BITs by Leadership Turnover



Source: UNTAD

Judging the leader's preferences in the governing circumstances in China, I derive the first hypothesis as follows.

H1: All else equal, general secretaries' rule increases the likelihood of maintenance of effective BITs with China since 1978.

In the context of Chinese politics, formal leaders are not necessarily true leaders. Deng is believed to be the master mind behind the economic openness reform in China since 1978 until his decease (Baum 1996). He is the true holder of power despite that he has never been crowned the general secretary of CCP, the official ruler in China. According to authorized history of the CCP documenting the concluding remarks in the Third Plenary Session of the 11th Central

Committee of CCP, Deng is the “core of second-generation leadership”.[23] Deng is an informal leader who makes ally with provincial elites sharing his preferences in liberal economic reform to battle against the conservatives in CCP (Bachman 1986).

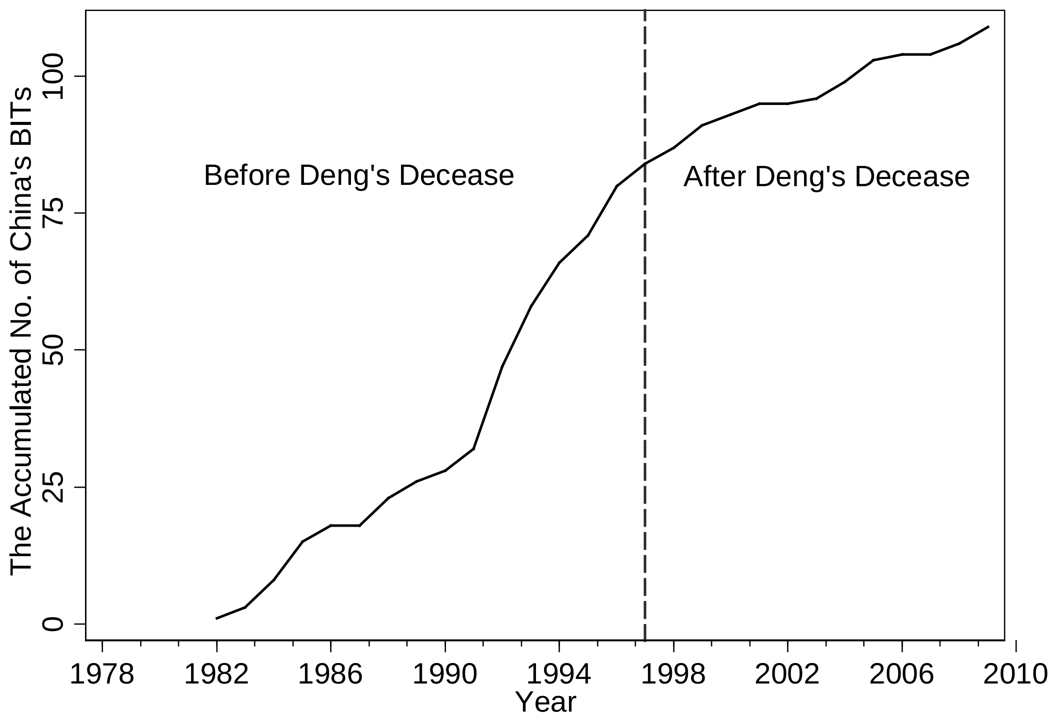
Four general secretaries of CCP have lived under his influence. The full terms of Hua, Zhao and Hu1 from 1978 to 1988 are under Deng’s influence. Deng remains alive for the first half of Jiang’s term from 1989 to 1997. After Deng’s death in 1997, Jiang serves his second half of general secretary until 2002 without Deng’s shadow. Hu2’s rule is free from Deng’s direct influence. His decease brings the contraction of local elites’ power (Zheng 2000). Recentralization policy is executed to salvage the weakening central governments.

Figure 4-4 shows that the slope of accumulated China’s BITs is steep before Deng’s decease. After Deng’s decease in 1997, the slope becomes flat. Based on the previous discussion, I develop my second hypothesis as follows.

H2: All else equal, Deng’s informal rule increases the likelihood of maintenance of effective BITs with China from before his decease in 1997 than after 1997.

[23] http://www.chengmingmag.com/t344/select/344sel15.html (Access on April 4, 2015).

Figure 4-4: Accumulated China's BITs before and after Deng's Decease

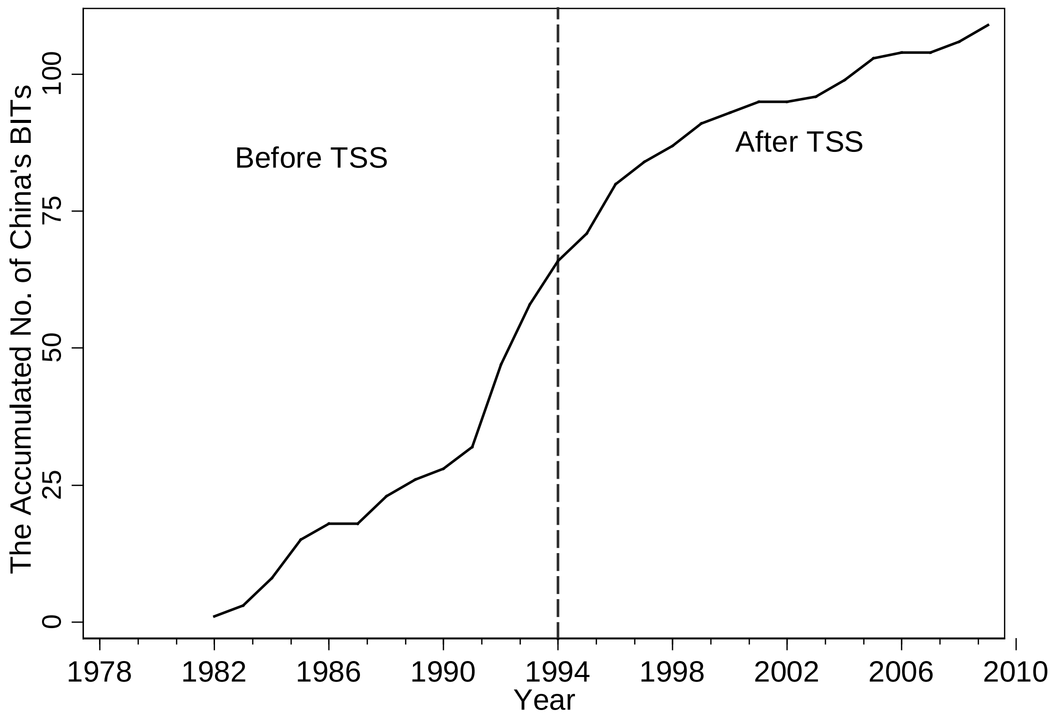


Source: UNCTAD

4.3.2 Tax-sharing System

In 1994, China installed TSS to shrink local elites' fiscal power. Before TSS is installed, local elites are greatly empowered by "separate stoves where each level of government is granted the power to manage the revenue and expenditures (Fenzao Chifan) (Wong 1991; 2000). With the soaring economic growth, local elites in coastal provinces benefit a flood of revenue under their control. Without a proportionate share of it, central government becomes weak in face of local elites from rich provinces. The worsening economic gap between rich coastal and poor inland provinces also intensifies the relationship between central and local relations.

Figure 4-5: Accumulated China's BITs before and after Tax-Sharing System



Source: UNCTAD

In 1994, the Chinese government launched a series of reform on fiscal decentralization by putting TSS into practice since 1994. The recentralization policy intends to restore a stronger central government by bringing a cap on local government's discretion of revenue and expenditure. Figure 4-5 presents the trend between accumulated China's BITs before and after TSS. The slope changes around the year of 1994 when TSS is put into practice.

Since the practice of TSS rescale the power balance between central and local governments with regard to the fiscal management, the third hypothesis is derived as follows.

H3: All else equal, the installation of TSS is more likely to decrease the likelihood of maintenance of effective BITs with China after 1994 than before 1994.

Lastly, I compare the two competing proxies of leadership and institution to decentralization in China. I argue that informal leader's preferences outperform the institutional effect on decentralization when the two factors have contrary effect on the number of China's BITs. Thus, Deng's preferences make a better proxy to test the effect of decentralization on the number of China's BITs. The fourth hypothesis is set as follows.

H4: All else equal, Deng's preferences outperform the installation of TSS in changing the likelihood of maintenance of effective BITs with China.

4.4 Research Design

The research interest in this chapter inspects how the effect of decentralization influences whether a country signs a BIT with China. The dataset is time-series-cross-sectional structure where all countries exist in the global system defined and generated by Eugene (Bennett and Stam 2000). The time spans from 1978 to 2008 when the economic openness policy in China is initiated.

The dependent variable denotes whether a given country maintains an effective BIT with China in a given year. Based on the records of International Investment Agreements collected and updated by UNCTAD, China has signed BITs with 104 countries from 1978 to 2008. Also, the BITs must be signed and enforced to be recognized as effective. For the dependent variable, I assign the value as 1 when a given country maintains an effective BIT with China and 0 otherwise. A list of countries maintains effective BITs with China in my sample is in the Table A-5 in the Appendix.

Given the binary dependent variable and the TSCS data structure, binary time-series-cross-sectional (BTSCS) model is an appropriate choice to proceed statistical analysis (Beck, Katz, and Tucker 1998). With regard to the detection of temporal dependence for repeated observations on the same country, Beck, Katz and Tucker propose that researchers should include time splines in BTSCS models. In this chapter, the research interest is the maintenance of effective BITs with China. Once a BIT is signed, it can maintain effective until it is terminated. Also, a good record of maintaining effective BITs in the past can lead to continuance of effective BITs in the future. Thus, the value of observations can repeat itself across time. The significance of history makes interdependent observations. Upon Cartet and Signorino' advice (2010), I employ three time polynomials in the BTSCS models to estimate the maintenance of effective BITs with China for each country.

4.4.1 Independent Variables

The independent variable of research interest is decentralization in China. As previously elaborated in argument, decentralization in China is hinged on leader's preferences and the institutionalization of decentralization. For leader's preferences, I develop formal and informal measure on leaders' preferences on decentralization from Model 1 to Model 3.

For formal measure, general secretary's decentralization policy is believed to shape the level of decentralization in China. But, decentralization policy is fixed on general secretary's tenure. The level of decentralization changes as the next general secretary's decentralization policy changes. There have been four general secretaries in CCP whose tenure covers the time span from 1978 to 2008. They are *Hua* from 1976 to 1981, *Hu1* from 1982 to 1987, *Zhao* from 1988 to 1989, *Jiang* from 1990 to 2002, and *Hu2* from 2003 to 2012. I assign the value of 1 in a given year for a given general secretary in power and 0 otherwise. In Model 1, I evaluate formal power holders' tenure as a proxy of decentralization policy on the maintenance of effective BITs of China. The baseline is set at *Hu2*.

For informal measure, Deng Xiaoping (*Deng*) has been the master mind behind the back of general secretaries of CCP since the initiation of economic openness policy in 1978 till his death in 1997. To capture Deng's influence on decentralization policy, I generate two measures.

The first measure is designed to capture Deng's influence on general secretary's decentralization policy in Model 2. Since the initiation of economic openness policy in 1978, Deng remains the mater mind behind general secretary, the highest throne in CCP until he dies in 1997. The full tenures of *Hua*, *Hu1* and *Zhao* are under Deng's influence. In addition, Deng appointed Jiang and Hu as the next two consecutive general secretaries after Zhao. Deng remains alive and influential in the first half of Jiang's tenure until his decease in 1997. The second half of Jiang's tenure and the full tenure of *Hu2* are both free from Deng's personal guidance. I generate two dummy variables, *Jiang before Deng's decease* from 1990 to 1997 and *Jiang after Deng's decease* from 1998 to 2002. Therefore, I compute the dummies variables of leaders' tenure, during which I assign the value of 1 for each leader's tenure and 0 otherwise. The baseline is set at *Hu2*. Again the model dropped *Hua* because of non-variation in the dependent variable.

In Model 3, the second measure is a direct measure of Deng's influence since 1978, the first year of economic openness policy. I compute two variables. *Deng* takes the value of 1 from 1978 to 1997 and 0 if not whereas *After Deng* takes the value of 1 after 1998 and 0 otherwise. The baseline is thus set at *After Deng*.

Next, I use the installation of TSS as a proxy for decentralization policy in Model 4. The TSS is installed since 1994 so that I code two variables. For *After TSS*, I assign the value of 1 after 1994 and 0 if before. The variable of *Before TSS* takes the value of 1 from 1978 to 1993 and 0 if not. The base line is set at *Before TSS*.

Lastly, I estimate the two competing proxies of decentralization in Model 5 and Model 6. The practice of TSS is closely related to Deng's influence. To control Deng's influence, I compute three dummy variables, *Deng without TSS* from 1978 to 1993, *Deng with TSS* from 1994 to 1997 and *TSS without Deng* from 1998 to 2008, taking the value of 1 for the timespan and 0 otherwise.

In Model 5, the baseline is set at *Deng with TSS*, representing the mix of institutional and leadership effects in TSS and Deng's influence respectively. Based on the differences between the baseline and the other two variables, the statistical results represent the institutional and leadership effects. In comparison with *Deng with TSS*, the result of *Deng without TSS*, presents the institutional effect of tax-sharing system whereas the result of *TSS without Deng*, the estimate means the leadership effect of Deng's influence.

Lastly, I compare the effects of Deng's influence and TSS as proxies to decentralization on the maintenance of effective BITs in Model 6. As Deng prefers empowering local elites, TSS shrinks local elites' power. I will test which factors outperforms in influencing the number of China's BITs. I compute the variable of *Deng*, taking the value of 1 from 1978 to 1997, the time span of Deng's lifetime since the economic reform and 0 otherwise. I assign the value of 1 since the installation of TSS in 1994 and 0 if before.

4.4.2 Control Variables

I include a battery of institutional, economic and political controls influential to the maintenance of effective BITs with China. For institutional control, scholars find that treaties have binding effects on a state's behaviors (Abbott and Snidal 2000; Alter 2001; Dolzer and Schreuer 2008; Rosendorff and Shin 2012; Simmons 2000, 2014). The competition for capital encourages the diffusion of BITs (Elkins, Guzman, and Simmons 2006). Therefore, the existing number of BITs in the past influences the probability of signing one more BIT in the future. To control the institutional effect, I take the log value of the total number of BITs signed with China from the dataset of International Investment Agreements by Economy under the auspice of UNCTAD. One-year lag is operated to capture the effect of historical record of pre-existing BITs. A positive relationship is expected between the number of China's BITs in the previous year and the number of concluding a BIT with China.

As for economic controls, the level of economic development and economic interactions with China are crucial to the likelihood of signing BITs with China. A thriving economy does not have an urgent need to sign BITs because FDI can become a lesser important source of capital to host countries. Therefore, investors are willing to take a higher risk of expropriation before BITs are concluded (Jensen 2008). Also, home countries are usually developed countries with sufficient capital to shop for targets of investments worldwide. Based on the Penn World Table (PWT, v8.0), I adopt the variable of GDP per capita for China and its BIT partner (Feenstra, Inklaar, and Timmer 2013).

As for the economic interactions, singing investment treaties is arguably related to the volume of trade (Büthe and Milner 2014; Simmons 2014; J. L. Tobin and Busch 2010). A higher volume of trade induces more urge for FDI. Consequently, more BITs are needed to protect FDI. I take the log value of each country's trade volume with China from the dataset of international trade 1870-2009 (v3.0) under the Correlates of War Project (Barbieri, Keshk, and Pollins 2009). The volume of trade with China is positively related to the maintenance of effective BITs with China.

Political controls cover the regime type of China's BIT partner, affinity in international politics, and China's grand strategy in geographical politics. First of all, democracies are more likely to engage in international treaties as a form of international cooperation due to the legalist norm and domestic audience costs (Jensen 2003; 2008). Thus, I incorporate *polity2* score of China's BIT partner (Marshall and Jaggers 2002). For *polity2* ranging from -10 (most authoritarian) to 10 (most democratic), the expected sign for the coefficient is positive.

Next, political and economic interactions are highly correlated. Political allies leads to more economic cooperation. United Nation (UN) is an international forum with the most comprehensive state membership and the variety of global issues. Voting in general assembly of UN is deemed as publicly revealed state preferences in international politics. Based on the voting records, Gartzke (2006) generates the affinity index to measure the ideological distance between dyads of states. Given the research interest in this chapter, I retain the affinity index between China and the rest of the UN members in the world. For the variable, the values are on an interval scale from –1 to 1 between China and all other UN members from 1946 to 2002. The relationship between affinity index and maintenance of effective BITs is expected to be positive.

Geographic proximity is arguably crucial to signing BITs due to the pressure of competing for global capital with neighboring countries (Elkins, Guzman, and Simmons 2006). In addition, China has been an active investor in the continents of Africa, Asia and Latin America for the last decade (Cai 1999; Chan and Wong 2003). African countries are of abundant natural resources whereas Latin American countries are backyard of US. Either continent is of great significance to China's strategy to expand its influence via BITs. To control the political and economic significance embedded in geography in the models, I follow the MARC Code List for Geographic Areas, provided by the Library of Congress to categorize three dummy variables for Asia, Africa and Latin America. Among all three continents, China itself is situated in Asia where countries are most likely to maintain effective BITs with China for geographical and strategic reasons. Table A-6 in the Appendix reports the summary statistics of variables used in the empirical analysis of this chapter.

4.5 Results

In this chapter, I test four hypotheses of how decentralization influences the maintenance of effective BITs with China with two proxies of leadership and institution in six models. All models cover the same set of control variables including China's total BITs in previous year, GDP per capita for China, GDP per capita for other states, log of trade with China for other states, polity score for other states, affinity index, and three regional dummies (Africa, Asia and Latin America).

The first line of argument utilizes leaders' preference as a proxy to decentralization policy and tests the effect of decentralization on the maintenance of effective BITs with China in H1 and H2 from Model 1 to Model 3 with the baseline of *Hu2*. The statistical results are presented in Table 4-1. The influence of leadership is measured by formal and informal leadership. The formal leadership is measured by the successive leaderships in the level of general secretary of CCP. From 1978 to 2008, there are five leaders, including *Hua*, *Hu1*, *Zhao*, *Jiang* and *Hu2*. But, the observations for *Hu1* are dropped in all models because since China signed its first BITs in 1982. In other words, the dependent variable shows no variation in *Hu1*.

In Model 1, the coefficients for *Hu1*, *Zhao*, and *Jiang* are not significant, compared with *Hu2*. The empirical results do not support H1 that general secretaries' rule increases the likelihood of maintenance of effective BITs with China since 1978, given all else equal.

Table 4-1: Effects of Leadership and Institution on China's BITs

DV: China's BITs	**Leadership**			**Institution**
	General	**Deng's Influence**		**TSS**
Baseline	**Model 1**	**Model 2**	**Model 3**	**Model 4**
	Hu2		**After Deng**	**Before TSS**
IV1: Leadership				
Hu1	-0.015	2.972**		
	[0.740]	[1.267]		
Zhao	-0.006	3.016**		
	[0.756]	[1.275]		
Jiang	0.279			
	[0.605]			
Jiang before Deng's decease		2.896***		
		[1.104]		
Jiang after Deng's decease		0.726		
		[0.833]		
Before Deng			2.146***	
			[0.631]	
IV2: Institution				0.055
TSS				[0.592]
Controls:				
China's total BITs in t-1	0.629***	0.193	0.270	0.728***
	[0.222]	[0.237]	[0.216]	[0.221]
GDPpc: China	-4.047***	-1.847**	-2.266***	-4.179***
	[0.624]	[0.826]	[0.785]	[1.008]
GDPpc: others	0.166	0.181	0.178	0.162
	[0.113]	[0.113]	[0.112]	[0.114]
ln(Trade with China): others	0.083	0.095	0.093	0.082
	[0.061]	[0.062]	[0.061]	[0.062]
Polity2: other states	0.008	0.011	0.011	0.009
	[0.021]	[0.021]	[0.021]	[0.021]
Affinity index	-0.619	-0.494	-0.510	-0.632
	[0.708]	[0.716]	[0.711]	[0.719]
Africa	-0.680	-0.698	-0.698	-0.677
	[0.444]	[0.435]	[0.434]	[0.445]
Asia	0.683**	0.664**	0.665**	0.690***
	[0.266]	[0.272]	[0.272]	[0.266]
Latin America	-0.115	-0.157	-0.154	-0.112
	[0.387]	[0.391]	[0.389]	[0.388]
N	3598			
Countries	152			
Wald chi2	119.72	122.07	119.05	116.92
Log pseudolikelihood	-343.690	-335.775	-336.199	-344.030
Pseudo R^2	0.121	0.142	0.141	0.120

Note: Clustered standard errors in brackets. Three time polynomials and constant not shown. Hua dropped for few obs. in all models. *<0.1, **<0.05, ***<.0.01.

For Model 2 and Model 3, I introduce the measure of Deng's influence as Deng is an informal leader in China during his life span. In Model 2, Deng influences the rule of three general secretaries, *Hu1*, *Zhao* and *Jiang*. Jiang's rule is further divided into two parts: Jiang's rule before and after Deng's decease. With the reference of *Hu2*, *Hu1*, *Zhao* and *Jiang before Deng's decease* present positive coefficients at $p<0.05$ level or better. The coefficient of *Jiang after Deng's decease* is not significant. Deng's preference for a decentralized China greatly influences formal leaders' decentralization policy. Thus, a decentralized facilitates the maintenance of BITs with China.

In Model 3, I use a direct measure of Deng's influence and set the baseline of *After Deng*. Compared with *After Deng*, the coefficient of *Before Deng* is positively related to the maintenance of effective BITs with China at $p <0.01$ level. Based on the statistical results in Model 2 and Model 3, H2 is confirmed that Deng's informal rule increases the likelihood of maintenance of effective BITs with China from before his decease in 1997. Deng as an informal leader in China is crucial to the decentralization policy in China. His preference for empowering local elites consolidates the maintenance of China's BITs.

Another proxy of decentralization is the installation of TSS since 1994 in H3. The installation of TSS is controlled by Deng's influence in Model 4. In comparison with baseline *Before TSS*, the coefficient of *After TSS* is not significant. The results in Model 4 does not support H3 that the installation of TSS is more likely to decreases the likelihood of maintenance of effective BITs with China after 1994 than before. The existence of counter decentralization does not significantly decrease the number of China's BITs.

As for the control variables, only two variables present significant results with the predicted direction of effects. GDP per capita for China is negatively related to the maintenance of effective BITs with China at the $p<0.05$ level or better. Also, the regional dummy in Asia shows a positive coefficient at the $p<0.05$ level or better. Asian countries and China are mostly likely to maintain effective BITs with each other because they are deeply engaged with political and economic interests derived from geography.

In Table 4-2, I present the results for the competing proxies of leadership and institution. I test which line of argument empirically outperforms the other via the two types of proxies. The baseline is *Deng with TSS*, the mixed effect of leadership and institution in Model 5. In comparison with *Deng with TSS*, *Deng without TSS* is not significant. But, *TSS without Deng* maintains a negative sign at the $p<0.01$ level. Without Deng, TSS is detrimental to the maintenance of effective BITs with China. When informal leader's preferences on decentralization disappear, institutional effect of TSS starts to shrink the power of local elites so that the number of China's BIT decreases.

I incorporate separate variables of *Deng* and *TSS* in Model 6 to directly compare the effect of leadership and institution as proxies to decentralization policy. *Deng* presents a positive sign at $p < 0.01$ level whereas coefficient of *TSS* is not significant. *Deng* increases the probability of maintaining effective BITs with China. Deng's influence is the decisive factor to empower local elites who strive to sign more BITs in competition for footloose capital in global market. Based on the findings in Model 5 and Model 6, I conclude that Deng's influence outperforms TSS when the two factors are in comparison. After Deng's decease, TSS resumes the function to shrink local elite's power so that the number of China's BITs decreases. The empirical evidence supports H4 that all else equal, Deng's preferences outperform the installation of TSS in changing the likelihood of maintenance of effective BITs with China.

Table 4-2: Competing Proxies of Decentralization on China's BITs

DV: China's BITs	**Competing Proxies**	
	Model 5	**Model 6**
Baseline	**Deng with TSS**	
IV: Leadership and Institution		
Deng without TSS	0.393	
	[0.478]	
TSS without Deng	-2.304***	
	[0.700]	
TSS		-0.393
		[0.478]
Deng		2.304***
		[0.700]
Controls:		
China's total BITs in t-1 year	0.192	0.192
	[0.218]	[0.218]
GDPpc: China	-1.684	-1.684
	[1.074]	[1.074]
GDPpc: other countries	0.175	0.175
	[0.112]	[0.112]
ln(Trade with China): partner	0.091	0.091
	[0.062]	[0.062]
Polity2: partner	0.011	0.011
	[0.021]	[0.021]
Affinity index	-0.525	-0.525
	[0.711]	[0.711]
Africa	-0.698	-0.698
	[0.433]	[0.433]
Asia	0.665**	0.665**
	[0.272]	[0.272]
Latin America	-0.152	-0.152
	[0.387]	[0.387]
N	3598	
Countries	152	
Wald chi2	121.24	121.24
Log pseudolikelihood	-335.836	-335.830
Pseudo R^2	0.141	0.141

Note: Clustered standard errors in brackets. Three time polynomials and constant not shown. *<0.1, **<0.05, ***<0.01.

As for the control variables in Table 4-2, only one variable shows significant result with the predicted direction of effects. The regional dummy in Asia shows a positive coefficient at the p<0.05 level or better. Asian countries are mostly likely to maintain effective BITs with China for strategic concerns over political and economic interests.

To sum up the findings of this chapter, Table 4-2 confirms H2, but not H1 and H3. Deng's preference to decentralization is consequential to the probability of maintenance of effective China's BITs. Table 2 settles the competing proxies of leadership and institutions as leader's preference makes a more reliable indicator to the decentralization policy than the institution of decentralization in China. Without leader's vouch, the sheer existence of TSS does not function as expected. A decentralized China is beneficial to the development and consolidation of BITs policy. As a proxy to decentralization policy, the influence of Deng as an informal leader during his lifetime outperforms the effect of TSS. Once Deng passed away, TSS resumes the function of limiting local elites' power and decreases the number of China's BITs.

4.6 Conclusion

To defend a peacefully rising China, the adoption of international institutions remains a debate as a tool to regulate international cooperation consequential to the stability of world order (Axelrod and Keohane 1985; Ikenberry 2008; Kent 2007; Martin and Simmons 1998; Simmons 2000; Simmons, Dobbin, and Garrett 2008). With China's aggressive engagement in globalization, it becomes an important case challenging the literature of authoritarian rule and international institutions and begging a reexamination of domestic factors in international cooperation.

In this chapter, I use the case of China's BITs to investigate the domestic source of China's BITs. To be specific, I look into how as proxies to decentralization, leadership and institution influences China's BITs. I argue that leader's preferences about decentralization influence the de facto practice of recentralization producing local elites in signing BITs.

The empirical findings from 1978 to 2008 suggest that Deng's preference for decentralization outperforms the installation of TSS to maintain China's BITs. With leader's influence, TSS does not shrink local elite's power as expected. Once leader's influence decreases, TSS decreases the number of China's BITs as local elites are less empowered.

In this chapter, I make a case of decentralization as a source to China's BITs behaviors. The findings are expected to shed light on the domestic source of international cooperation for authoritarian regimes in two ways. First, I emphasize the drive of leadership behind the domestic institutions crucial to international behaviors under dictatorship. Previous literature uses the measure of political, fiscal and administrative decentralization to debate about the degree of decentralization in China (Montinola, Qian, and Weingast 1995; Rodden and Rose-Ackerman 1997; Treisman 2007). However, the measures of de jure regulations and the dynamic of leadership has been recognized as an important ingredient of Chinese politics as informal influences can sustain or hollow out the functions of institutions.

Second, as the competing proxies to decentralization, the dynamics between leadership and institutions in China provide a piece of evidence in the debate in the literature of authoritarian regimes. If institutions reflect temporal equilibrium of leadership dynamics (Brownlee 2007; Lai and Slater 2006; Weeks 2012), the same institution functions differently as the dynamics of leadership change across time. If institutions are tools of power-sharing commitment to overcome the time-inconsistency issue (Boix and Svolik 2013; Svolik 2012b), institutions remain effective regardless of leadership change. The case study of China supports the former rather than the latter. The findings suggest that the effect of TSS is conditional on Deng's influence whereas Deng's influence can exert independent effect without the presence of TSS.

CHAPTER 5
CONCLUSION

Some dictators install decentralization to share power with local elites who can provide efficient and effective governance beneficial to the duration and quality of authoritarian rule. Local elites are well-informed of local affairs and trusted by local people so that dictators have a hard time rotating or even replacing them because their resources in governance are geographically grounded. In managing local elites under authoritarian regime without an ultimate authority to define, interpret and settle disputes between central and local governments, dictators encounter two principal-agent problems: defection and compliance.

To prevent the problem of defection, dictators have to monopolize local elites' loyalty to prolong the political survival of authoritarian regime. They should block any available outside option in the party system to prevent local elites' defection as only a few of them can obtain the limited top positions within the ruling party. Thus, decentralization benefits dictator's political survival on the condition of single-party system.

On the other hand, the problem of compliance deals with if local elites comply with central policies. For instance, BITs are for central governments to sign with foreign countries, but for local governments to comply with the terms to which central government commits. Foreign countries are less willing to engage with decentralized dictatorships without local elections because electorally minded local elites prioritize local voters' preferences over dictators'. Ironically, decentralization facilitates the signing of BITs in China as empowered local elites are motivated to comply with central policy of engaging in international institutions.

I argue that local elites are influential to dictators' duration and quality of governance because local elites are capable of leveraging their political support from the mass to increase/dampen dictators' interests. The two problems are derived from the lack of ultimate judicial authority to settle disputes between the central and local governments under dictatorship. The management of two problems influences regime resilience and international cooperation respectively for dictatorship. To further elaborate on the case of China, I identify the informal leader's preferences trump institutional effects in decentralization consequential to the number of China's BITs. I use statistical methods to present empirical evidence supportive of my general arguments.

This dissertation intends to make the following contributions to the literature of authoritarian resilience and democratization. First, I intend to further the understandings in the political institutions under dictatorship with a focus on decentralization, an important and yet understudied institution under the framework of dictator's power-sharing with elites. Conventional approach investigates the effect of *individual* political institution on In terms of dictator's political survival. But, this dissertation takes a unique approach in examining the *interactions* of political institutions.

In Chapter 2, I investigate the interconnected power-sharing institutions in party system and decentralization to shed light on the relationship between the installation of power-sharing institutions and democratization. Since power-sharing institutions facilitate dictator's political survival as current literature suggests, the greatest puzzle is that dictatorships with all the power-sharing institutions are actually on the way to democratization, which ironically shortens dictator's political survival.

The investigation of political institutions with democratic façade under dictatorships is an on-going literature with great potential to unravel the sophisticated nuances between democracies and dictatorships. The more we understand the functions of political institutions under dictatorships, the closer we approach the answer of a long-time puzzle in political science from an institutional perspective: why and how democratization takes place and why not.

Second, I reexamine the domestic determinant in international cooperation for dictatorships. As dictatorships are ever more engaged in investment treaty as a form of international cooperation, it is important to link the literatures of authoritarian institutions and international cooperation. In Chapter 3 and 4, I investigate the decentralization and authoritarian credibility. The existence of empowered local elites is beneficial to the signing of BITs in the case of China, but not the maintenance of BITs in dictatorships.

In Chapter 3, political decentralization breeds a group of electorally-minded local elites who over-commit to international investors in bidding limited inflow of foreign direct investment, but end up violating BITs. The opportunistic behaviors in the maintenance of credibility lead to greater likelihood of being sued before international forum. It is under the context of authoritarian regime that the conflicts in the interests between central and local governments lack an ultimate resolution in domestic politics. The unresolved domestic disputes spill over to international cooperation.

In Chapter 4, the change and continuity of decentralization is empirically attributed to informal leader's preferences in China. Empirical tests confirm that Deng's preferences in empowering local elites lead to the sustainability of economically engaging foreign countries via BITs. In terms of policy consequences, the effect of TSS is dependent on Deng's influence while that of Deng's influence is independent from TSS. As China is deeply and widely involved with globalization, the understanding about its domestic source of credibility in authoritarian regimes prescribes the way how democracies evaluate the hazard which may backfire on economic voting.

However, this dissertation falls short to provide a fine-grained study in several regards. First, this dissertation takes the institution of decentralization as it is and discusses the policy consequences of it. However, the origin of decentralization matters to the policy consequence. For instance, Latin American countries have legacies of feudalism where local elites have taken control of resources in specific regions for generations even before modern states take shape. In authoritarian Taiwan, some local elites are generated by superimposed local elections. The political costs of removing the former is way higher than the latter as the former has fostered a strong and informal coalition across local elites to threaten any type of rule, but not the latter. Without tracing down the origin of decentralization, it is biased to equate the weights of political threat local elites can impose on the duration and quality of authoritarian rule under the same institution of decentralization.

Second, the origin of local elites is left out of discussion with regard to policy consequences. Influential local elites can be a representative or an agent of ethnic identity, religious orientation, or kinship. For the former, the shared privilege or grievance of political-economic identity is of greater potential to mobilize the collective action among their “own people”. For the latter, the lack of shared identity sets a higher bar for collective action against the central government.

Given the constraints, future research can be extended to a fine-grained distinction of whether the existence of local elites precedes the installation of decentralization. On the account of informal and formal institutionalization of local elites, we can further examine to what extent local elites can credibly impose a threat of overthrowing authoritarian rule. How do the dynamics of informal institutionalization of local elites influence the formal institutions of decentralization? What makes some dictatorships establish or cancel the institution of decentralization, but not others?

Moreover, the origin of local elites can be regarded as a result of bargaining between central and local government. When local elites are outsiders assigned by central government to join local elections, do they outperform in sustaining authoritarian rule? When local elites are insiders of local residence, are they more likely to answer local needs even if they have to go against central policy? The extended studies are expected to enrich the understanding of how authoritarian regime functions as the distribution of political authority is electorally connected.

APPENDIX

Table A-1: List of Dictatorships in the Sample of Chapter 2

Albania	Laos
Algeria	Madagascar
Angola	Malaysia
Armenia	Mexico
Azerbaijan	Mozambique
Benin	Nigeria
Botswana	North Korea
Brazil	Panama
Bulgaria	Philippines
Burundi	Poland
Cambodia	Romania
China	Senegal
Republic of Congo	Yugoslavia (Serbia and Montenegro)
Cote d'Ivoire	South Africa
Egypt	Spain
Ethiopia	Sri Lanka
Gambia	Tajikistan
Ghana	Togo
Guinea-Bissau	Tunisia
Iran	Venezuela
Kyrgyzstan	

Table A-2: Summary Statistics of Chapter 2

Variables	**N**	**Mean**	**Std. Dev.**	**Min**	**Max**
Year	665			1976	2007
Regime failure (DV)	665	0.04	0.19	0	1
Political decentralization	665	1.29	0.45	1	2
Party system	665	1.55	0.50	1	2
(Low, Single)	665	0.27	0.44	0	1
(High, Single)	665	0.18	0.38	0	1
(Low, Dominant)	665	0.44	0.50	0	1
(High, Dominant)	665	0.11	0.31	0	1
Regime transitions	665	0.24	0.51	0	2
Military spending	654	12.99	2.10	6.91	18.28
Natural resources	645	4.05	2.53	0	7.67
GDP per capita	645	3.86	2.67	0.42	13.67
GDP per capita (squared)	645	22.04	26.51	0.17	186.85
Democracies in the region	645	16.47	17.36	0	95.45
Foreign direct investment	523	18.60	2.85	0	25.86

Table A-3: List of Dictatorship in the Sample of Chapter 3

Albania	Ghana	Philippines
Algeria	Guinea	Poland
Angola	Haiti	South Korea
Armenia	Hungary	Romania
Azerbaijan	Indonesia	Russia
Bangladesh	Iran	Rwanda
Belarus	Iraq	Saudi Arabia
Benin	Jordan	Senegal
Botswana	Kuwait	Serbia
Bulgaria	Kyrgyzstan	Sierra Leone
Burundi	Laos	Singapore
Cameroon	Lesotho	South Africa
Central African Republic	Libya	Sri Lanka
Chad	Madagascar	Sudan
China	Malaysia	Swaziland
Congo	Mali	Syria
Cote d'Ivoire	Mexico	Tajikistan
Cuba	Mongolia	Tanzania
Democratic Rep. of Congo	Morocco	Thailand
North Korea	Mozambique	Togo
Ecuador	Nepal	Tunisia
Egypt	Nigeria	Turkey
El Salvador	Oman	Turkmenistan
Eritrea	Pakistan	Uganda
Ethiopia	Panama	United Arab Emirates
Gabon	Paraguay	Venezuela
Gambia	Peru	Zimbabwe

Table A-4: Summary Statistics of Chapter 3

Variable	**N**	**Mean**	**Std. Dev.**	**Min**	**Max**
Year	1312			1975	2010
Non-democracy	1312	1	0	1	1
ICSID cases	1312	0.03	0.20	0	3
Political decentralization	1312	0.46	0.50	0	1
Domestic political shocks	1203	1.85	4.36	0	49
Intra-state conflicts	1312	0.14	0.37	0	2
Domestic economic shocks	1312	0.07	0.26	0	1
Inflation	1089	2.20	1.32	-3.11	10.19
GDP per capita	1245	6.98	1.34	4.68	10.91
Property rights	795	13.91	3.93	3	26.5
Financial openness	1202	0.36	0.33	0	1
Military dictatorship	1312	0.10	0.30	0	1
Monarchy dictatorship	1312	0.16	0.36	0	1
Personal dictatorship	1312	0.27	0.44	0	1
Inter-state conflicts	1312	0.66	1.05	0	7
Inter-state conflicts (region)	1312	5.38	3.92	0	23
Inter-state conflicts (world)	1312	25.22	17.64	0	86
Economic shocks (world)	1312	4.70	5.35	0	24
FDI inflows	1078	18.40	2.62	2.37	25.95
Foreign reserves	1215	20.48	2.37	14.53	28.31
Remittances	906	-0.22	2.17	-7.74	4.67
BITs signed	1312	0.82	1.59	0	15
BITs signed (region)	1312	154.15	122.35	0	796
ICSID cases (region)	1312	9.89	8.19	0	42

Table A-5: List of Countries Maintaining Effective BITs with China

Country	Status of BITs with China	Start Year	End Year
Albania	In force	1993	-
Algeria	In force	1996	-
Argentina	In force	1992	-
Armenia	In force	1992	-
Australia	In force	1988	-
Austria	In force	1985	-
Azerbaijan	In force	1994	-
Bahrain	In force	1999	-
Bangladesh	In force	1996	-
Barbados	In force	1998	-
Belarus	In force	1993	-
Belgium	In force (Terminated)	1984	2009
Bolivia	In force	1992	-
Bosnia and Herzegovina	In force	2002	-
Bulgaria	In force	1989	-
Cambodia	In force	1996	-
Canada	In force	2012	-
Cape Verde	In force	1998	-
Chile	In force	1994	-
Colombia	In force	2008	-
Croatia	In force	1993	-
Cuba	In force	1995	-
Cyprus	In force	2001	-
Czech	In force (Terminated)	1991	2006
Democratic People's Republic of Korea	In force	2005	-
Denmark	In force	1985	-
Ecuador	In force	1994	-
Egypt	In force	1994	-
Estonia	In force	1993	-
Ethiopia	In force	1998	-
Finland	In force (Terminated)	1984	2006

（**Continuing**）

Table A-5: (cont’d)

Country	Status of BITs with China	Start Year	End Year
France	In force (Terminated)	1984	2010
Gabon	In force	1997	-
Georgia	In force	1993	-
Germany	In force (Terminated)	1983	-
Ghana	In force	1989	-
Greece	In force	1992	-
Guyana	In force	2003	-
Hungary	In force	1991	-
Iceland	In force	1994	-
India	In force	2006	-
Indonesia	In force	1994	-
Iran	In force	2000	-
Israel	In force	1995	-
Italy	In force	1985	-
Jamaica	In force	1994	-
Japan	In force	1988	-
Kazakhstan	In force	1992	-
Kuwait	In force	1985	-
Kyrgyzstan	In force	1992	-
Laos	In force	1993	-
Latvia	In force	2004	-
Lebanon	In force	1996	-
Lithuania	In force	1993	-
Luxembourg	In force (Terminated)	1984	2009
Macedonia	In force	1997	-
Madagascar	In force	2005	-
Malaysia	In force	1988	-
Mali	In force	2009	-
Malta	In force	2009	-
Mauritius	In force	1996	-
Mexico	In force	2008	-
Moldova	In force	1992	-
Mongolia	In force	1991	-

（Continuing）

Table A-5: (cont'd)

Country	Status of BITs with China	Start Year	End Year
Morocco	In force	1995	-
Mozambique	In force	2001	-
Myanmar	In force	2001	-
Netherlands	In force (Terminated)	1985	2004
New Zealand	In force	1988	-
Norway	In force	1984	-
Oman	In force	1995	-
Pakistan	In force	1989	-
Papua New Guinea	In force	1991	-
Peru	In force	1994	-
Philippines	In force	1992	-
Poland	In force	1988	-
Portugal	In force (Terminated)	1992	2008
Qatar	In force (Terminated)	1998	2000
Republic of Korea	In force (Terminated)	1992	2007
Romania	In force	1994	-
Russia	In force (Terminated)	1990	2009
Saudi Arabia	In force	1996	-
Serbia	In force	1995	-
Singapore	In force	1985	-
Slovakia	In force	1991	-
Slovenia	In force	1993	-
South Africa	In force	1997	-
Spain	In force (Terminated)	1992	2008
Sri Lanka	In force	1986	-
Sudan	In force	1997	-
Sweden	In force	1982	-
Switzerland	In force (Terminated)	1986	2010
Syria	In force	1996	-
Tajikistan	In force	1993	-
Thailand	In force	1985	-
Trinidad and Tobago	In force	2002	-
Tunisia	In force	2004	-

（**Continuing**）

Table A-5: (cont'd)

Country	Status of BITs with China	Start Year	End Year
Turkey	In force	1990	-
Turkmenistan	In force	1992	
Ukraine	In force	1992	-
United Arab Emirates	In force	1993	-
United Kingdom	In force	1986	-
Uruguay	In force	1993	-
Uzbekistan	In force (Terminated)	1992	2011
Viet Nam	In force	1992	-
Yemen	In force	1998	-
Zimbabwe	In force	1996	-

Source: UNCTAD

Table A-6: Summary Statistics of Chapter 4

Variable	N	Mean	Std.	Min	Max
Year	3598			1983	2008
Signing BITs with China	3598	0.023	0.149	0	1
Hu1 ('82-'87)	3598	0.133	0.339	0	1
Zhao ('88-'89)	3598	0.237	0.425	0	1
Jiang ('90-'02)	3598	0.519	0.500	0	1
Hu2 ('03-'12)	3598	0.244	0.430	0	1
Jiang while Deng's alive ('89-'97)	3598	0.314	0.464	0	1
Jiang after Deng's death ('98-'02)	3598	0.205	0.404	0	1
Before Deng's decease ('78-'97)	3598	0.551	0.498	0	1
After Deng's decease ('98-)	3598	0.449	0.498	0	1
Before TSS ('78-'94)	3598	0.614	0.487	0	1
After TSS ('95-'08)	3598	0.386	0.487	0	1
Deng without TSS ('78-'93)	3598	0.386	0.487	0	1
Deng with TSS ('94-'97)	3598	0.165	0.371	0	1
TSS without Deng ('98-)	3598	0.449	0.498	0	1
China's total BITs in t-1 year	3598	3.768	1.110	0	4.625
GDPpc: China	3598	7.647	0.603	6.524	8.702
GDPpc: partner	3598	8.375	1.336	5.081	11.607
ln(Trade with China): partner	3598	4.954	2.709	0	13.096
Polity2: partner	3598	2.190	7.115	-10	10
Affinity score	3598	0.712	0.250	-0.724	1
Africa	3598	0.319	0.466	0	1
Asia	3598	0.251	0.433	0	1
Latin America	3598	0.123	0.328	0	1

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