

# Signaling for Aid?

## Effects of Signing Democracy-Related Provisions in Preferential Trade Agreements

*DRAFT – Please do not cite/circulate*

Marine Roux \*

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### Abstract

Democracies have pushed for democracy promotion as part of their foreign policy agenda through various channels, including that of preferential trade agreements (PTAs). Recent literature shows that democratising and autocratic countries have increasingly pushed back against this trend. Reasons include, for the former, pushing back against an alleged form of neocolonialism and fears about reductions in policy space, and for the latter, resisting democratisation threats. Mixed polity country pairs do sign democracy-related provisions in PTAs though, especially when the democratic party has a relative bargaining advantage. Why? I argue that signing democracy-related provisions can enable democratic donors and democratizing and autocratic recipients to favor aid deals that align with their interests. To test my argument, I estimate a staggered difference-in-differences model to evaluate the impact of the adoption of democracy-related provisions on foreign aid across over 100 mixed regime type country pairs from 1966 until 2019. I find that democracies are more likely to increase their overall aid expenditures commitments towards a democratizing or autocratic trade partner in the 10 years following the signature of democracy-related provisions on average. I show that this effect only holds for shallow commitments and not comprehensive ones, signaling a potential selection effect at play. Further, I do not find evidence of an increase in targeted aid, such as aid for trade or democracy aid. Instead, I find that autocracies are more likely to receive more commodity aid or general budget support, and democratizing countries benefit from increased economic, production and cross-cutting sectoral aid support. Overall this paper demonstrates that signing democracy-related provisions can enable signatories to secure economic aid deals for strategic purposes rather than to support the implementation of such provisions.

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\*World Trade Institute, University of Bern, Email: [marine.roux@unibe.ch](mailto:marine.roux@unibe.ch). For helpful comments and discussions, I thank Marc Busch, Niccolo Bonifai, Roberto Echandi, Manfred Elsig, Manon Fortemps, Johannes Geith, Kirthana Ganeson, Irene Garcés Iriarte, Stefano Jud, Jialu Li, Andrew Lugg, Kathleen McNamara, Matteo Nebbiai, Abe Newman, Sojun Park, Rong Qin, Paul Vernus, Johan Wahlsten, and participants to the World Trade Forum 2024. I acknowledge financial support from the Swiss National Science Foundation.

# 1 Introduction

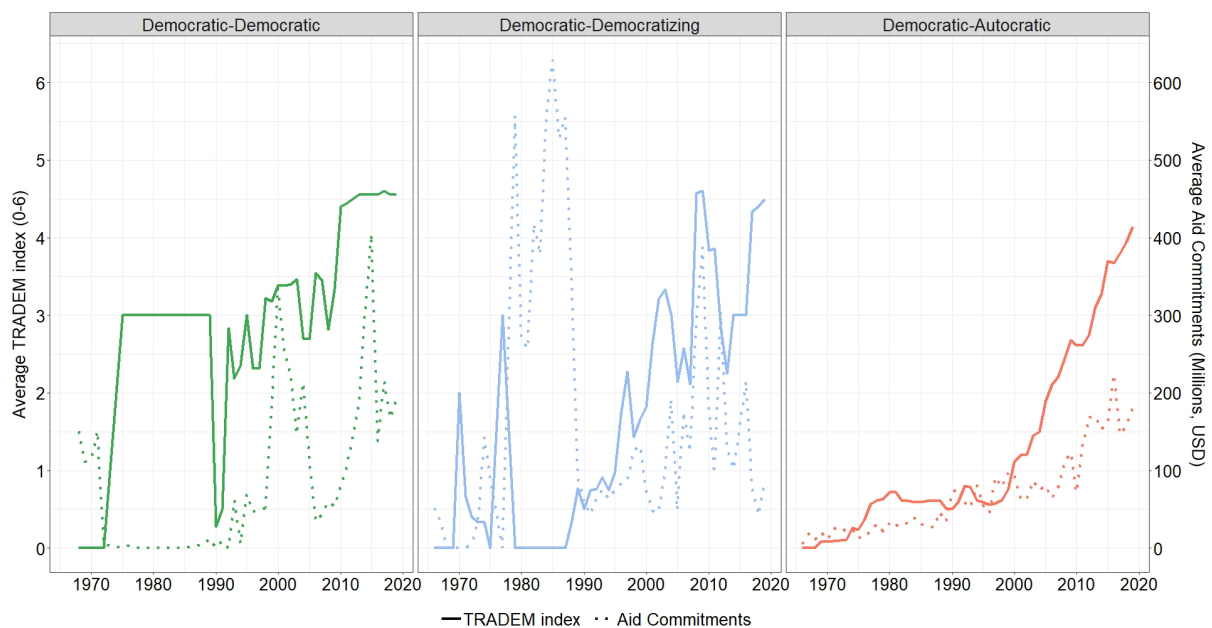
Although the initial purpose of aid is to alleviate poverty, the existing literature on aid showed that it also fulfilled many other ambitions, donors' strategic interests in particular. This literature already investigated the determinants of aid allocation focusing mostly on donor motives and recipient needs ([Alesina and Dollar, 2000](#); [Berthélemy and Tichit, 2004](#); [Clist, 2011](#); [Dreher et al., 2024](#)). Little is however known on the interaction of donors' and recipients' interests. Yet, democratic donors strategic interests are increasingly challenged by the rise of autocratic powers reshuffling the cards of international cooperation. The rise of authoritarianism and democratic backsliding challenges in particular democracies' long-standing democracy promotion agenda as part of their foreign policy interests. I argue that this tension increasingly affects the negotiation of non-trade provisions in preferential trade agreements (PTAs), in particular clauses related to democratic principles.

Although some recent literature started to study why autocrats sign preferential trade agreements (see, for example, [Baccini and Chow, 2018](#)), little is known about the conditions in which they sign different types of provisions. Democracy-related provisions are particularly puzzling as autocracies are likely to resist democracies' push for democratisation. Beyond the divide between democratic and autocratic countries, the negotiations of democracy-related clauses between democracies and democratizing countries are not likely to be straightforward either. Contrarily to conventional wisdom, recent literature showed that democratizing countries might be reluctant to commit to democracy promotion through international commitments if it curtails their policy space ([Meyerrose, 2020](#); [Dai and Tokhi, 2023](#)). Yet, both democracy-autocracy and democracy-democratizing country pairs sign democracy-related provisions and increasingly so since the 1990s, as shown in Figure 1 (solid lines). During this period, a noticeable change also occurred in bilateral aid flows between countries that signed a preferential trade agreement (see dashed lines in Figure 1). While democracies

committed to send more foreign aid primarily to their democratic and democratizing country trade partners during the 1990s and 2000s, this trend is gradually changing in favour of autocratic trade partners since the mid-2000s and 2010s (see dashed lines in Figure 1). This also contradicts prior research showing that aid donors favor democratic recipients. Why do we observe these patterns? One argument lies in the rise of authoritarianism and that democracies are increasingly left no choice of sealing deals with autocratic partners that increasingly integrated the liberal trade order. This argument certainly has its truth. I however argue that democratic as well as democratizing and autocratic leaders can derive (other) benefits of signing low committing democracy-related provisions. Signing such provisions can send a signal to foreign aid donors, and empower both donors and recipients to sign aid deals favorable to their strategic interests. Democratic donors can better justify their aid allocation decisions to their constituents, especially when it comes to autocratic recipients. Democratizing and autocratic recipients successfully signaling for aid through the signature of democracy-related provisions are offered more opportunities to bargain aid deals that support their interests.

To test my argument, I estimate a staggered difference-in-difference model of over 100 mixed regime type country dyads between 1966 and 2019. To isolate the effect(s) of signing democracy-related provisions, I compare country dyads that have signed an agreement with and without such provisions. I show that democracies are more likely to increase their overall aid (ODA) commitments towards an autocratic or democratising country with whom they signed democracy-related provisions in the last ten years. I find no significant differences in bilateral foreign aid flows for dyads signing comprehensive democracy-related provisions, suggesting a selection effect might be at play. Further, I find little evidence that mixed regime type dyads negotiate targeted aid deals (such as aid for trade or democracy aid deals) to support the implementation of democracy-related provisions. Disaggregating further the overall effects, I demonstrate that these aid deals favour commodity or general budget support aid for autocratic recipients, and economic, production and cross-cutting sectoral aid support for

Figure 1: Democracy-related content of trade agreements and aid flows between country pairs that signed a trade agreement



Source: Own calculations based on OECD aid data and [Elsig et al., forthcoming](#).

*Note: Solid lines represent the average TRADEM index by year and regime type dyad. The TRADEM index (0-6) captures the extent to which PTAs include different types of democracy-related provisions, such as democratic principles, individual rights, transparency, stakeholder participation. Dashed lines represent average bilateral aid commitments by year and regime type dyad. The sample includes only country pairs that have signed a trade agreement.*



democratizing recipients. Signing democracy-related provisions is also associated to a *higher* likelihood of receiving aid through uncategorized channels for autocracies and to a *lower* likelihood of receiving aid through NGOs and civil society channels for democratizing countries.

This paper contributes to the debate on the effectiveness of foreign aid on one hand, and to the one of the successful domestic implementation of non-trade provisions on the other hand. The results suggest that the signing of low-committing democracy-related provisions can empower democratic, as well as democratizing and autocratic countries to favor aid deals in line with their strategic interests and not necessarily to support the implementation of such provisions. The findings showcase that these foreign aid deals might ultimately prove counter-productive to both aid effectiveness and the implementation of democracy-related provisions, in particular when it comes to autocratic recipients. Investigating further these potential effects is a promising avenue of research.

## 2 Literature

### 2.1 Foreign aid and preferential trade agreements

The extensive literature on bilateral foreign aid discusses mainly the determinants of foreign aid flows and its effectiveness. On the former, scholars have analysed determinants of foreign aid along mainly two dimensions: donors' and recipients' characteristics.

As foreign aid aims to alleviate poverty, the first important characteristic of interest is the one of recipient's level of income (or income per capita). As expected, various studies show that the recipient's income per capita is negatively correlated to the amount of foreign aid received (see for example [Berthélemy and Tichit, 2004](#); [Younas, 2008](#)). [Clist \(2011\)](#) however shows that this effect varies largely across donors. The author finds that the Netherlands, Sweden and the UK are highly "poverty-sensitive", Germany and Japan too but to a lesser ex-

tent, while no such effect is found for the US and France. These results are often interpreted as evidence that aid is allocated efficiently and reflect recipients' needs. [Dreher et al. \(2024\)](#), however, points out that this interpretation omits the power dynamics at play which can be in favour of donors' interests. Other determinants related to recipients' needs and less so to donors' interests include infant mortality and life expectancy. The effects of such determinants are mixed. [Mesquita and Smith \(2009\)](#) do not find a significant relationship between life expectancy and aid, while [Berthélemy and Tichit \(2004\)](#) and [Younas \(2008\)](#) find that recipients experiencing higher levels of infant mortality also receive more aid.

Another key determinant of aid flows lies in recipients' regime type and quality of institutions. Recipients that are democratic or democratize tend to receive more aid ([Alesina and Dollar, 2000](#); [Clist, 2011](#)). Respect for civil liberties and political freedom by recipients is also associated with a higher likelihood of receiving aid ([Berthélemy and Tichit, 2004](#)). [Younas \(2008\)](#) also finds a positive relationship between recipient's respect for human rights and aid received. The variable most relevant to reflect donors' decisions to allocate aid depending on recipients' policies is again likely to be donor-specific. [Clist \(2011\)](#) finds that if donors tend to value both a democratic regime and respect for human rights, democracy is overall a more accurate determinant than that of respect for human rights for six out of seven donors included in the study.

Although these studies find a relationship between aid allocation and recipients' needs, the literature also clearly shows that donors' rationale to aid allocation are far from being purely altruistic, otherwise aid would likely be found to be more effective in alleviating poverty ([Dreher et al., 2024](#)). Although some authors find that donors became increasingly more selective with respect to recipients' economic needs ([Berthélemy and Tichit, 2004](#)) - or at least some of the donors ([Clist, 2011](#)) - donors' economic and political interests are still strong determinants of aid allocation, and even to a greater extent than that of recipients interests.

Donors' economic interests are mainly captured by their commercial interests. Donors are more likely to allocate aid to recipients who liberalized trade or with whom they trade ([Alesina and Dollar, 2000](#); [Mesquita and Smith, 2009](#)). [Younas \(2008\)](#) explores the relationship between trade and aid in further depth. Results suggest that donors are more likely to target recipients which import a larger share of products for which the donor country has a comparative advantage (mainly manufactured goods as opposed to agriculture goods). The author further explores heterogeneous effects across six donors (Canada, France, Germany, UK and US). The effect holds at the individual level for each of these donors, except for the US, whose foreign aid allocations seem to be mostly driven by other political and strategic motives. [Pettersson and Johansson \(2013\)](#) go one step further showing that not only donor exports matter in aid allocation decisions but also recipient exports to the donor. The positive correlation between aid and recipient exports is particularly large for strategic materials exports, and holds only for technical assistance aid but not for Aid for Trade.

Donors' (geo)political interests are commonly measured by colonial ties and strategic alliances. Donors tend to allocate more aid to former colonies ([Alesina and Dollar, 2000](#); [Berthélemy and Tichit, 2004](#); [Younas, 2008](#)) and to strategic allies, mostly measured by United Nations voting patterns ([Alesina and Dollar, 2000](#)). These studies also find that Egypt and/or Israel tend to receive relatively more aid, most likely reflecting donors' strategic interests due to ongoing conflicts in the region. This seems to play a role in particular in the US' aid allocation decisions (see for example [Alesina and Dollar, 2000](#)).

In short, aid is given for many different types of reasons and the literature is rich in explaining each of these and its effects. However, as pointed out by [Radelet \(2024\)](#), if donors give aid for multiple purposes they do so simultaneously and these purposes can conflict. Interestingly, foreign aid and trade agreements have both been used by democratic states to fulfil their democracy promotion and economic objectives simultaneously. Yet, little is known

about how these tools are effective in reconciling these two objectives.

A couple of studies sought to investigate the relationship between preferential trade agreements and aid ([Baccini and Urpelainen, 2012](#); [Hoekman et al., 2023](#); [Francois et al., 2022](#)). [Baccini and Urpelainen \(2012\)](#) find that developing countries signing PTAs are more likely to receive aid in the short term. This finding supports the authors' hypothesis that foreign aid can act as a side payment to trade agreements and enables to sign deeper agreements. The authors, however, do not explore the links between aid and signing specific types of provisions as part of these agreements. [Hoekman et al. \(2023\)](#) fill this gap, to some extent, investigating the links between signing labour and environment provisions in PTAs, trade and aid for trade. They find that aid for trade is correlated with trade in labor-intensive goods but not in environment-intensive goods. They also show that the positive relationship between donors' exports and aid for trade is particularly strong when PTAs include labour and environment provisions. These results seem to suggest that the relationship between non-trade provisions in PTAs and aid might not only reflect side-payments deepening the implementation of such provisions, but can also reinforce other existing strategic interests. Although these studies make important arguments on the link between trade agreements and aid flows, they do not investigate the increasing tension between economic and diplomatic interests that democratic countries face in the wake of authoritarianism.

## **2.2 What are democracy-related provisions?**

The literature on non-trade provisions in trade agreements is the closest to the issue of democracy-related provisions. Non-trade provisions, however, only overlap with democracy-related provisions. Although some of these non-trade provisions clearly refer to democracy (e.g. civil and political rights), other don't (e.g. environment protection). There are also other types of democracy-related provisions that are not captured in non-trade provisions (e.g. stakeholder

participation, transparency).

Elsig et al. (forthcoming) fill this gap and define democracy-related provisions as all clauses in a trade agreement that relate directly or indirectly to democracy. In this conceptualisation, we include first any provisions that promote directly democracy. These provisions typically require members of the agreement to be democratic or provide technical assistance to promote democratisation or democracy consolidation. These clauses tend to be rare as they go beyond the purpose of the trade agreement only. They actually often appear in agreements that are not only commercial but which are also of political nature to some extent (for example the Pacific Alliance, MERCOSUR). We therefore also consider aspects that relate to both trade policy and democracy. These aspects are much more likely to be included in trade agreements as they directly serve the purpose of trade policy. They also indirectly relate to democracy in the sense that they contribute to the country's institution (-building) and promote fundamental rights.

We identify six different broad categories of democracy-related provisions that are then further detailed into 90 specific aspects of trade agreements (for a detailed account of them, please find the detailed codebook in Appendix A.1). I summarize here briefly the six categories and provide for each of them one example of an agreement including a clause(s) belonging to this category. The PTAs given as examples are only one example of an agreement including one or more clause(s) from a given category but do not represent a "model" in the area. The first category *General objectives* captures whether democratic principles such as democracy, transparency, rule of law, individual rights are mentioned in the preamble or general objectives clause of the agreement. The second category *Democracy promotion* represents the highest level of ambition for democracy promotion. This includes provisions that require PTA members to be democratic (e.g. Pacific Alliance, 2012) or conditionality mechanisms (e.g. EU-Moldova, 2014). The third category *Individual rights* captures whether the trade agreement

has a stand-alone chapter or clause on individual rights, including civil and political rights (e.g. Chile-EC, 2002), labour rights (e.g. Korea-Peru, 2011), consumer rights (e.g. TPP, 2015), minorities' rights (e.g. USMCA, 2018) or women's rights (e.g. Chile-Ecuador, 2020). The fourth category *Stakeholder participation* captures the extent to which there are mechanisms promoting the inclusion of businesses, civil society or independent experts in trade policy formulation and/or the agreement's implementation, whether independently or as part of a joint stakeholder group (e.g. CETA, 2014). The fifth category *Transparency* captures obligations in the agreement for parties to publish laws and the right of stakeholder to access information (e.g. AfCFTA, 2018). The sixth category *Policy space* captures clauses on the Parties' right to regulate (e.g. UK-Canada, 2020), general exemptions and general exemptions for public policy purposes (e.g. Australia-Singapore, 2003). These provisions capture states' possibility to carve out policy space to pursue public policy objectives. Although increased policy space does not necessarily translate to democracy-enhancing public policies, recent literature also highlighted that a lack of policy space can substantially hinder democratization (see for example on international organisations, [Meyerrose \(2020\)](#)).

These categories can be combined in an additive index (0-6) for each of the 792 PTAs included in the analysis. Figure 2 shows the distribution of democracy-related provisions across decades. The distribution of democracy-related provisions follows a similar pattern to the one of NTIs, which is expected. Democracy-related provisions are not new and have been to some extent included since the 1950s. However, the trend accelerated substantially and subsequently in the 1990s, 2000s and 2010s. The boxplots also show that there is still a high variation in the level of ambition of democracy-related provisions across PTAs within a given decade.

The distribution of the average democracy-related provisions across regions also follows an expected pattern. On figure 3, intercontinental agreements includes, on average, the most

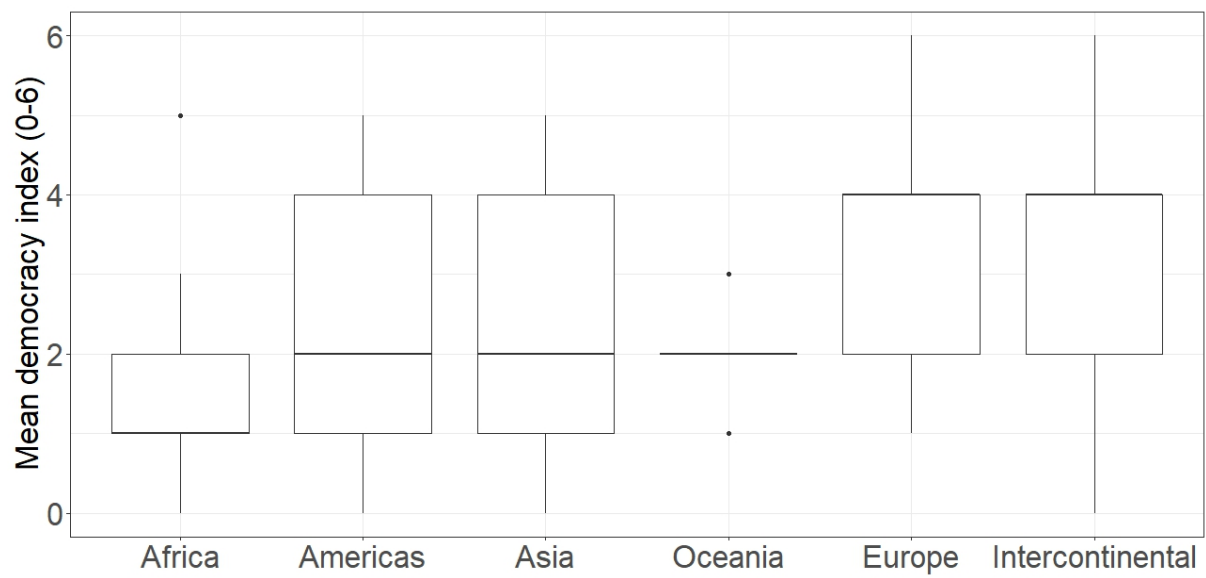
Figure 2: Democracy content index by decade



Source: Own calculations based on [Elsig et al., forthcoming](#)

ambitious level of democracy-related clauses, followed closely by the European region. Again, it should be noted how much variation there is within region as well, the most striking examples being in the American and Asian regions.

Figure 3: Democracy content index by region



Source: Own calculations based on [Elsig et al., forthcoming](#)



### 3 Argument

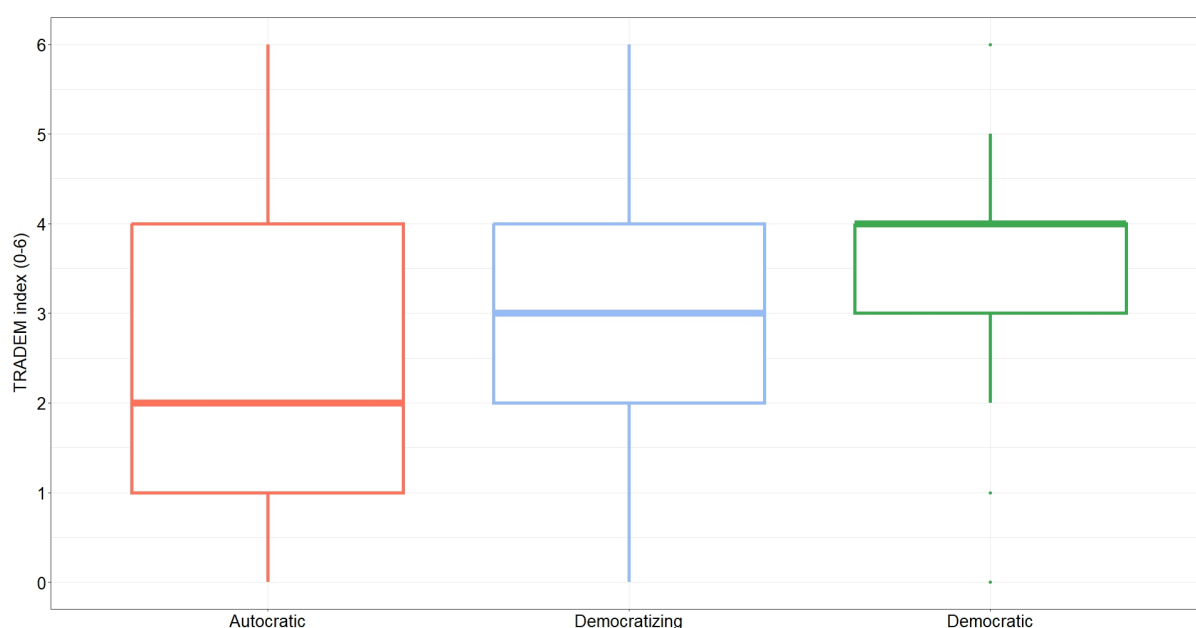
#### 3.1 Signaling for aid

Building on the existing evidence, I argue that signing democracy-related provisions can enable democratic donors and democratizing and autocratic recipients to seal aid deals favorable to their respective interests.

Democracies integrated democracy promotion in their foreign policy for a while, with the United States and European Union member states being the most prominent examples (Light, 2001; Huber, 2015; Milewicz, 2020). On the contrary, autocratic leaders are less likely to be willing to sign democracy-related provisions, which could potentially represent a democratisation threat. Democratizing countries are likely to be willing to include democracy-related provisions for both internal and external signaling purposes. However, these provisions could entail high adaptation costs (Milewicz et al., 2018) and curb their policy space (Meyerrose, 2020; Dai and Tokhi, 2023). Figure 4 confirms that, on average, democratic countries sign relatively more democracy-related provisions compared to respectively democratizing and autocratic countries.

In this context, and following the selectorate theory (Mesquita and Smith, 2009; Siverson and Mesquita, 2017), I argue that linking aid to signing democracy-related provisions fulfill the political survival interests of both democracies and democratizing or autocratic countries. Democracies can demonstrate they respond to the demands of their constituents pushing for the inclusion of democracy-related provisions and to whom they are accountable (see for example on labour provisions Spilker et al., 2016). This increases domestic donors' credibility to send more foreign aid to these trade partners, especially so to autocratic trade partners. At the same time, autocrats can benefit from this signaling effect to distribute rents to their selectorate using the economics benefits derived from an aid deal. These benefits outweigh the

Figure 4: Democracy content index and PTA members' polity



Source: Own calculations based on [Elsig et al., forthcoming](#)

costs of a potential democratizing effect of signing democracy-related provisions. Such costs remain fairly low, given the low enforceability of most of these provisions. Democratizing leaders are also more likely to survive and make the democratic transition last by enabling further capacity and institution building through the implementation of democracy-related provisions and capacity building from an aid deal.

**Hypothesis 1:** Democracies are likely to increase their ODA commitments towards a democratizing or autocratic trade partner with whom they sign democracy-related provisions.

### 3.2 Aid as a direct support tool

Another possibility is that aid might be used as a direct support tool to facilitate the implementation of the agreement ([Baccini and Urpelainen, 2012](#)), and more specifically of these democracy-related provisions. I argue that autocratic and democratizing recipients do not necessarily seek a targeted aid deal easing the implementation of democracy-related provisions, although for different reasons.

Autocratic and democratizing recipients are more likely to favor broader aid deals. I expect autocracies to not be willing to implement democracy-related provisions and might only accept to sign such provisions in the prospect of gaining market access and possibly getting a non-targeted aid deal. Democratizing countries are likely to be willing to implement democracy-related provisions, however they might want to retain policy space and leeway in the way in which they are implemented. Such policy space is possibly restricted by a targeted aid deal. They are therefore more likely to prefer broader aid deals.

I argue that the difference in the signaling argument and targeted aid argument can be seen in the different type of aid commitments. An increase in *democracy* aid following the signature of democracy-related provisions would likely be associated to a direct support tool or targeted aid deal while more *general ODA* could be interpreted as a deal resulting from a signaling effect. This leads to the following hypothesis.

**Hypothesis 2:** Democracies are **not** likely to increase their democracy aid commitments towards a democratizing or autocratic trade partner with whom they sign democracy-related provisions.

### 3.3 Aid sectors and channels

More specific differences between democratising and autocratic countries political survival strategies can be identified through the specific aid sector(s) that benefit most from this signaling effect. There are many different types of aid sectors including social infrastructure, economic infrastructure, production sectors, debt relief, commodity and general budget support aid, or humanitarian aid.

If signing democracy-related provisions increases the likelihood of democratic donors sending aid to their democratizing and autocratic trade partners, it also increases competition among aid donors. This allows democratizing and autocratic countries to favor aid deals that align more specifically to their interests.

In a logic of political survival, an autocrat leader is likely to favor any aid sectors that

increases their capacity to redistribute rents to their selectorate, directly or indirectly. Direct channels would favor increased budget capacity and debt relief, while indirect channels could favor various types of sectors depending on the type of autocracy and associated selectorate. Autocracies are various in types ranging from open to close, and personalistic to monarchist. The more open the autocracy, the wider the selectorate and the more likely the autocrat favors aid deals that reaches a wider base support (potentially even including aid supporting social infrastructure and services); while the closer the autocracy, the more likely the autocrat favors aid deals targeting specific economic sectors. In this analysis, I cannot account for this diversity given the limited data available, and therefore focus on the direct channels through which autocrat leaders can favor their selectorate, namely budget support and debt relief.

Democratizing country leaders are also likely to favor aid deals that most benefit their selectorate. Similarly to autocratic countries, there exist many different types of democratic transitions, calling for various types of aid. One common characteristic of most democratizing countries is their efforts to increase domestic capacity, which is likely to favor aid supporting social and economic infrastructure and services.

Lastly, although democracy promotion is part of democratic countries' strategic foreign policy interest, democratic powers have also important economic interests, driving both the signature of numerous trade agreements and aid allocation decisions. Democratic donors are therefore also likely to favor economic aid deals, and relatively more so with partners with whom they signed democracy-related provisions. Such provisions can help justify their aid allocation decisions to their constituents, and (in principle) serve as a conditionality mechanism.

***Hypothesis 3:*** The signaling effect of signing democracy-related provisions on foreign aid is more likely to favor budget and debt relief support for autocratic recipients, and favor social and economic infrastructure aid for democratizing recipients.

Aid can also channel through various actors, for example: government institutions, pri-

vate actors, multilateral organisations or non-government organisations. I argue that signing democracy-related provisions enables democratic donors to justify their aid allocation and do not need to rely on other multilateral actors to do the "dirty work" (see the "dirty-work" hypothesis by [Dreher et al., 2022](#)). Autocratic leaders are likely to favor government channels to redistribute rents to their selectorate, while democratizing country leaders are more likely to favor such channels to more effectively signal their ability to negotiate favourable aid deals.

**Hypothesis 4:** The signaling effect of signing democracy-related provisions on foreign aid is more likely to result in an increase of government-to-government aid.

## 4 Empirical strategy

### 4.1 Difference-in-differences and staggered treatment

To test my hypotheses, I estimate a staggered difference-in-differences ([Chaisemartin and D'Haultfoeuille, 2024](#)). The difference-in-differences method enables to estimate the impact of a treatment comparing two dimensions simultaneously: (i) "treated" units and "control" units (ii) before and after the treatment took place. The *treatment* of interest here is whether a country dyad has signed democracy-related provisions in trade agreements. Country dyads are considered as *treated* if they signed democracy-related provisions, as opposed to *control* country dyads that signed a preferential trade agreement but did not sign such provisions. Treated and control country dyads are compared before and after the treatment took place. In principle, treated and control dyads should follow a similar trend in the outcome variable before the treatment occurs (also known as parallel trends assumption). If that is the case, one can interpret the estimated difference in the outcome variable between the treated and control units after the treatment as the marginal effect of the treatment variable on the outcome variable. This difference-in-difference setting has been widely used to estimate the effects of various public policies on various outcomes.

One additional difficulty lies in the staggered adoption of a given public policy. Econometricians showed that implementing a difference-in-difference setting when all treated units are not treated at the same time can lead, for example, to negative effects, when the *true* effect is actually positive (for a summary of the discussion, see [Roth et al., 2023](#)). The issue arises from the fact that if the staggered adoption is ignored, treated units are compared to “control” units which are actually treated. Taking our example, let’s assume we estimate a two ways fixed effects panel assuming all agreements were signed on the same year although that is not the case, then we interpret our estimations as if we were comparing dyads signing democracy-related provisions to those not signing democracy-related provisions. In reality some of the estimation captured the comparison of dyads already treated at time  $t-2$  (dyads that already signed democracy-related provisions, say two years earlier) to those treated at time  $t$ . This generates negative weights in the average treatment effect and can flip the sign of the estimated average treatment effect as well. Various solutions to this issue are proposed (for a review of them see [Roth et al., 2023](#), or [Chaisemartin and D’Haultfœuille, 2022](#)). The different solutions mainly differ in the type of treatment variable supported (binary, continuous, discrete) and assumptions on the control group composed of never treated or not-yet treated units. For this paper, I rely on the estimator by [Chaisemartin and D’Haultfœuille \(2024\)](#). The control group is composed of not-yet treated, which is a more reliable comparison group to my treatment, than never treated units.

## 4.2 Identifying the effect of signing democracy-related provisions

A second challenge lies in the identification of the effect of signing democracy-related provisions. This effect is endogenous to the one of signing a trade agreement in the first place. In order to address this concern, I select dyads that have ever signed a trade agreement and compare those that have signed democracy-related provisions to those that have not signed democracy-related provisions. This way, I only capture the *marginal* effect(s) of signing democracy-related

provisions, and not the combined effect(s) of signing a trade agreement and democracy-related provisions.

To estimate the marginal effect(s) of signing democracy-related provisions, I rely on the binary variables from [Elsig et al. \(forthcoming\)](#), derived for the following categories: general objectives, democracy promotion, individual rights, stakeholder participation, transparency and policy space. I test the effect(s) of each of them independently. One can assume that these democracy-related provisions are not independent from each other though, and can be negotiated together. Testing the effect of signing one type of democracy-related provisions on bilateral aid flows, without accounting for the signing of other democracy-related provisions, could lead to a violation of the parallel trends assumption. One possibility would be to control for all other democracy-related provisions in the estimation. However, this would mean that for each estimation I would add five other dummy variables that are highly correlated with each other. This could lead to multicollinearity and introduce a bias in the standard errors. As an alternative, I propose to control systematically for the PTA depth index. The depth index tends to be correlated with democracy-related provisions, as more comprehensive PTAs tend to include more non-trade provisions, among which democracy-related provisions. This enables to reduce the omitted variable bias, while ensuring a lower level of multicollinearity.

The negotiations and signature of certain types of democracy-related provisions might not only be influenced by the signature of other types of democracy-related provisions, but also by the extent to which signatories have already signed similar provisions in the past. I also control for these diffusion effects capturing whether both donor and recipient countries already signed respectively baseline or comprehensive democracy-related provisions in the past in dummy variables. To note that I include these diffusion dummy variables only to test my first two hypotheses. When I turn to the third and fourth hypotheses, I analyze the effects of signing either baseline or comprehensive provisions on different aid sectors, but I do not

distinguish between different types of provisions (due to data limitations).

To further address potential endogeneity concerns, I also control for the level of power asymmetry between signatories and the level of compliance to rule of law in both donor and recipient countries, two factors that can influence both the negotiation of democracy-related provisions and bilateral aid flows. To measure power asymmetry, I rely on countries' share of world trade. Power can be defined and conceptualised in various ways. I argue that in the context of trade negotiations, economic matters and by extension economic power remains most relevant. Commercial interests proved to also be an important determinant of bilateral aid flows, as previously commented. I compile the dyad's power asymmetry using the World Development Indicators (WDI, World Bank). I additionally interact this measure of power with the recipient's level of compliance to the rule of law (measured by V-DEM). Lastly, I rely on dyad-year fixed effects to capture other time-invariant determinants. These include, for example, whether the dyad ever had a colonial relationship.

## 5 Data

### 5.1 Foreign aid (outcome)

The main dependent (or outcome) variable is bilateral foreign aid flows. I extract two different types of bilateral foreign aid data: overall ODA (Overseas Development Assistance) from the OECD Data Explorer, and sectoral aid from the Creditor Reporting System Aid Activity Database (OECD). For each, I extract aid commitments<sup>1</sup>, enabling to better identify aid decisions rather than implementation, identified by aid disbursements (following a similar argument to [Berthélemy and Tichit, 2004](#)).

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<sup>1</sup>Commitments represent donors' commitments to expenditures. A commitment is defined by the OECD as "a firm written obligation by a government or official agency, backed by the appropriation or availability of the necessary funds, to provide resources of a specified amount under specified financial terms and conditions and for specified purposes for the benefit of a recipient country or a multilateral agency."



CRS sectoral data has less data available in comparison with ODA data. However, the data is available at a much more disaggregated level. I define Democracy aid as aid from the "government and civil society, general" CRS sector. This aid sector covers many aspects that directly relate to democracy-related provisions, such as: support for anti-corruption organisations and institutions, democratic participation and civil society, human rights, women rights, legal and judicial development. In robustness checks, I also estimate the impact of signing democracy-related provisions on Aid for Trade, capturing the "trade policies and regulations" sector which includes trade facilitation, trade-related adjustments and support for the implementation of trade agreements.

Lastly, for hypothesis three, I further disaggregate aid across sectors and channels. This data also comes from the CRS OECD database. The sectors and channels included in the analysis are categories pre-established in the OECD database. Appendix A.2 summarizes the different aid types, channels and sectors included in the analysis.

To normalize aid variables, I adopt the conventionally used method of approximating bilateral foreign aid flows by the log of foreign aid flows.

## 5.2 Signing democracy-related provisions (treatment)

The main independent (or treatment) variables are the "democracy content indices" capturing the extent to which trade agreements contain democracy-related provisions. [Elsig et al. \(forthcoming\)](#) compile these indices for 792 trade agreements across the world using supervised machine learning.<sup>2</sup>

The data collected by [Elsig et al. \(forthcoming\)](#) includes binary variables for each of the following 6 categories of democracy-related provisions. There are two sets of indices ("coverage" and "depth") for each category bringing the total number of potential estimations to

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<sup>2</sup>Details on the methodology can be found in the appendix A.1

twelve. Coverage indices capture whether a PTA includes at least one provision of a given category, while depth indices capture the extent to which a PTA includes *comprehensive* provisions for each given category. (For a detailed description of the methodology and indices, please see appendix [A.1](#) and [Elsig et al. \(forthcoming\)](#)).

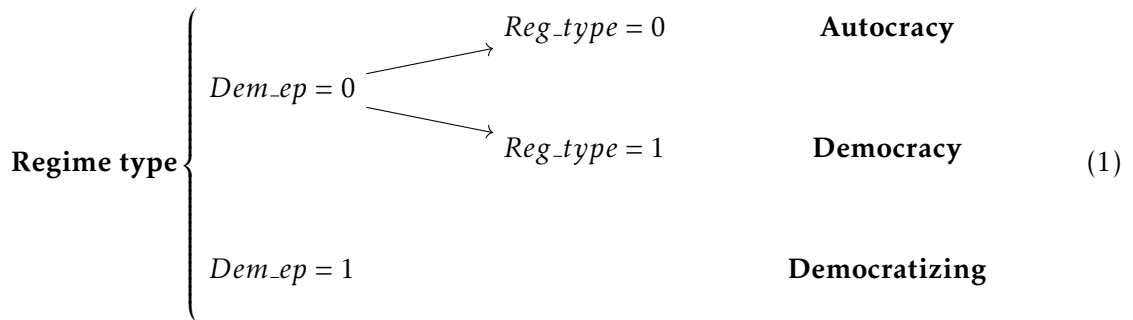
### Democracy-related provisions

- (a) *General objectives* - mentions of democratic principles in the preamble or general objectives chapter.
- (b) *Democracy promotion* - direct democracy promotion (conditionality) mechanisms.
- (c) *Individual rights* - provisions on the promotion or protection of individual rights (labor rights, consumer rights, gender rights etc).
- (d) *Stakeholders' participation* - clauses on domestic stakeholders' participation in trade policy formulation, and inter-state capacity building mechanisms.
- (e) *Transparency* - provisions on information publication and notification as well as access to information.
- (f) *Policy space* - provisions on the Parties' right to regulate for public policy and general exemptions.

## 5.3 Regime type

The exact definition of democracy and its measurement can vary considerably across sources and the literature has debated for many years what is the best way to measure democracy. I use the Episodes of Regime Transformation dataset from the VDEM project ([Edgell and Lindberg, 2020](#)). This dataset enables me to capture - to some extent - the dynamics of regime type changes over time. To identify whether a country is democratic, democratizing or autocratic, I combine two variables of the ERT dataset. *Reg.type* captures whether a country can be considered as autocratic or democratic, not only based on its regime at a given point of time but across a given span of years. It therefore does not re-classify a country from one category to another, only based on temporary political condition changes in a given year. *Dem.ep* captures whether a country undertakes a democratisation episode across a span of five years. As these variables take into account changes over time and across regimes, they can overlap. To define regime type, I therefore consider that a given country on a given year is democratising if it

undertakes a democratisation episode. Otherwise, the country is considered as autocratic or democratic.



Changes in regime type over time also represent a challenge in identifying effects across time. For the purpose of this analysis, I therefore refer to countries' regime type according to their regime type at the time of signing democracy-related provisions.

## 6 Results

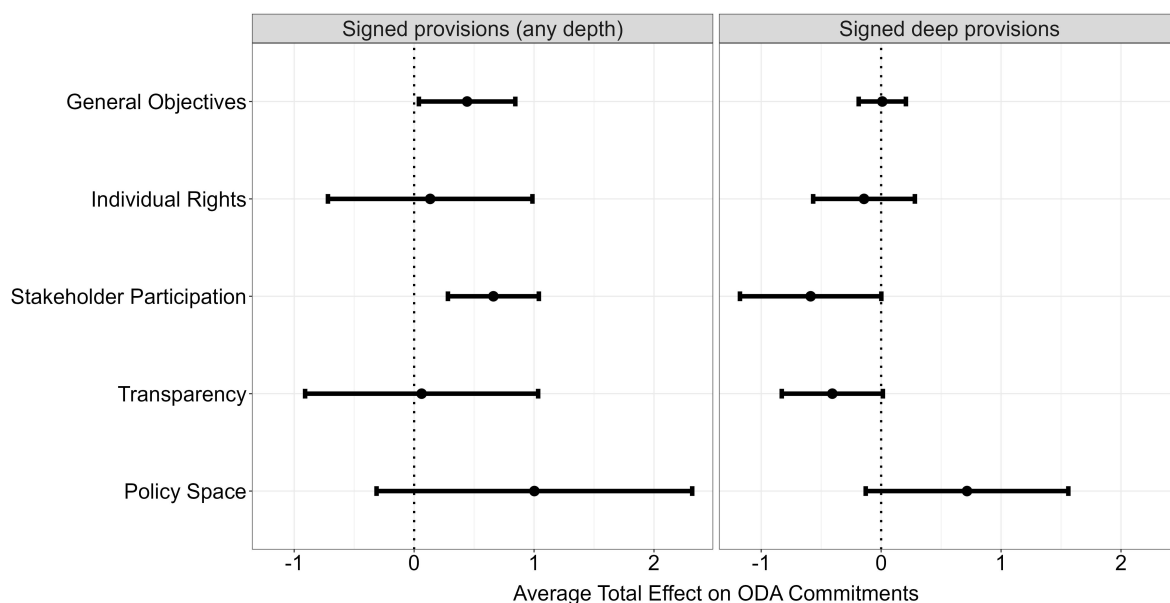
### 6.1 Impact of signing democracy-related provisions on aid commitments

Figure 5 displays the average total effect of signing democracy-related provisions on bilateral ODA commitments across five different types of democracy-related provisions. Due to data constraints, no effects can be estimated for the "democracy promotion" category. The left panel displays results for the coverage indices, capturing the extent to which at least one provision belonging to a given democracy-related category is included in the PTA. I find that democratizing or autocratic countries signing *general objectives* and *stakeholder participation* provisions are relatively more likely to receive more ODA from their democratic trade partner, on average in the ten years following the signature of the agreement, lending support to my first hypothesis. I find no such effects for individual rights and transparency provisions. Interestingly, I also do not find such effects for country pairs signing *comprehensive* general

objectives or stakeholder participation provisions, and possibly even to the contrary for the latter. The right panel displays results for the depth indices, capturing the extent to which a PTA includes comprehensive provisions belonging to a given category. Signing comprehensive stakeholder participation and transparency provisions seems to have an almost negative impact on bilateral aid flows (although significant only at the 10% level). These results seem to lend support to the hypothesis that the *presence* of democracy-related provisions could be used as a signaling purpose. On the contrary, signing *comprehensive* democracy-related provisions could potentially signal a selection effect or a backfire effect.

Interestingly, general objectives and stakeholder participation provisions involve a relatively lower level of implementation in comparison to individual rights or transparency provisions. General objectives provisions include references to democratic principles in the preamble or general objectives clause of the agreement. Such provisions can serve as a signaling purpose with nearly no implications on the agreement's implementation. Stakeholder participation provisions capture the extent to which civil society representatives are included in the negotiation and implementation of trade agreements, but also whether an inter-state capacity building mechanism is created gathering representatives of each Party at the state level. As trade agreements tend to include inter-state joint committees more often than civil society participation mechanism on average, the presence of an inter-state capacity building mechanism is likely driving these results. Increasing inter-state ties and cooperation following the signature of the agreement through inter-state committees could potentially foster further aid cooperation. Other provisions such as individual rights or transparency, for which I find no significant effects, do not involve such inter-state relationship. They also involve a higher level of domestic implementation involving, for most of them, changes in domestic legislation. These differences in both the provisions' purpose and design could explain diverging results across categories.

Figure 5: Average Total Effect on **ODA commitments** by democracy-related provisions (Hypothesis 1).



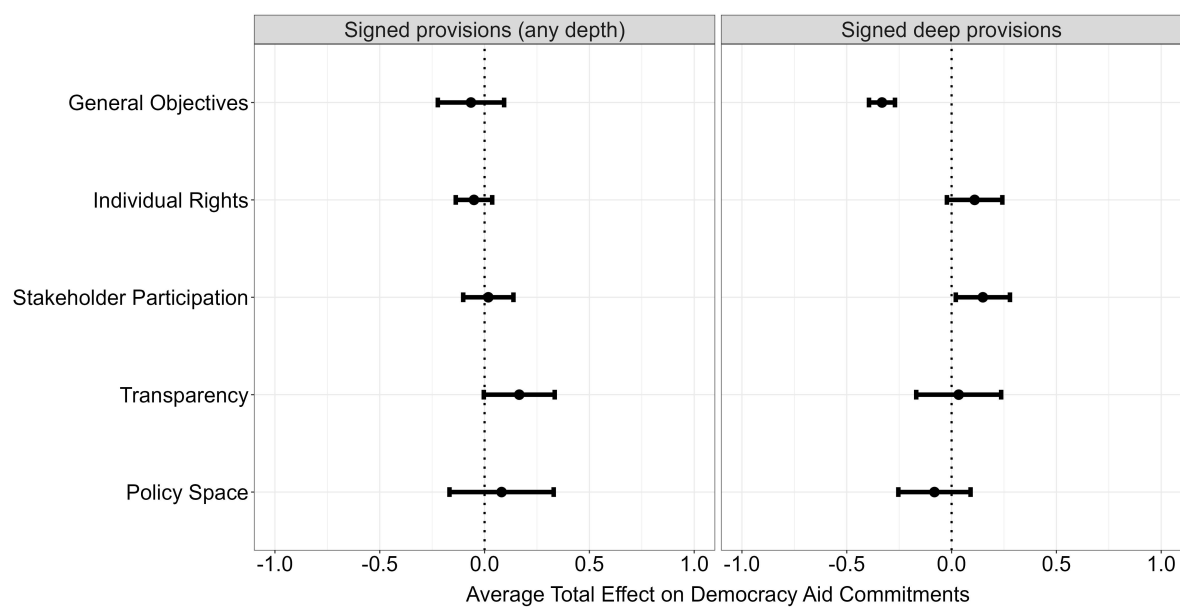
Note: Results from a staggered difference-in-differences model. The coefficients correspond to the average total effect over a 10-years period of time. Error bars correspond to the 95% confidence interval. The model cannot be estimated for the category democracy promotion due to missing data.

Turning to my second hypothesis, Figure 6 displays the effects of signing different types of democracy-related provisions on *democracy* aid. I find no evidence that democratizing or autocratic countries signing democracy-related provisions overall (any level of depth) receive more democracy aid flows following the signature of the agreement (left panel). Results from the right panel reveal that signing *comprehensive* stakeholder participation provisions is however associated with slightly higher levels of democracy aid following the PTA signature. ODA and democracy aid results jointly demonstrate that signing *comprehensive* stakeholder participation provisions leads to a slight decrease in overall ODA levels but a slight increase in democracy aid. This may suggest that democratic powers do support the implementation of comprehensive stakeholder participation provisions. Support seems however to be limited given the low magnitude of the estimates.

Lastly, although I find a negative and significant effect of signing *comprehensive general objectives* provisions on bilateral democracy aid flows, this result should be interpreted with

caution. The sample size for this particular category is extremely low leading the results to be likely biased. Moreover, it is difficult to interpret what comprehensive general objectives provisions are, as this category only generally captures the extent to which democratic principles are included in the preamble or general objectives article. "Deeper" provisions in this category therefore only captures whether a PTA features more or less democratic principles in the preamble, but the provisions cannot really vary in their level of depth.

Figure 6: Average Total Effect on **democracy aid** commitments by democracy-related provisions (Hypothesis 2).

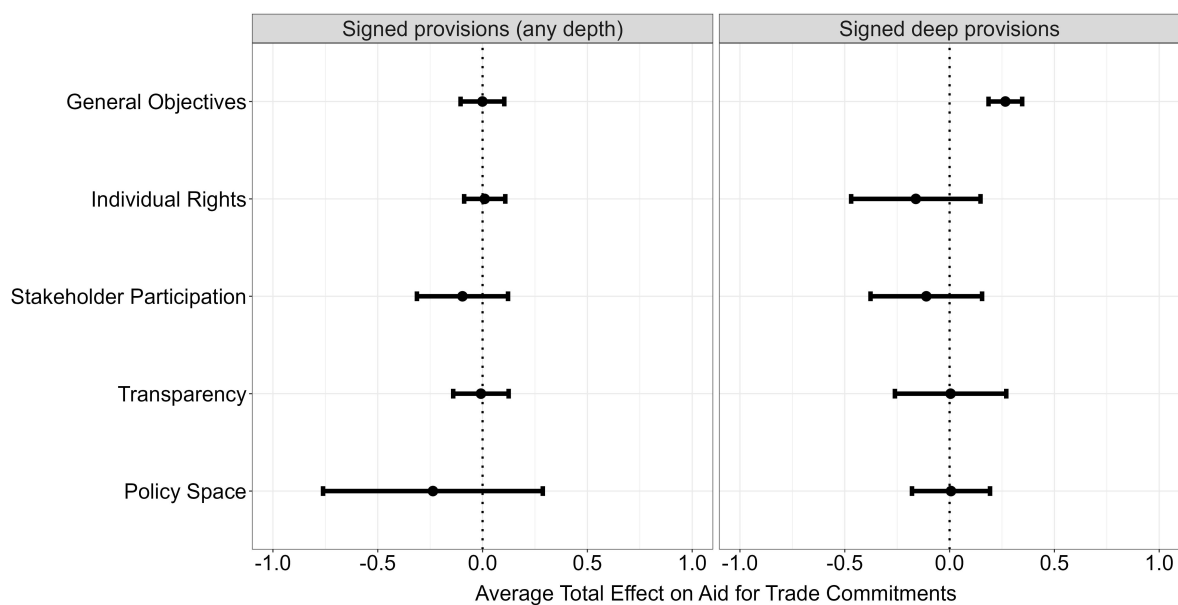


*Note: Results from a staggered difference-in-differences model. The coefficients correspond to the average total effect over a 10-years period of time. Error bars correspond to the 95% confidence interval. The model cannot be estimated for the category democracy promotion due to missing data.*

Overall, these results seem to lend support to my two first hypotheses. Mixed regime type dyads signing any type of general objectives and stakeholder participation provisions, regardless of their depth level, result in a positive flow of ODA from the democratic party towards the democratizing or autocratic party following the signature of the agreement. Such effect is however not substantially found on democracy aid. Overall, the signaling effect seems to be at play, and not the one of a direct support tool provided to implement democracy-related provisions.

To further check the robustness of these results, I also test whether signing democracy-related provisions leads to an increase in aid for trade flows, which could represent another type of support tool to implement the agreement's provisions. As shown in Figure 7, signing democracy-related provisions does not lead to an increase in bilateral "aid for trade" flows either. To note that the significant and positive effect found for signing comprehensive general objectives (top right panel) should be interpreted with caution as discussed.

Figure 7: Average Total Effect on **aid for trade** commitments by democracy-related provisions (Hypothesis 2).



*Note: Results from a staggered difference-in-differences model. The coefficients correspond to the average total effect over a 10-years period of time. Error bars correspond to the 95% confidence interval. The model cannot be estimated for the category democracy promotion due to missing data.*



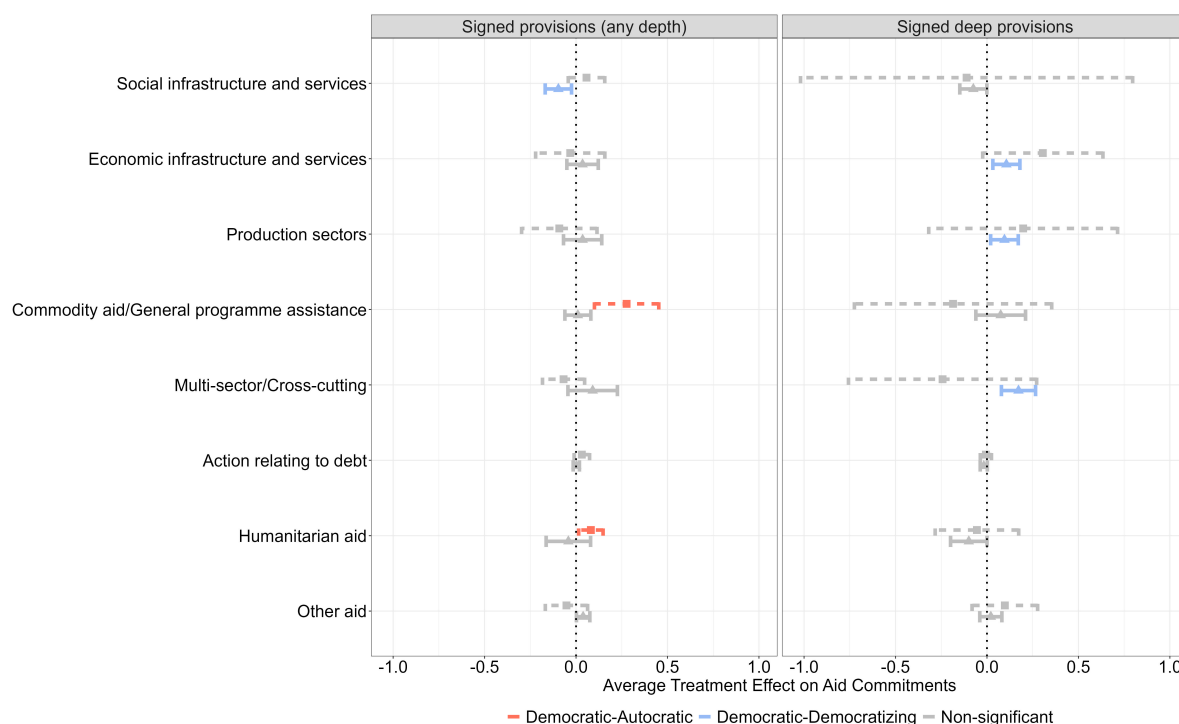
## 6.2 Aid sectors and channels

Figure 8 and 9 display the estimated effects of signing democracy-related provisions on bilateral aid respectively by aid sectors and aid channels. Results are disaggregated across democratic-autocratic and democratic-democratizing country pairs. Due to data limitations, I cannot estimate these sectoral and channel effects across each category of democracy-related provisions, and can only make the distinction between the inclusion of any democracy-related provisions (left panel) and the inclusion of *comprehensive* democracy-related provisions (right panel).

I find that signing democracy-related provisions leads to a decrease in social infrastructure and services aid for democratic-democratizing country pairs, and an increase in commodity aid/general programme assistance as well as humanitarian aid for democratic-autocratic country pairs. I also find that signing *comprehensive* democracy-related provisions has a positive effect on economic, production and cross-cutting aid sectors for democracy-democratizing country pairs, and no statistically significant effects for democracy-autocracy country pairs. The results overall lend support to hypothesis 3, where democratic-autocratic and democratic-democratizing country pairs are expected to favor economic aid deals, to the exception of the positive and significant effect on humanitarian aid.

Turning to aid channels, I do not find support for my fourth hypothesis. I find that autocracies are more likely to receive aid through non categorized channels when signing democracy-related provisions. I only find significant changes in aid channels for democratizing countries signing *comprehensive* democracy-related provisions, which are on average more likely to receive aid from their trade partner via multilateral organisations and less through NGOs and civil society. While the negative impact on aid projects involving NGOs and civil society channel could potentially be interpreted by a potential selection effect at play, the increase in aid projects involving multilateral organisations is much more puzzling. Democratiz-

Figure 8: Average Total Effect on aid commitments by democracy-related provisions and aid sectors (Hypothesis 3).

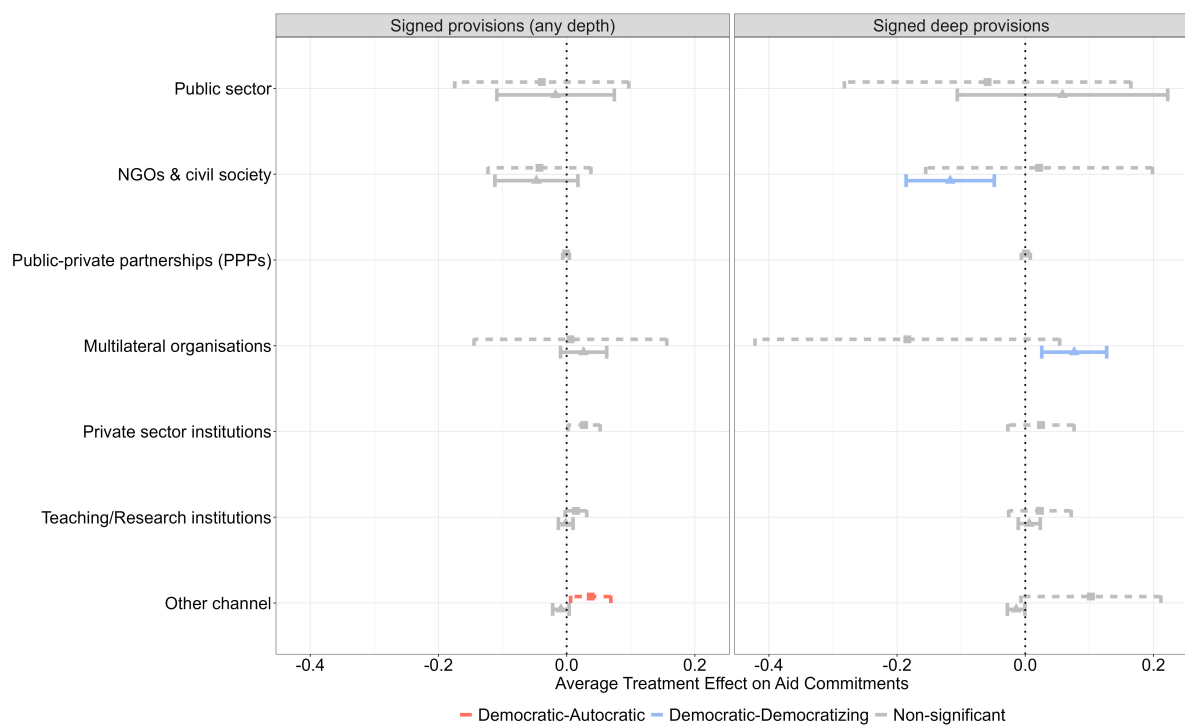


*Note: Results from a staggered difference-in-differences model. The coefficients correspond to the average total effect over a 5-years period of time. Error bars correspond to the 95% confidence interval.*

ing countries signing democracy-related provisions, could potentially benefit from a signaling effect attracting more aid from multilateral organisations. However, the data included in the analysis only accounts for aid flows between the preferential trade agreement's signatory.

Overall these results suggest that signing democracy-related provisions has limited positive effects on directly democracy-enhancing or democracy-supporting aid projects. Signing such provisions could even potentially hinder democratization transitions. Autocracies tend to receive more commodity/general budget support aid and more aid through uncategorised channels that can potentially be less monitored. Democratizing countries on average receive less social infrastructure aid and less projects involve NGOs and civil society. The extent to which these changes in aid projects can affect democratisation processes however requires further substantial analysis and is beyond the scope of this paper.

Figure 9: Average Total Effect on aid commitments by democracy-related provisions and aid channels (Hypothesis 4).



Note: Results from a staggered difference-in-differences model. The coefficients correspond to the average total effect over a 5-years period of time. Error bars correspond to the 95% confidence interval.

### 6.3 Anticipation effects and evolution over time

One additional key aspect to discuss is the presence of two different potential types of anticipation effects. First, aid flows might already be on an upward trend before the signing of the agreement, and this trend could be independent to the negotiation or signature of a trade agreement. In this case, anticipated effects constitute a violation of the parallel trends assumption, meaning treated and control units differ systematically in their characteristics beyond the treatment itself. Second, an upward trend in aid commitments might reflect that aid deals are sealed during the negotiations period, before signing the agreement. To analyze these potential anticipated effects, I rely on an event study derived from the same model as results shown previously. Effects are identified for each period prior to and following the signature of the agreement, across a time span of 15 years (five years before, ten years after) for overall results (ODA, democracy and trade aid) and of 10 years for disaggregated aid sectors and channels results (five years before, five years after) due to data limitations.

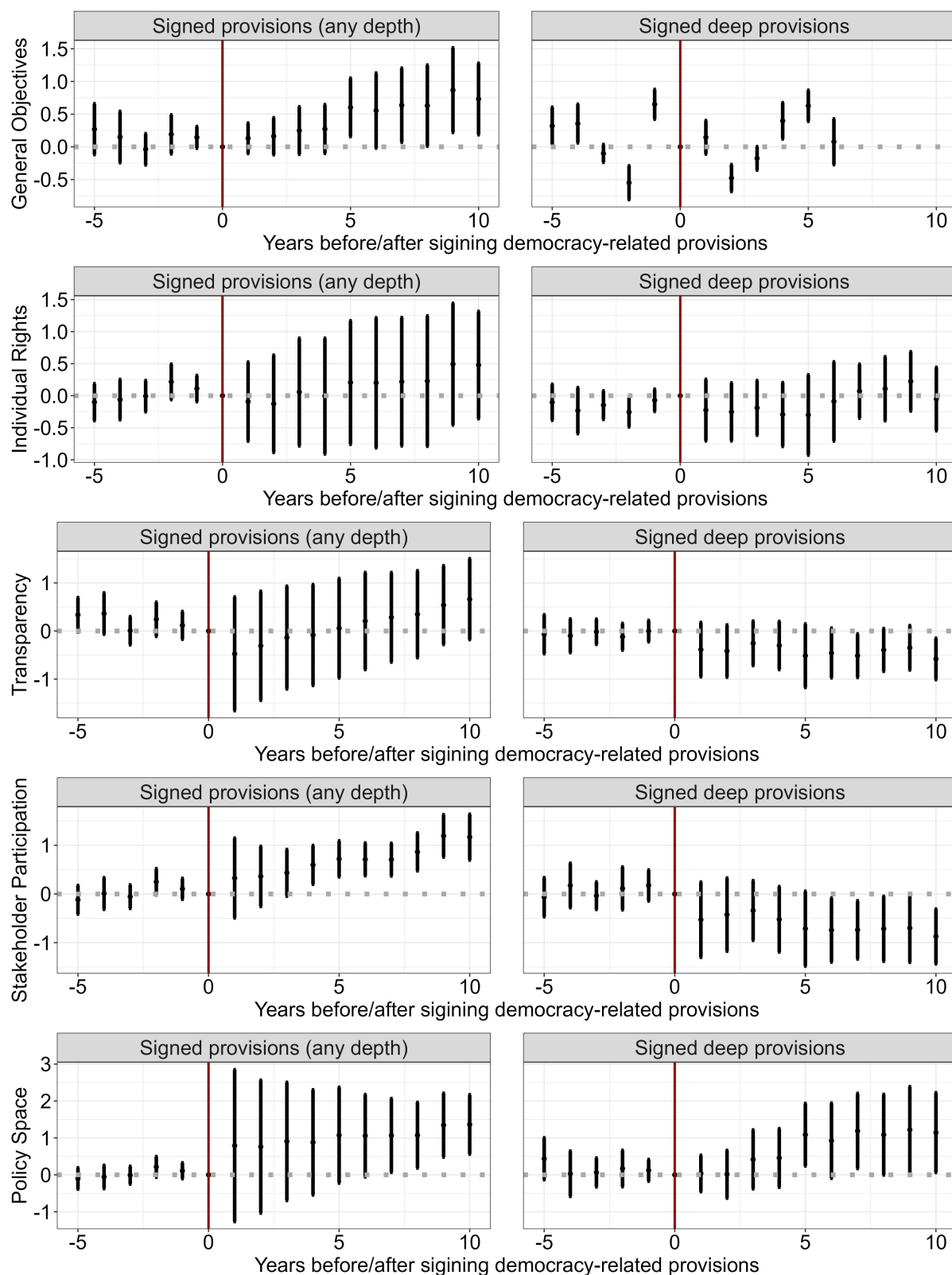
Figure 10 displays the effects of signing any type of democracy-related provisions (left column) and signing *comprehensive* democracy-related provisions (right column) on ODA commitments over time. Posterior effects are in line with the average total effects previously commented. The event study charts however enable to further disentangle these effects year after year. We can, for example, observe in Figure 10 that signing general objectives and stakeholder participation provisions has a positive and significant effect on bilateral aid flows only three to four years after the agreement signature, and not immediately after.

Anticipated effects are trickier to analyze as they can have different interpretations. I however find no strong anticipated effects (i.e. coefficients systematically significantly different from zero), except for the effects of signing deep general objectives provisions. The top right panel shows how unreliable estimates are for this category, as previously discussed, due to the limited number of data points.

Similar charts can be found in Appendix A.3 for the effects of signing democracy-related provisions on democracy aid (Figure 11) and aid for trade (Figure 12). I find no anticipation effects and nearly no posterior effects. The positive and significant effects of signing comprehensive stakeholder participation provisions on democracy appear to be concentrated towards the last time periods and are not substantial.

Contrarily to the aggregated ODA results, I find much more immediate effects at the disaggregated level across aid sectors and channels (see Appendix A.3, Figures 13 to 16). In most cases, effects are observable as soon as one to three years after the signature of the agreement (against three to five years for ODA results). I find limited evidence of anticipated effects, except for commodity aid flows among democracy-autocracy country pairs. Commodity aid flows seem to already increase three years prior to the agreement's signature. This increase could be a reflection of long trade negotiations and aid deals being sealed during the negotiation period. It remains however unclear why such anticipation effects are found only for this type of aid among democratic-autocratic dyads, and could signal that these results suffer from a selection effect among democracy-autocracy dyads signing democracy-related provisions.

Figure 10: Event study: Effects of signing democracy-related provisions on **ODA** commitments over time.



Note: Results from a staggered difference-in-differences. The coefficients correspond to the point estimates for each period. Error bars correspond to the 95% confidence interval.

## 7 Conclusion

Foreign aid fulfils many different purposes, and its allocation is dependent primarily on donors' interests. One of democratic donors' interests lies in democracy promotion, an objective integrated in their foreign policy agenda for a long time and pushed through various channels. This agenda is, however, increasingly being pushed back by the rise of authoritarianism and democracy backsliding. Beyond autocracies resisting pushes for democratisation, democratizing countries can also be reluctant to lose policy space, which can end up being potentially even counter-productive to their democratic transition. Yet, both democratizing and autocratic countries increasingly sign democracy-related provisions in trade agreements.

The literature is rich in analysing donors' interests and recipients' needs in the determinants of aid allocation. Yet, little is known about the implications of donors' conflicting strategic interests, and about the possibility of a bargaining at play between donors' and recipients' interests. This paper attempts to fill these gaps. To test my argument, I estimate a staggered difference-in-differences to evaluate the extent to which democratizing and autocratic countries benefit from aid deals following the signature of democracy-related provisions with a democratic donor.

I find that democratic donors are more likely to increase their overall aid commitments towards democratizing and autocratic countries after they signed democracy-related provisions as part of bilateral trade agreements. Autocratic recipients are more likely to receive increased commodity aid or general budget support, while democratizing countries tend to receive more economic, production and cross-cutting aid support. I also demonstrate that autocracies are relatively more likely to receive aid through non-categorised channels, while democratizing countries are more likely to receive aid through multilateral organisations and less through NGOs and civil society.

Overall these results suggest that signing democracy-related provisions can enable democ-

racies, as well as democratizing and autocratic countries to favor economic aid deals that align with their strategic interests, rather than supporting the implementation of such provisions. Understanding how these aid deals can potentially affect aid effectiveness and the implementation of trade agreements or more specifically of democracy-related provisions is a promising avenue of research.



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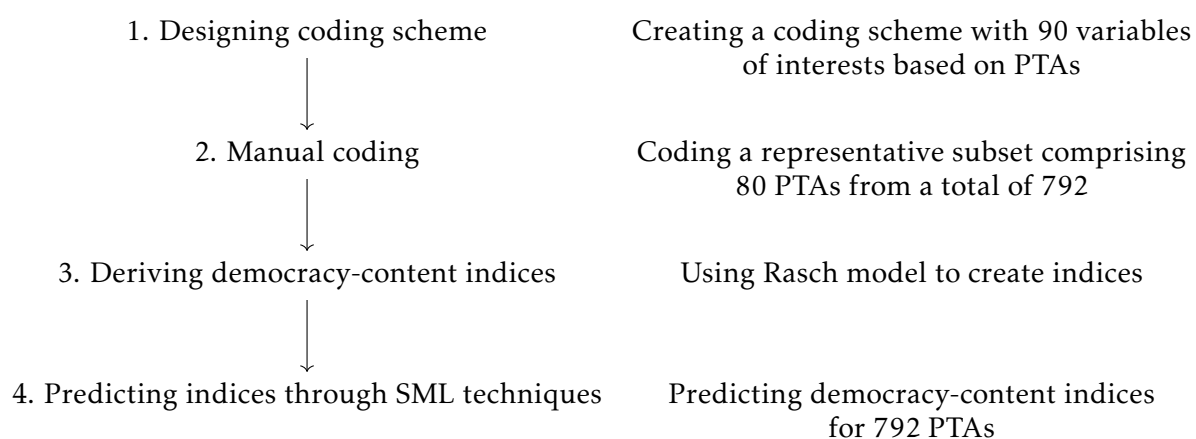
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## A Appendices

### A.1 Democracy content indices - (Elsig et al., forthcoming)

#### A.1.1 Methodology summary

*Summary of the methodology steps:*



*Further details on each step*

The construction of the democracy-related content index is operated in a total of four steps. **First**, based on the taxonomy of democracy-related provisions, we develop a codebook of democracy related provisions in PTAs. We further inspected carefully an initial sample of PTAs to fine-tune and complement our codebook. This ensures that we have a high degree of construct validity. **Second**, using the codebook, we train human coders to manually code a random sample of approximately 80 PTAs or approximately 10 percent of all 792 signed post-WWII. All documents are double-coded, and any discrepancies are thoroughly discussed to make sure the manual coding is accurate. **Third**, we use the Rasch model to create 6 main indices based on the 90 detailed variables from our manual coding. **Fourth**, armed with this manually coded sample, we employ contemporary text-as-data approaches to measure democracy related provisions in all the remaining PTAs. In short, our approach for the data collection

is a supervised machine learning approach that essentially consists of two main steps: First, to manually code a representative sub-sample of PTAs and second, to extrapolate the reference scores from this manual coding exercise to the rest of the PTAs using the most suitable machine learning model.

For the manual coding, we developed a codebook of 90 features organized around our taxonomy of 6 democracy related domains. This codebook then served as the basis for manual coding (see below for the full details of each feature). The coding scheme consists of a series of yes or no questions, where yes equals 1 and no equals 0. We opted for a binary coding scheme for its simplicity, given the complexities in both structure and language of PTAs. However, to account for more nuances and stringency, we arranged questions in succession as follow-up on previous questions. We then manually annotated 80 PTAs. For selection of our sub-sample of PTAs, we utilized the DESTA database ([Dür et al., 2014](#)) which is the largest database of legal texts of PTAs and ensured that the sub-sample is representative to the full sample. All PTAs were coded twice by two different coders. The coding was then compared and any discrepancy was thoroughly discussed between the two coders to converge to an agreement.

To predict the democracy content of other PTAs, we first reduce the information collected across 80 PTAs and 90 variables into 6 indices (for each category - general objectives, democracy promotion, individual rights, stakeholders' participation, transparency and policy space). To do so, we opted for the Rasch method in order to capture the “difficulty” of observing each of the single variables ([Andrich, 2010](#)). Some of the variables are very likely to be included in almost all PTAs (e.g., “Does the PTA have a general exemptions chapter or clause?”), while others are rarely included (“Does the PTA have a capacity building mechanism that is conditional on sustaining or strengthening democracy principles in a member country?”). A higher difficulty leads to an over-representation of null variables relatively to other variables included in the coding. The Rasch model has the advantage of adjusting the composite score taking into

account this difficulty parameter and has already been used in the context of trade agreements coding in the past (Dür et al., 2014; Lechner, 2016).

We then use a Random Forest model to predict whether each PTA include a certain extent of democracy-related provisions according to each category. Due to model constraints<sup>3</sup>, we then create two dummy variables for each of these categories.

The **"coverage" dummy variables** capture the extent to which a PTA includes any type of clause related to a given category (whether stringent or not). A PTA is assigned "0" if the Rasch index is 0 or if it pertains to the bottom 10% of the distribution of Rasch scores, and "1" otherwise.

The **"depth" dummy variables** capture the extent to which the PTA includes *comprehensive* clauses related to a given category. A PTA is assigned "1" if the Rasch index is greater than 0.25 for the democracy promotion and individual rights categories; 0.50 for the general objectives, stakeholder participation, transparency and policy space categories. A PTA is assigned "0" otherwise. Thresholds are different across the categories due to stark differences in distribution of the Rasch index, making the direct comparison across topics according to one threshold not sensible.

The Random Forests method is particularly helpful when dealing with high-dimensional data which is particularly relevant to our case as our sample includes over 700 agreements which can include up to thousands of pages. Random Forests basically consist of a succession of decision trees to classify whether a given text falls into a category (Breiman, 2001). Many other SML methods (e.g. WordScores, Logistic Regression, Naïve Bayes) rely on the distribution of words within the text and directly infer whether this distribution corresponds to a given category (based on its training on the manually coded subsample). Random Forests also include the distribution of words but breaks down this decision into a succession of smaller-

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<sup>3</sup>The Random Forests model is in theory suitable to continuous data. It requires however a high number of data points across the range of continuous values. The scope of the data (here at the PTA level) does not allow for such amount of data points.

scale decisions through splitting randomly the text features multiple times. Statistically, it has been shown to lead to high levels of prediction accuracy (Breiman, 2001). It has also been used for different international relations and political science applications (see for example: Muchlinski et al., 2016). The suitability of a SML model, however, is ultimately case-dependent and relies on the data and classification problem to be solved. In our case, we have tested different models including Logistic Regression, Support Vector Machines, Naïve Bayes and Random Forests, where the latter provided the least errors. Lastly, Random Forests have the advantage of supporting imbalanced data through under-sampling the majority class (Chen et al., 2004). This is particularly important as we have imbalanced categories (with either more zeros or ones) and this can create a bias in the algorithm prediction towards the over-represented category. We therefore re-weight the data at the level of each decision tree<sup>4</sup>.

As a result of this process, we obtain for the 792 PTAs 12 dummy variables to indicate the extent to which the PTAs include any provisions and include any comprehensive provisions across the different categories - general objectives, democracy promotion, individual rights, stakeholders' participation, transparency and policy space. The TRADEM index (0-6) summarises the extent to which a PTA includes none, some or all of the six different provisions types.

### A.1.2 Codebook

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<sup>4</sup>See "class\_weight" parameter in the "RandomForestClassifier" function of the sklearn package (Python)



## **Democracy Enhancing Provisions in PTAs**

*Coding Scheme*

October 2022

Last updated: March 2024

## Introduction

The Trade and Democracy (TRADEM) research project aims to examine the relationship between preferential trade agreements (PTAs) and democracy. This coding scheme is designed to develop a fine-grained taxonomy to discern the levels of variation and extent to which PTAs contain provisions that relate to democracy. The wider project aims to use mixed-methods approach to investigate if democracy-related provisions in trade treaties between countries enhance or hinder democracy-related policies at the domestic level. This coding exercise is only limited to the main text of PTAs, as well as any annexes attached to the main text. It does not include or take into account side letters.

### *Democracy-related provisions in PTAs*

This coding scheme is to be utilised to manually code a subset of PTAs, based on six main categories of democracy-related provisions in PTAs (Elsig et al, forthcoming). An excerpt of what the six categories aim to capture is denoted below:

1. **General Objectives** This section captures whether the Preamble, objectives chapter/clause of the PTA includes provisions on democratic principles (please see definitions section below for further details).
2. **Democracy Promotion** This section captures whether the PTA includes any mechanism that are specific to the promotion of democracy among its members. Mechanisms include capacity building, technical assistance or joint bodies specifically and directly aimed at democratic consolidation or promotion, suspension or retaliation in case of coup d'état, or conditionality mechanisms.
3. **Individual Rights** This section captures whether the PTA includes individual rights provisions, and to what level of stringency are these provisions enforced through the PTA. Individual rights include civil and political rights, minorities' rights, women's rights, labour rights and consumer rights.
4. **Stakeholder participation** This section captures whether the PTA refers to stakeholder participation and stakeholders' equal access to administrative procedures throughout the trade policy cycle (trade policy formulation and implementation).
5. **Transparency** This section captures whether the PTA includes mechanisms for notification, publication of information and stakeholders' equal access to information.
6. **Policy Space** This section captures whether the PTA includes the right to regulate, general exemptions or general exemptions specifically related to public policy or democratic principles.

*Specific coding questions:*

## **General objectives**

### *Principles*

1. *[general\_preamble\_democracy]* Does the Preamble and/or objectives chapter or clause mention democracy?
2. *[general\_preamble\_stakeholder]* Does the Preamble and/or objectives chapter or clause mention stakeholder participation principles?
3. *[general\_preamble\_ruleoflaw]* Does the Preamble and/or objectives chapter or clause mention rule of law principles?
4. *[general\_preamble\_transparency]* Does the Preamble and/or objectives chapter or clause mention transparency principles?

### *Individual rights*

5. *[general\_preamble\_cpr]* Does the Preamble or objectives chapter or clause mention civil and political rights?
6. *[general\_preamble\_cpr\_inttreaty]* Does the Preamble or objectives chapter or clause refer to international treaties for civil and political rights?
7. *[general\_preamble\_labourrights]* Does the Preamble or objectives chapter or clause mention labour rights?
8. *[general\_preamble\_labourrights\_inttreaty]* Does the Preamble or objectives chapter or clause refer to international treaties for labour rights?
9. *[general\_preamble\_consumerrights]* Does the Preamble or objectives chapter or clause mention consumer rights?
10. *[general\_preamble\_consumerrights\_inttreaty]* Does the Preamble or objectives chapter or clause refer to international treaties for consumer rights?
11. *[general\_preamble\_minoritiesrights]* Does the Preamble or objectives chapter or clause mention minorities' rights?
12. *[general\_preamble\_minoritiesrights\_inttreaty]* Does the Preamble or objectives chapter or clause refer to international treaties for minorities rights?
13. *[general\_preamble\_womensrights]* Does the Preamble or objectives chapter or clause mention women's rights?

14. *[general\_preamble\_womensrights\_inttreaty]* Does the Preamble or objectives chapter or clause refer to international treaties for women's rights?

## **Democracy Promotion**

15. *[demprom\_cbm\_conditional\_democracy]* Does the PTA have a capacity building mechanism that is conditional on sustaining or strengthening democratic principles in a member country?

16. *[demprom\_cbm\_democracy]* Does the PTA have a mechanism for capacity building to sustain or strengthen democracy in a member country?

17. *[demprom\_jointbody\_democracy]* Does the PTA include joint body specific to democracy promotion?

18. *[demprom\_trade\_remedies\_coup]* Does the PTA include trade remedies or the possibility of retaliations in the case of a coup d'état?

19. *[demprom\_pre\_conditionality\_democracy]* Does the PTA include any pre-ratification conditionalities on democratic principles that must be met by signatory parties before the ratification of the agreement?

## **Individual Rights**

### *Civil and Political Rights*

20. *[individualrights\_cpr]* Does the PTA refer to civil and political rights?

21. *[individualrights\_cpr\_inttreaty]* Do the civil and political rights provisions refer to international treaties?

22. *[individualrights\_cpr\_committee]* Do the civil and political rights provisions include the convening of a committee?

23. *[individualrights\_cpr\_panel\_experts]* Do the civil and political rights provisions include a mechanism where a panel of experts can be convened if contracting parties are suspected to be in violation of CPR provisions?

24. *[individualrights\_cpr\_retaliation]* Do the civil and political rights provisions include a retaliation mechanism that can be enacted if contracting parties are found to be in violation of CPR provisions?

25. *[individualrights\_cpr\_ds]* Are the civil and political rights provisions explicitly exempted from the general dispute settlement mechanism of the PTA?

### *Labour Rights*

26. *[individualrights\_labourrights]* Does the PTA include labour rights provisions in a chapter, article or clause which applies generally to the whole agreement?

27. *[individualrights\_labourrights\_inttreaty]* Do the labour rights provisions refer to the adherence of international norms?
28. *[individualrights\_labourrights\_committee]* Do the labour rights provisions include the convening of a committee?
29. *[individualrights\_labourrights\_panel\_experts]* Do the labour rights provisions include a mechanism where a panel of experts can be convened if contracting parties are suspected to be in violation of the provisions?
30. *[individualrights\_labourrights\_retaliation]* Do the labour rights provisions include a retaliation mechanism that can be enacted if contracting parties are found to be in violation of provisions?
31. *[individualrights\_labourrights\_ds]* Are the labour rights provisions explicitly exempted from the general dispute settlement mechanism of the PTA?
32. *[individualrights\_labourrights\_ds\_labour]* Does the agreement have a dispute settlement mechanism specifically for labour rights disputes?

#### *Consumer Rights*

33. *[individualrights\_consumerrights]* Does the PTA refer to consumer rights and/or protection?
34. *[individualrights\_consumerrights\_inttreaty]* Do the consumer rights provisions refer to international treaties?
35. *[individualrights\_consumerrights\_committee]* Do the provisions include the convening of a committee?
36. *[individualrights\_consumerrights\_panel\_experts]* Do the consumer rights provisions include a mechanism where a panel of experts can be convened if contracting parties are suspected to be in violation of the provisions?
37. *[individualrights\_consumerrights\_retaliation]* Do the consumer rights provisions include a retaliation mechanism that can be enacted if contracting parties are found to be in violation of provisions?
38. *[individualrights\_consumerrights\_ds]* Are the consumer rights provisions also explicitly exempted from the general dispute settlement mechanism of the PTA?

#### *Minorities Rights*

39. *[individualrights\_minoritiesrights]* Does the PTA refer to minorities' rights?
40. *[individualrights\_minoritiesrights\_inttreaty]* Do the minorities' rights provisions refer to international treaties?
41. *[individualrights\_minoritiesrights\_committee]* Do the minorities' rights provisions include the convening of a committee?

42. *[individualrights\_minoritiesrights\_panel\_experts]* Do the minorities' provisions include a mechanism where a panel of experts can be convened if contracting parties are suspected to be in violation of the provisions?
43. *[individualrights\_minoritiesrights\_retaliation]* Do the minorities' rights provisions include a retaliation mechanism that can be enacted if contracting parties are found to be in violation of provisions?
44. *[individualrights\_minoritiesrights\_ds]* Are the minorities' rights provisions explicitly exempted from the general dispute settlement mechanism of the PTA?

### *Gender Equality*

45. *[individualrights\_womensrights]* Does the PTA refer to women's rights?
46. *[individualrights\_womensrights\_inttreaty]* Do the women's rights provisions refer to international treaties?
47. *[individualrights\_womensrights\_committee]* Do the women's rights provisions include the convening of a committee?
48. *[individualrights\_womensrights\_panel\_experts]* Do the women's rights provisions include a mechanism where a panel of experts can be convened if contracting parties are suspected to be in violation of the provisions?
49. *[individualrights\_womensrights\_retaliation]* Do the women's rights provisions include a retaliation mechanism that can be enacted if contracting parties are found to be in violation of provisions?
50. *[individualrights\_womensrights\_ds]* Are the women's rights provisions explicitly exempted from the general dispute settlement mechanism of the PTA?

### **Stakeholder participation**

#### *Trade Policy Formulation*

51. *[stakeholder\_trade\_policy\_cbm]* Does the PTA have a capacity-building mechanism to promote stakeholder participation in trade policy formulation?
- 52.
53. *[stakeholder\_trade\_policy\_cs]* Does the PTA have a mechanism to include civil society in trade policy formulation?
- 54.
55. *[stakeholder\_trade\_policy\_business]* Does the PTA have a mechanism to include businesses in trade policy formulation?
- 56.

57. *[stakeholder\_trade\_policy\_academics]* Does the PTA have a mechanism to include academics and independent trade experts in trade policy formulation?
58. *[stakeholder\_trade\_policy\_public\_consultation]* Does the PTA have a mechanism for general public consultations in trade policy formulation?

### *Implementation*

59. *[stakeholder\_implementation\_cbm]* Does the PTA have a capacity building mechanism to promote stakeholder participation in the implementation?
60. *[stakeholder\_implementation\_cs]* Does the PTA have a mechanism to include civil society in the implementation?
61. *[stakeholder\_implementation\_business]* Does the PTA have a mechanism to include businesses in the implementation?
62. *[stakeholder\_implementation\_academics]* Does the PTA have a mechanism to include academics and independent trade experts in the implementation?
63. *[stakeholder\_implementation\_public\_consultation]* Does the PTA have a mechanism for general public consultations in the implementation?
64. *[stakeholder\_implementation\_joint\_stakeholder]* Does the PTA have a mechanism for joint stakeholder consultation in the implementation?
65. *[stakeholder\_implementation\_access\_admin\_decisions]* Does the PTA include chapter(s) or clause(s) on access to administrative decisions?
66. *[stakeholder\_implementation\_access\_admin\_decisions\_specific]* Does the chapter(s) or clause(s) on access to administrative decisions include specific rules, timelines and/or procedures?
67. *[stakeholder\_implementation\_review\_appeal<sup>1</sup>]* Does the PTA include rules on access to courts for reviewing or appealing on administrative rulings?

### **Transparency**

68. *[transparency\_chapter]* Does the PTA refer to transparency in a separate chapter or article or clause?
69. *[transparency\_publication\_laws]* Do the transparency provisions refer to the publication of new (or changes to an existing) law, regulation, decree etc?
70. *[transparency\_notification\_laws]* Do the transparency provisions refer to notification requirements (i.e. the obligation to notify before the introduction of a new (or changes to an existing) law, regulation, decree etc)?

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<sup>1</sup> Previously named stakeholder\_implementation\_access\_courts

71. *[transparency\_right\_access\_information]* Does the PTA establish stakeholders' rights to access information?
72. *[transparency\_contact\_points]* Does the transparency chapter or clause establish contact points for information exchange between contracting parties?
73. *[transparency\_customs]* Is there a transparency clause in the customs chapter or clause?
74. *[transparency\_customs\_contact\_points]* Does the transparency clause in the customs chapter or clause establish contact points for information exchange between contracting parties?
75. *[transparency\_trade\_remedies]* Is there a transparency clause in the trade remedies chapter or clause?
76. *[transparency\_trade\_remedies\_contact\_points]* Does the transparency clause in the trade remedies chapter or clause establish contact points for information exchange between contracting parties?
77. *[transparency\_sps]* Is there a transparency clause in the Sanitary and Phytosanitary (SPS) chapter or clause?
78. *[transparency\_sps\_contact\_points]* Does the transparency clause in the SPS chapter or clause establish contact points for information exchange between contracting parties?
79. *[transparency\_tbt]* Is there a transparency clause in the Technical Barriers to Trade (TBT) chapter or clause?
80. *[transparency\_tbt\_contact\_points]* Does the transparency clause in the TBT chapter or clause establish contact points for information exchange between contracting parties?
81. *[transparency\_ipr]* Is there a transparency clause in the Intellectual Property Rights (IPR) chapter or clause?
82. *[transparency\_ipr\_contact\_points]* Does the transparency clause in the IPR chapter or clause establish contact points for information exchange between contracting parties?
83. *[transparency\_public\_procurement]* Is there a transparency clause in the public procurement chapter or clause?
84. *[transparency\_public\_procurement\_contact\_points]* Does the transparency clause in the public procurement chapter or clause establish contact points for information exchange between contracting parties?
85. *[transparency\_regulatory\_cooperation]* Is there a transparency clause in the regulatory cooperation chapter or clause?
86. *[transparency\_regulatory\_cooperation\_contact\_points]* Does the transparency clause in the regulatory cooperation chapter or clause establish contact points for information exchange between contracting parties?



87. *[transparency\_exante\_assessments\_impact]* Does the PTA refer to the publication of ex-ante assessments of the impact of the agreement?

88. *[transparency\_expost\_assessments\_implementation]* Does the PTA refer to the review and/or publication of ex-post assessments of the implementation of the agreement?

### **Policy Space**

89. *[policyspace\_right\_regulate]* Does the PTA include a right to regulate chapter or clause?

90. *[policyspace\_exemptions\_GATTart20]* Does the PTA, at any point, refer to article 20 of the GATT?

91. *[policyspace\_exemptions\_general]* Does the PTA have a general exemptions chapter or clause which applies to the whole agreement?

92. *[policyspace\_exemptions\_public\_policy]* Do the general exemptions provisions refer to public policy?

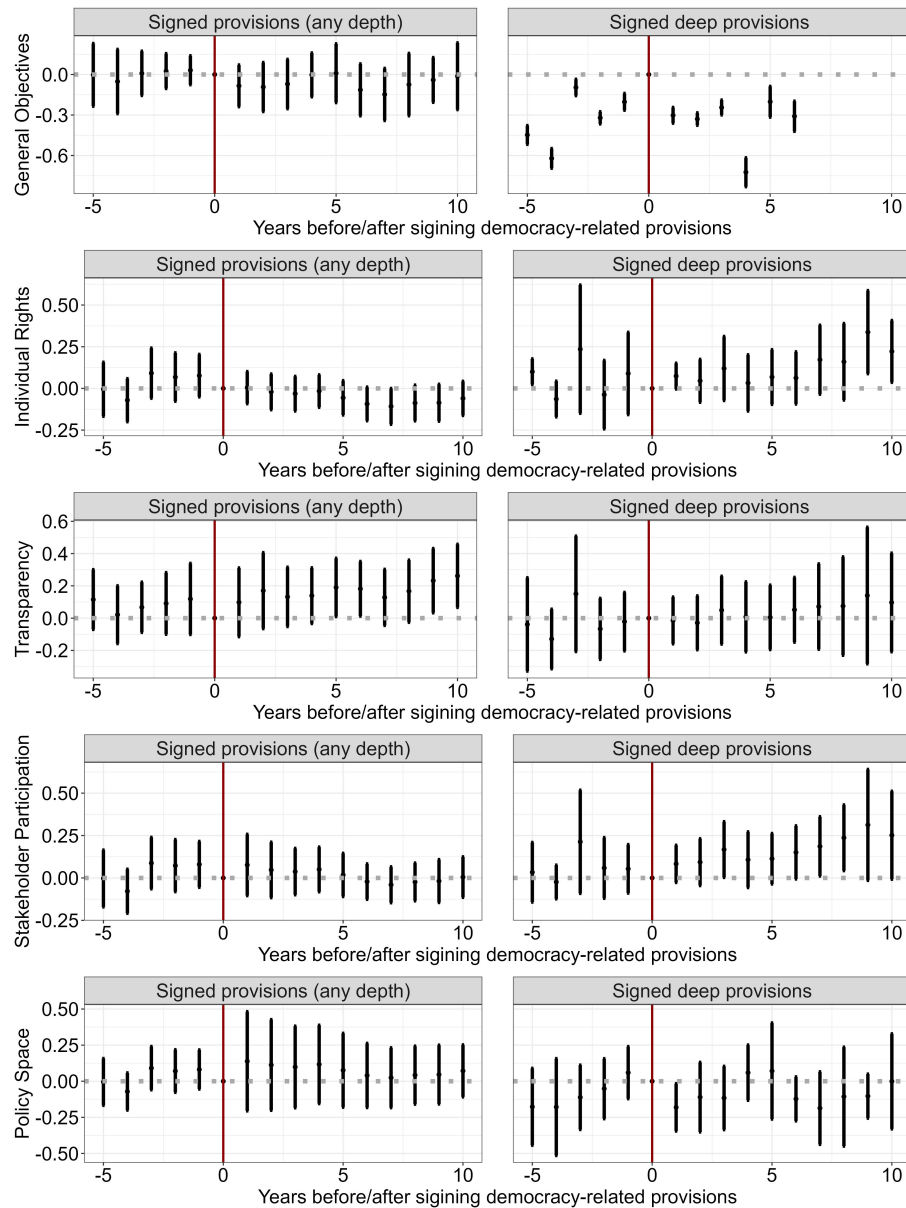
93. *[policyspace\_exemptions\_democracy]* Do the general exemptions provisions refer to democratic principles?

## A.2 Aid types, sectors and channels

Aid types	Overseas Development Assistance	All sectors
	Democracy aid	Anti-corruption organisations and institutions; legal and judicial development; democratic participation and civil society; human rights; women rights
	Aid for Trade	Trade policy and management; trade facilitation; RTAs; multilateral trade negotiations; trade-related adjustment; trade education/training
Aid sectors	Social infrastructure and services	Education; health; population policies; water supply and sanitation; government and civil society
	Economic infrastructure and services	Transport and storage; communications; energy; banking and financial services; business and other services
	Production sectors	Agriculture, forestry, fishing; Industry, mining, construction; trade policies and regulation; tourism
	Commodity aid/General programme assistance	General budget assistance; development food assistance; other commodity assistance (import support)
	Multi-sector/Cross-cutting	General environment protection; other multisector
	Debt	Action relating to debt
	Humanitarian	Humanitarian aid
	Other aid sectors	administrative costs of donors; refugees in donor countries; unallocated/unspecified
Aid channels	Public sector	Donor government; central government; local government; public corporations; recipient government; public entities
	NGOs & civil society	International and national NGOs and civil society organisations
	Public-private partnerships (PPPs)	Public-private funds, alliances, networks
	Multilateral organisations	UN agencies; WHO; WFP; ILO; IMO; IMF; WB; Regional development banks and other multilateral organisations
	Teaching institutions	University, college or other teaching institutions; research institutions
	Private sector institutions	Banks; investment funds; microfinance institutions; insurance companies; investors
	Other	

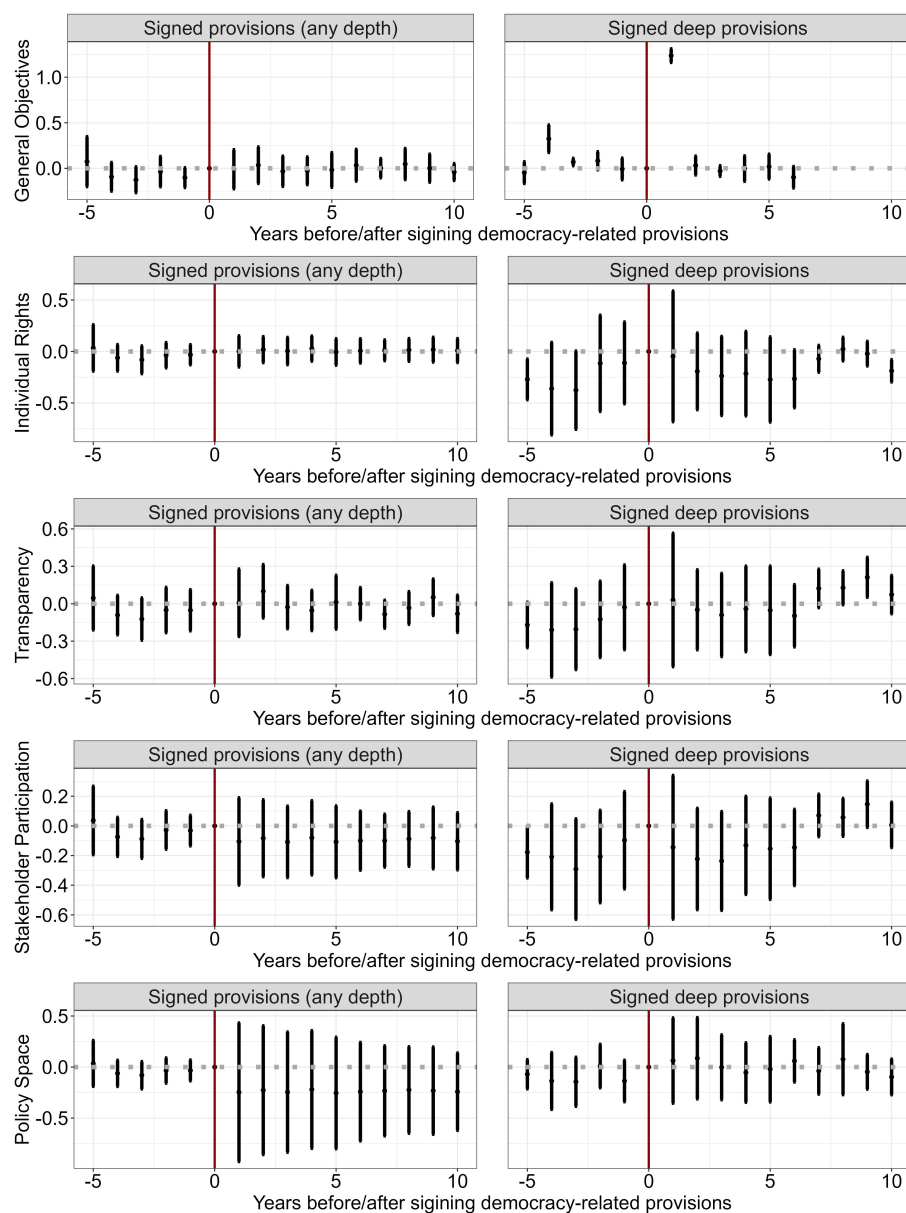
### A.3 Event studies: additional charts

Figure 11: Event study: Effects of signing democracy-related provisions on **democracy aid** commitments over time.



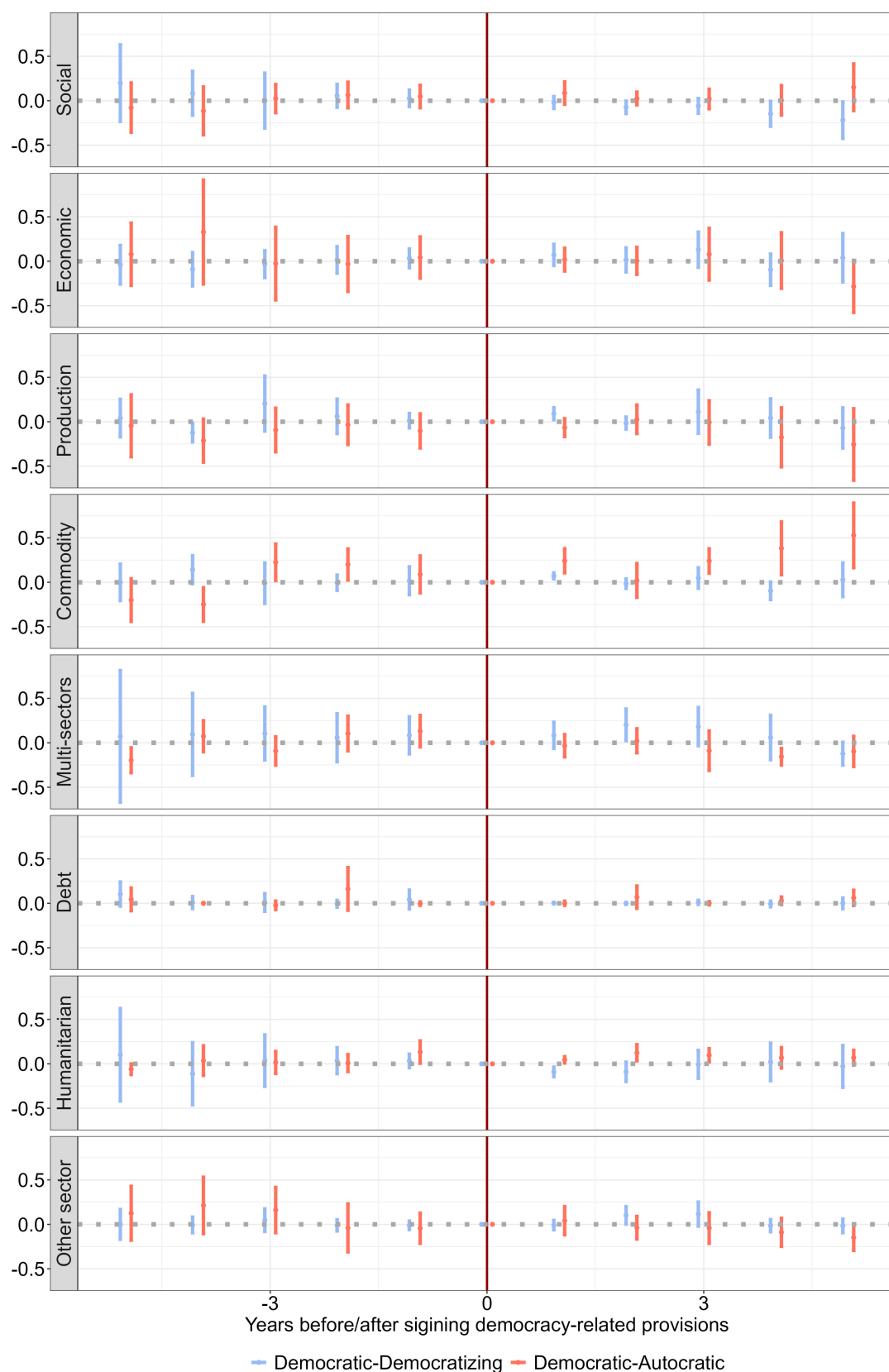
*Note: Results from a staggered difference-in-differences. The coefficients correspond to the point estimates for each period. Error bars correspond to the 95% confidence interval.*

Figure 12: Event study: Effects of signing democracy-related provisions on **Aid for Trade** commitments over time.



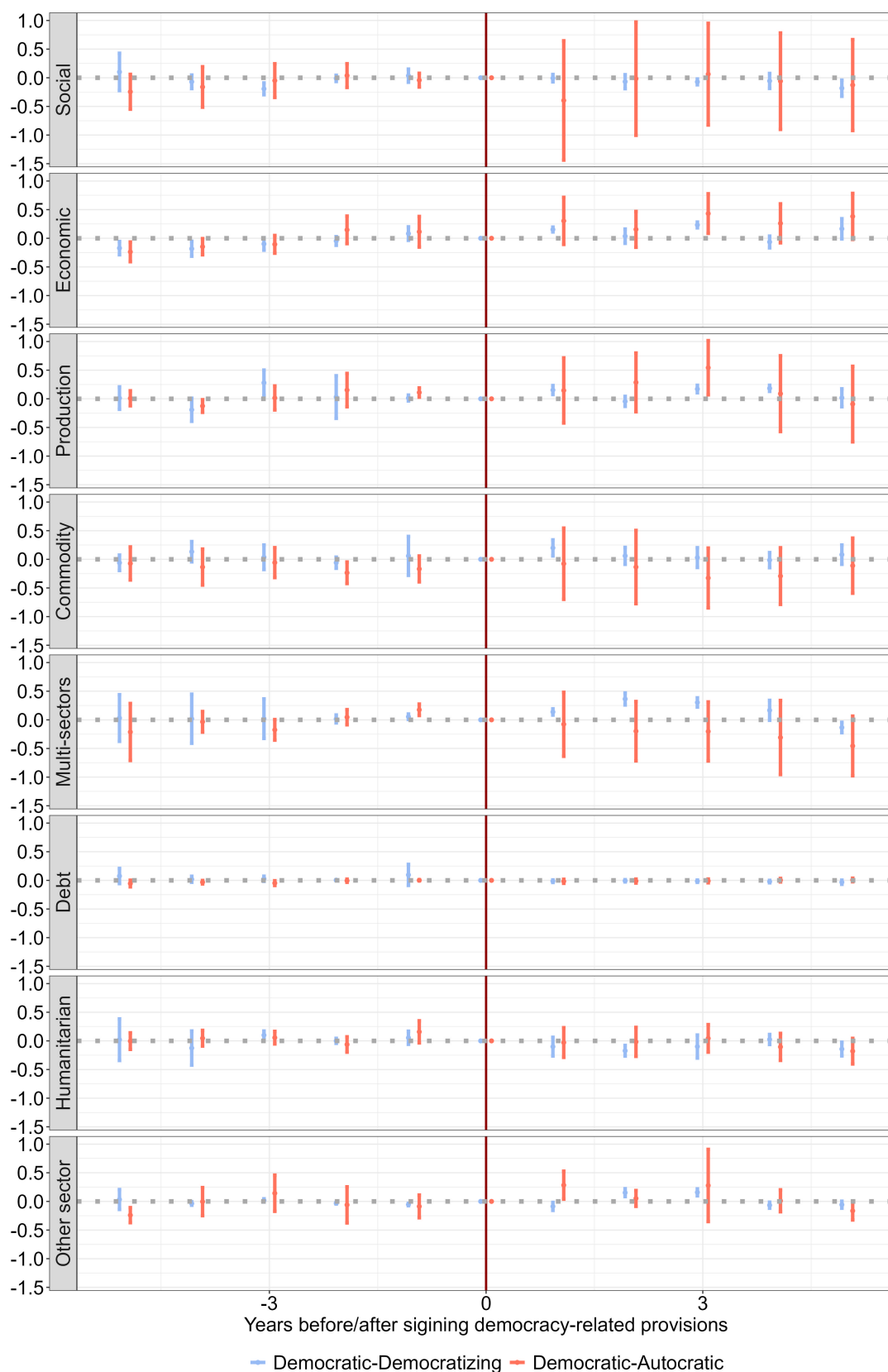
*Note: Results from a staggered difference-in-differences. The coefficients correspond to the point estimates for each period. Error bars correspond to the 95% confidence interval.*

Figure 13: Event study: Effects of signing **any** democracy-related provisions on **aid sectors** commitments over time.



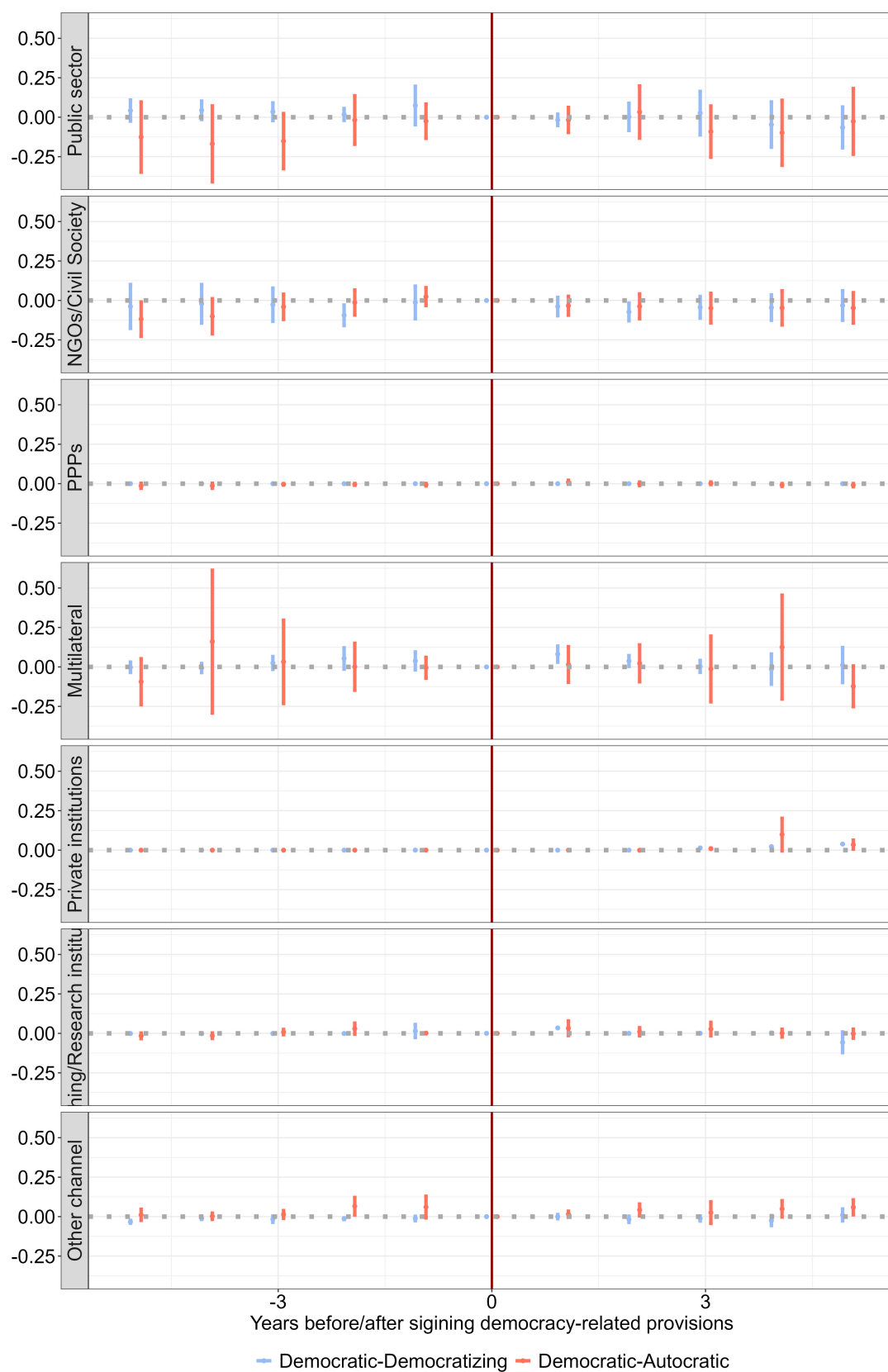
Note: Results from a staggered difference-in-differences. The coefficients correspond to the point estimates for each period. Error bars correspond to the 95% confidence interval.

Figure 14: Event study: Effects of signing **comprehensive** democracy-related provisions on **aid sectors** commitments over time.



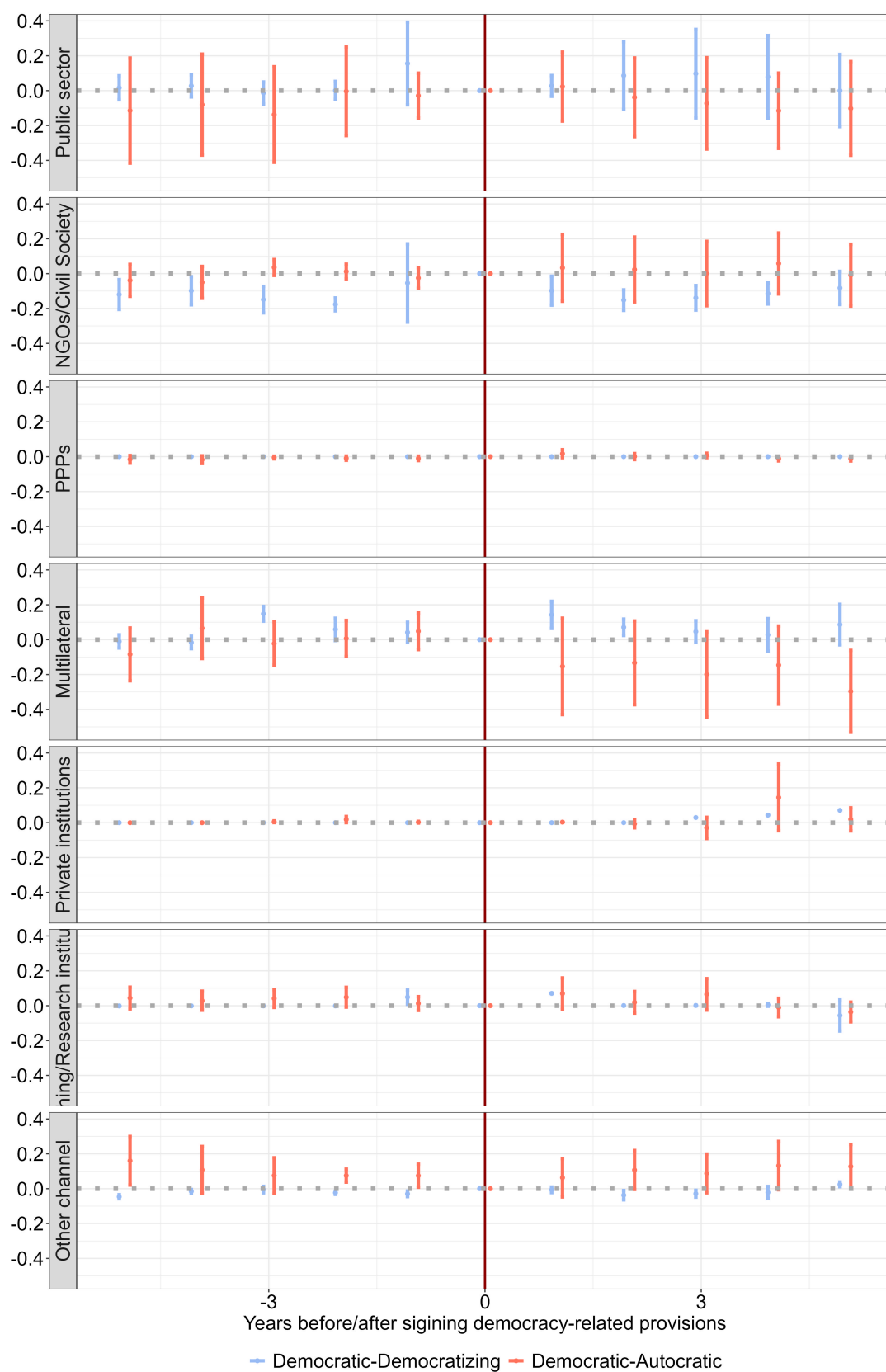
*Note: Results from a staggered difference-in-differences. The coefficients correspond to the point estimates for each period. Error bars correspond to the 95% confidence interval.*

Figure 15: Event study: Effects of signing **any** democracy-related provisions on aid commitments over time **by channel**.



*Note: Results from a staggered difference-in-differences. The coefficients correspond to the point estimates for each period. Error bars correspond to the 95% confidence interval.*

Figure 16: Event study: Effects of signing **comprehensive** democracy-related provisions on aid commitments over time **by channel**.



Note: Results from a staggered difference-in-differences. The coefficients correspond to the point estimates for each period. Error bars correspond to the 95% confidence interval.