

Preferential Trade Agreements and Leaders' Business Experience

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Many theories attempt to explain the determinants of preferential trade agreements (PTAs) and their design. Existing accounts, however, focus almost exclusively on structural or domestic factors and ignore individual leaders. In this paper, I develop and test novel theoretical claims regarding executive leaders' prior career in business and their trade cooperation policy once in office. I construct a new dataset on the heads of the executive's business managerial experience and test my main claims in a time-series-cross-sectional setting covering 185 countries from 1948 to 2009. To establish causality, I rely on an instrumental variable strategy and leverage exogenous transitions due to sudden deaths or terminal illness in office. The results show that businesspersons-turned-politicians are more likely to enter PTAs and are more likely to sign deeper PTAs. The relationship is further investigated in an illustrative case study of the 1988—Canada trade deal. The substantive effect of business experience is comparable to that of established factors in the literature, such as regime type, and is robust to numerous tests, specifications, subsamples, and measurements of business experience.

Existen muchas teorías que intentan explicar tanto los determinantes de los Acuerdos Comerciales Preferenciales (ACP) como su diseño. Sin embargo, los relatos existentes se centran casi exclusivamente en factores estructurales o domésticos y tienden a ignorar a los líderes individuales. En este artículo, desarrollamos y ponemos a prueba novedosas afirmaciones teóricas relativas a la carrera previa de los líderes ejecutivos en el mundo de los negocios y a su política de cooperación comercial una vez que llegan al cargo. Desarrollamos un nuevo conjunto de datos referente a la experiencia en materia de gestión empresarial de los Jefes del Ejecutivo y ponemos nuestras principales afirmaciones a prueba en un entorno transversal de series temporales que abarca 185 países desde 1948 hasta 2009. Con el fin de poder establecer una relación de causalidad, utilizamos una estrategia de variables instrumentales y aprovechamos aquellas transiciones exógenas que fueron debidas a muertes súbitas o a enfermedades terminales durante el cargo. Los resultados muestran que los empresarios convertidos en políticos tienen más probabilidades de entrar en ACP y que son más propensos a firmar ACP más exhaustivos. Investigamos esta relación más a fondo mediante un estudio de caso ilustrativo del acuerdo comercial entre Estados Unidos y Canadá de 1988. El efecto sustantivo de la experiencia empresarial es comparable al de los demás factores que ya habían sido previamente establecidos en la literatura existente, como el tipo de régimen, y es robusto a numerosas pruebas, especificaciones, submuestras y mediciones de la experiencia empresarial.

De nombreuses théories tentent d'expliquer les déterminants des accords commerciaux préférentiels (ACP) et leur conception. Néanmoins, les explications existantes se concentrent presque exclusivement sur des facteurs structurels et nationaux, et ne prennent pas en compte les dirigeants. Dans cet article, je développe et évalue de nouvelles affirmations théoriques quant à la carrière commerciale antérieure des dirigeants de l'exécutif et leur politique de coopération commerciale une fois élus. Je construis un nouvel ensemble de données sur l'expérience de direction commerciale d'un responsable de l'exécutif avant de tester mes principales affirmations dans un environnement chronologique transversal couvrant 185 pays entre 1948 et 2009. Pour déterminer des liens de causalité, je me fonde sur une stratégie de variables instrumentales et exploite des transitions exogènes dues à des décès soudains ou des maladies en phase terminale durant un mandat. D'après les résultats, les dirigeants autrefois commerciaux ont plus de chances de conclure des ACP et d'en signer des plus importants. Pour approfondir cette relation, j'utilise une étude de cas d'illustration de l'accord commercial de 1988 entre les États-Unis et le Canada. L'effet réel de l'expérience commerciale est comparable à celui de facteurs établis dans la littérature, comme le type de régime, et résiste à de nombreux tests, caractéristiques, sous-échantillons et mesures de l'expérience commerciale.

Introduction

On November 16, 2000, US President Clinton attended the APEC state dinner in Brunei, Singapore, with the executive leaders of other twenty countries.¹ That evening, Singa-

pore's Prime Minister Goh Chok Tong approached Clinton to propose a late-night round of golf after the official state banquet. An avid golfer, Clinton readily accepted. As a storm rolled across the capital, Goh and his staff anxiously watched their window of opportunity narrowing down. Just after midnight, the storm lifted and the two headed to the course. At around 2:00 a.m., the two leaders took a coffee break. Prime Minister Goh—a former business manager with extensive experience in the shipping industry—took the opportunity and made his case for a US–Singapore Free Trade Agreement (FTA). Goh's case was convincing, and even if only 2 months remained until his successor took office, Clinton agreed. To the surprise of the US Secretary of State Madeleine Albright and National Security Advisor Sandy Berger, the morning after Goh and Clinton made the decision public. Likely having in mind the relatively narrow US–Jordan FTA to be signed a few weeks later, President Clinton

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¹This paragraph is based on Green and Sebenius (2014) and Crump (2006).

seemed convinced that 2 months would have sufficed. As it turned out, though, the Singaporean Ambassador-at-large Tommy Koh and his government had a far larger and more comprehensive deal in mind. Tommy Koh—a US-educated law professor familiar with the ways of Washington—also realized that a deeper proposal would have been viewed more favorably by the next administration, eager to distinguish itself from the trade deals reached during the 90s. On January 21, 2001, G.W. Bush—also a former businessman with experiences in the oil and gas industry—was sworn as President. On May 6, 2003, Prime Minister Goh and President Bush formally signed a deeper trade agreement than most had expected.

Undoubtedly, economic as well as geopolitical factors played an important role in the successful negotiation of the bilateral treaty between Singapore and the United States. Nevertheless, this example nicely captures a further element that has been so far overlooked in the literature, i.e., the role of individual leaders in structuring the patterns of international economic cooperation. This oversight is surprising, considering the consequential role of a country's executive in international economic negotiations (Milner and Rosendorff 1996). Moreover, the US–Singapore case shows how the leaders' occupational background—particularly, a professional experience in the business world—may affect their economic policy preferences. While the role of business lobbying has been extensively studied in the literature (e.g., Witko and Friedman 2008), there is little research linking leaders' business experience to international trade policy. Indeed, trade-related preferences at the executive level have been rarely explained, except for ideology (Mansfield and Milner 2012; Raess, Dür, and Sari 2018).

To fill this gap, I draw from the literature in political science, sociology, social psychology, and economics to suggest that one specific type of leader's occupational experience—namely, business experience—is an important factor in explaining a country's propensity to engage in international trade cooperation. To test my claims, I complement and extend previous datasets (Ellis, Horowitz, and Stam 2015; Fuhrmann 2020) on executive leaders' occupational backgrounds to cover 185 countries between 1948 and 2009.² The empirical results show that countries whose head of the executive has prior managerial experience in the tradable sector tend to sign *more* and *deeper* preferential trade agreements (PTAs) than their nonbusiness counterparts. I probe for causal plausibility using an instrumental variable (IV) approach and leveraging as-if random transitions in office due to sudden natural death or serious illnesses of the previous leader. Finally, I illustrate my argument with a case study on the 1988 US–Canada FTA. Overall, the paper sheds new light on the determinants of international trade cooperation and the importance of individual leaders' backgrounds in shaping economic policy.

The Proliferation of PTAs

Unsurprisingly, economic factors are key determinants of PTAs. In a seminal paper, Baier and Bergstrand (2004) show how economic size, economic development, transportation costs, and openness predict more than 80 percent of in-force PTAs. Beyond transactional economic gains, other scholars have argued that governments may opt for international trade agreements to lock in unpopular do-

mestic economic reforms or to curb the demands for protection from interest groups (Fernandez and Portes 1998). More recent work using firm-level data has emphasized the role of firms' lobbying to address export discrimination or to demand investment protection (Manger 2009). Beyond country-specific factors, the most common theoretical explanation for the surge of trade agreements relies on the concept of “slow multilateralism,” i.e., the observation that bilateral and regional agreements have been spreading as a response to stalls in multilateral talks (Bhagwati 2008).

While economic factors are paramount, politics clearly plays a role as well (Baccini 2019). A first wave of scholarship in political science attributed the remaining variation in trade cooperation to features of the global system. Building on the insights of hegemonic stability theory, Mansfield (1998) shows how the degree of power concentration in the system affects the rate at which countries form PTAs. Similarly, others provide empirical support for the “slow multilateralism” argument from a political angle, arguing that countries engage in PTA negotiation to increase their multilateral bargaining power (Mansfield and Reinhardt 2003).

While systemic political–economic factors promise to explain the overall surge in PTAs, they cannot account for country-level variation. A second wave of scholarship has focused on the domestic sources of economic cooperation. In this vein, Mansfield, Milner, and Rosendorff (2002) and Mansfield and Milner (2012) show how democratic countries are more likely to form PTAs than autocracies. Likewise, Mansfield, Milner, and Pevehouse (2007) have shown how the number of veto players affects whether a country enters a PTA. Other prominent arguments stress the importance of partisanship, electoral concerns, bureaucratic interests, foreign direct investments, and the distribution of alliances (Gowa and Mansfield 1993; Mansfield and Milner 2012). Finally, as many authors have pointed out, international economic agreements tend to be interdependent, and PTAs are no exception (Manger 2005).

While impressive, the sheer increase in the number of PTAs is not the most defining feature of the international trade regime. An equally relevant change in the past few decades has concerned the breadth of their provisions. Over time, PTAs have come to include investment, intellectual property rights, competition policy, government procurement, and many other aspects (Baccini 2019). Indeed, the most recent wave of scholarship has developed and tested arguments to explain the great variation in the characteristic features of PTAs, such as depth (Dür, Baccini, and Elsig 2014), type (Mansfield et al. 2008), credibility, and flexibility (Baccini, Dür, and Elsig 2015).

As it turns out, many of the factors affecting PTA formation are also relevant in explaining their design. Building on the above-mentioned work on the linkage between regime type and PTA formation, Mansfield and Milner (2012) find that democracy also positively correlates with the depth of integration. Likewise, countries with more veto players are more likely to sign PTAs that contain fewer liberalization commitments (Allee and Elsig 2017). Moreover, recent studies have also confirmed the role of interest groups in the design of PTAs (Raess, Dür, and Sari 2018). Finally, not unlike PTAs diffusion more generally, several studies find that specific design choices diffuse from one PTA to another (Allee, Elsig, and Lugg 2017).

While there is no shortage of explanations for PTA formation and PTA design, one potentially important factor has

²Although 2004 is the last year for which I have complete biographical information for all countries.

so far not been explored, i.e., the role of individual leaders' biographical characteristics. Notwithstanding the importance of structural and institutional factors, the common arguments in the literature overlook the role of individual agency in policymaking.³

Leaders' Characteristics and Economic Policy

In line with the conventional Downsian models suggesting that individual traits should not be significant, the premise of most domestic-level explanations of PTA formation is that all candidates align with the preferences of the median voter to enhance their chances of staying in power (Downs 1957). For example, the theoretical underpinning behind the nexus between democracy and PTA rests on the assumption that voters are moderately in favor of free trade and that policymakers want to signal their commitment to liberalization to maximize their chances of remaining in office (Mansfield and Milner 2012). Therefore, leaders are typically portrayed as having no inherent position on free trade or protectionism, but rather a (strong) preference solely for maintaining their hold on power.

However, alternative models offer more flexibility by moving away from the strict assumption of politicians solely driven by vote-maximization. These models entertain the idea that policymakers might enact policies based on their personal preferences (Besley and Coate 1997). Empirically, an expanding body of research is linking leaders' personal characteristics—whether inherent (such as race) or acquired (such as education)—to the public policies they implement while in office (Krcmaric, Nelson, and Roberts 2020).

Among the acquired characteristics, a previous experience in the business sector has attracted considerable attention among scholars. Among others, Witko and Friedman (2008) suggest that Congress members with previous experience in business have a closer relationship with business interests. Beside legislative production, several studies explore whether businesspersons-turned-politicians lead to systematically different economic policy and outcomes, albeit mostly in single-country contexts and/or at the subnational level. The empirical results have been by and large mixed. Leveraging the quasi-randomness of close elections, Beach and Jones (2016) find no evidence that business candidates have an impact on city's fiscal outcomes. Likewise, Jochimsen and Thomasius (2014) also explore the role of business background on public deficits and find no effect of leaders' (non)finance) public sector experience. By contrast, Nones (2023) has shown how businesspersons-turned-politicians tend to implement fiscal consolidation policies in a sample of Organisation for Economic Co-operation and Development (OECD) countries, while Szakonyi (2020) finds more pernicious effects in the case of Russian subnational governments.

Overall, scholarly interests in leaders' biographical features—and business experience—have been on the rise in relation to several different topics. Surprisingly, international economic cooperation—and trade policy in particular—has received scant attention. To the best of my knowledge, I am aware of only one study that specifically examines executive-level dynamics from a cross-national standpoint (Dreher et al. 2009). In one of the most comprehensive attempts at explaining market liberalizing reforms as a

function of leaders' characteristics, the authors find that former businesspeople are indeed more likely to reform. Nevertheless, once the authors break down the content of the reforms, they do not find any effect on trade liberalization. The lack of attention to executive leaders in the literature is particularly surprising given the relevance of the government in setting the pace for and type of trade liberalization (Raess, Dür, and Sari 2018).

Business Experience and Trade Liberalization

What might cause a former businessperson to have systematically different trade preferences compared to someone without business experience? I suggest two primary reasons: First, the socialization effects of working in the business sector could positively influence their beliefs about the advantages of freer trade; second, their shared material interests with their former professional network may predispose these leaders to favor a probusiness trade stance. For the two mechanisms to be at play, three conditions must be met. First, the (future) political leader should have had a managerial and/or executive position to fully appreciate the benefits of free trade and to develop a business network. Second, they should have worked in a business exposed to the benefits (and costs) of international trade. Third, they should have worked in a business that is to some extent sensitive to market incentives.

Extensive research in social psychology has demonstrated how individual beliefs propagate through intergroup and interpersonal relationships (Pettigrew 1998). Workplace environments notably influence personal attitudes and behaviors, even after accounting for self-selection, a phenomenon referred to as “workplace socialization” (Peterson 1992). Such formative experiences are likely to persist as individuals transition into politics (Szakonyi 2020). This goes beyond mere factual knowledge acquired in the workplace; any meaningful occupational experience involves the internalization of the underlying values of that occupation (Mikosch and Somogyi 2009). These beliefs shape individuals' cultural imprints and worldviews, consciously or unconsciously influencing their preferences once they hold positions of power. Over their lifetimes, individuals accumulate dispositions reflecting their cumulative experiences (Hayo and Neumeier 2016). Occupational backgrounds provide a framework for comprehending and engaging with the social world; exposure to similar incentives, conditions, and ideas within an occupational class tends to homogenize preferences. Politicians with business experience are likely to demonstrate a distinctive social “habitus” regarding trade liberalization and economic efficiency (Dreher et al. 2009; Szakonyi 2020). In particular, working at a firm is likely to heighten an individual's perception regarding the benefits of freer trade, a policy that would result in a wider range of possible customers for firms as well as an increase in aggregate economic efficiency for the country as a whole. The socialization channel is best summarized in former US President G.W. Bush Jr.'s memoir: “My experiences in business school, China, and the oil business were converging into a set of convictions: The free market provided the fairest way to allocate resources [...] Eliminating barriers to trade created new export markets for American producers more choice for our consumers” (Bush 2011, 38). While anecdotal, Bush's own words are highly suggestive of the socialization channel.

Moreover, a growing literature examines the role of material connections in shaping various political outcomes

³Consider the most recent review of the PTAs literature (Baccini 2019). The word “leader(s)” appears thirty-one times, but none of the studies is concerned with leaders' characteristics.

(Witko and Friedman 2008). The common theme across this research is that politicians are inclined to support policies that benefit, or at least do not harm, their previous industry. Indeed, it seems clear that businesspersons-turned-politicians bring with them connections, allegiances to previous employers and employees, and, more broadly, material preferences in line with those of the professional social network they had been part of. While self-interest drives any politician's behavior, empirical research has shown how businesspersons may be even more prone to maximize the expected wealth and profits of their own sector (Szakonyi 2020). Research on urban politics in the US context has long investigated the links between politicians' experience in the private sector and pro-business public policy. This literature underlines how former entrepreneurs tend to coordinate to shape government policy to create "growth machines" that would disproportionately benefit businesses (Molotch and Logan 1984). Similarly, Szakonyi (2020) has presented comparable evidence regarding Russian regions.

In theory, the socialization effect should be particularly strong for those individuals who experienced the gains from free trade, i.e., the "winners." Nevertheless, all former businesspersons may be sensitive to *aggregate* efficiency gain. Instead, the material interest channel may have divergent effects. Trade policy has distributional economic effects, thus inducing a cleavage between the "winners" and "losers" of liberalization. Three sets of trade models help identify where the cleavage might lie. An older class of models is based on the Stolper–Samuelson theorem. According to the theorem, trade increases real returns for owners of the factor of production in which the economy is relatively abundant, while it reduces real returns for owners of the scarce factor of production. Capital owners in capital-abundant countries will tend to favor open trade, while they will seek trade protectionism in labor-abundant countries. Hence, we may expect individuals with a business career in a capital-abundant environment to be more strongly in favor of trade liberalization. Nevertheless, this class of models is less useful for our purposes since a person's occupational experience occurs within a more specific professional context. While the national context within which a business career may unfold matters, the lived day-to-day experiences that substantiate thick social networks are likely to take place at a lower level. An alternative is the Ricardo–Viner model(s), which situate the cleavage at the industry level. In these models, the returns to specific factors are closely tied to the fortunes or misfortunes of the industry they are employed in. The basic prediction of the models is that all factors of production employed in export-oriented industries will receive an increase in returns from trade, whereas both capital and labor employed in import-competing industries will lose. Finally, according to "new new trade theory," the cleavage lies at the firm level (Melitz 2003). Unproductive (productive) firms stand to lose (win) from trade liberalization. As such, we would expect that a leader who worked at a relatively efficient firm would have a material interest in liberalizing trade.

It is not easy to collect fine-grained information about the firms' productivity for such a long period of time and an heterogeneous group of countries. Coding leaders according to the industry-level experience (such as import-competing versus export-oriented) is also challenging. Export/import data at the industry level for most countries in the world

since WWII is not available. However, in the data collection process, I try to minimize concerns about the possible effect of working at a low-productivity firm and/or in the import-competing sector. I do so by excluding small (e.g., family-owned) businesses from the analysis. Moreover, while categorizing each industry in all countries for all years as import-competing or export-oriented is not possible, there often is enough biographical information to assess whether the company the leader worked at engaged in exports. In a later section, I will detail my coding scheme for minimizing these concerns. For now, I notice that the possible inclusion of leaders who worked at unproductive firms and/or in an import-competing industry would have an attenuating effect on the estimated coefficient for business experience. Hence, the main empirical results can be interpreted as the lower bound effects of a specific kind of business experience, i.e., that in a productive firm and/or in an export-oriented industry.

In general, the link between business experience and trade policy appears intuitive, given the likelihood of shared frames of reference, common backgrounds, experiences, and interests among individuals with prior business experience. Both socialization and material interest channels are likely to lead an individual to hold distinct trade policy preferences. Such preferences should align with trade liberalization, which, in the case of trade agreements, may take two forms. Most obviously, such leaders should be more likely to support FTAs. Second, they should also prefer deep agreements over shallow agreements. Depth is defined as the extent to which an agreement requires states to depart from what they would have done in its absence. In the case of trade, it captures the strength of commitments toward liberalization (Baccini 2019). Deep trade agreements have been found to affect trade flows in goods (Dür et al. 2014) and services (Guillin, Rabaud, and Zaki 2023) significantly more, to correlate more strongly with ex post enforcement (thus indicating that governments agreeing to deeper PTAs are more committed toward trade liberalization) (Baccini 2019), and to further foster global value chain operations (Laget et al. 2020). Overall, insofar as one's goal is trade liberalization, deeper agreements are likely to be a better instrument.

How can a leader of the executive affect trade policy? First, a government may decide to propose a trade agreement or to accept another country's proposal to initiate trade talks. This is what, for example, Prime Minister Goh did in 2000. Unsurprisingly, given the complexity of bilateral or multilateral trade policy, many trade agreements are dealt with by different governments throughout several phases, such as initiation, negotiation, approval, signature, and entry into force. Nevertheless, it would be erroneous to conclude that new governments have their hands tied. While the sunk costs of inheriting trade negotiations may make it more likely that the next government would conclude it, the new government still has leeway in terms of the speed at which the trade agreements go through. For example, while US–Singapore trade talks began under Clinton, once Bush came to power, he swiftly made trade PTAs "a formal and explicit centerpiece of US trade policy," and "the Bush administration quickly wrapped up the talks" (Feinberg 2003, 1030). In other words, the Bush administration still managed to impress its mark by speeding the pace of the process. Interestingly, the following leadership turnover exemplifies the opposite dynamic. As Gray and Kucik (2017) notice, "Once Barack Obama took office in 2008, representing

a significant shift in the ideological leanings of the executive office, those agreements [initiated by Bush] remained mired in Congress for several years before they were eventually ratified,” further noticing that “the process became protracted precisely because of Obama’s previous campaign pledges” (footnote 8). Overall, for an executive to pursue its favored trade policy, it is not necessary to oversee the entire process of PTA formation. While executives often inherit trade talks from their predecessors, they can still influence the speed at which the process is conducted. As such, I propose two hypotheses:

Hypothesis 1: Countries led by leaders with prior business experience are more likely to engage in PTAs than their counterparts led by leaders without business experience.

Hypothesis 2: Countries led by leaders with prior business experience engage in deeper PTAs than their counterparts led by leaders without business experience.

Finally, we should notice that the hypothesized relationship may also hold under a different data-generating process. The (s)electorate may favor business candidates over nonbusiness candidates as they expect the former to liberalize trade. Indeed, at least in developing countries at the subnational level, there is empirical evidence that businesspersons run for office in a strategic fashion (Gehlbach, Sonin, and Zhuravskaya 2010). While to the best of my knowledge we lack empirical cross-sectional evidence showing a similar behavior at the national level, one can plausibly expect a businessperson’s decision to run for office to be affected by political and economic conditions. If the change in leadership (and the duration of tenure) is influenced by voters’ trade preferences, policymakers simply function as faithful agents of the principal, i.e., the (s)electorate. In a later section, I will describe how I leverage “as-if random” transitions to deal with this issue.

Research Design

Unit of Analysis

Many studies of PTA formation have opted for dyads as their units of analysis (e.g., Mansfield, Milner, and Rosendorff 2002). Nevertheless, there is nothing specific in the theory to favor the use of dyads. The theory is meant to explain why a government/leader signs an agreement at time t , rather than why they sign an agreement at time t with country j . Hence, I report results using a monadic (country-year) design to test the first hypothesis, a choice consistent with previous studies in the literature (Gray and Kucik 2017). The online appendix shows the results using different units of analysis. There, I replicate two prominent studies. First, I replicate Mansfield’s (1998) study on PTAs proliferation.⁴ In that study, the unit of analysis is the year. I augment the original specification by adding the proportion of business leaders in the system. Second, I replicate the results in Mansfield and Milner (2018), where the unit of analysis is the dyad.⁵

Regarding hypothesis 2, there are two alternatives. First, following other studies on the content of agreements, we may organize the dataset at the PTA level. Nevertheless, the set of governments that sign a PTA might be systematically different from those that do not sign PTAs, thus biasing the results. Instead, I rely on a standard country-year

dataset and use the average of trade depth across PTAs for those country-year observations when more than one PTA was signed.

Business Experience

The main independent variable is a leader’s previous experience in business. Due to practical and theoretical considerations, I focus on the head of executive. These individuals represent the most influential decision-makers within the executive branch of government, and they wield substantial influence over economic policy (Nones 2023). While the individual characteristics of trade ministers could impact trade policies, it is typically the leader of the executive who proposes or directly appoints these ministers, even in parliamentary democratic systems (Dewan and Hortalavalle 2011). Likewise, while trade negotiations are carried out by professional negotiators, “an economic diplomat typically is limited to some degree by instructions in his country” (Odell 2000, 24). The assumption that the leader of the executive can, at a minimum, give the general direction on trade policy is also shared with other studies on PTA formation and with those studies focusing on the trade effects of executive leaders’ turnover (e.g., Gray and Kucik 2017). Moreover, while executive leaders often only inform the general direction of trade policy, leaders sometimes play a more proactive role (see the case study for an in-depth example).

As a starting point, I rely on the Leader Experience, Attribute, and Decision (LEAD) dataset, which provides biographical information on executive leaders up to 2004 (Ellis, Horowitz, and Stam 2015). Unfortunately, the LEAD dataset does not provide the most appropriate coding of business experience for the purpose of the present study. For example, some leaders who taught economics or business-related subjects at business and/or technical schools, but for whom we have no evidence of professional business experience, are coded as having business experience. One such case is former Bulgarian Prime Minister Ivan Kostov.

As such, I restrict the sample to the post-World War II period, I extend the dataset for leaders who remained in power after 2004 up to 2009, and I recode business at a more fine-grained level. To do so, I rely on the original sources consulted by Ellis, Horowitz, and Stam (2015). Where I could not find the information needed, I complemented the search with additional primary and secondary sources. I utilized academic books and articles, newspaper articles, obituaries, libraries, online encyclopedias, and various other sources. For NATO countries, I rely also on a recent study’s dataset (Fuhrmann 2020). As a general rule, I code each dimension in the dataset if two sources agree on the biographical facts, although I do make some exceptions if one source is particularly detailed.

I code the following dimensions: (i) whether the (future) leader held an executive/managerial position or not, (ii) whether the firm was involved in nontradable or tradable activities, (iii) whether it was of small size (e.g., family owned) or not, and (iv) whether it was state-owned or private. Below, I detail the rationale for my coding scheme and measure.

First, the (future) political leader must have held an executive position to fully appreciate the benefits of free trade and to develop a business network. Nonexecutive business experience is insufficient to meet the criterion. The coding of individuals with managerial/executive positions is one of the major differences relative to the LEAD dataset. For example, I code Ruiz Cortines—President of Mexico in the

⁴More precisely, I replicate the chapter in Mansfield and Milner (2012) that extends the original article.

⁵This study is the latest in the ongoing production of Mansfield, Milner, and coauthors, and is based on the insights developed in several previous articles.

50s who worked as an accountant—as not holding an executive/managerial position.

Second, they must have worked at a firm in the tradable sector to experience international trade. Lacking detailed information on the firms' exposure, I focus on whether their products and/or services could be feasibly traded. The classification of tradable/nontradable for such a long period of time and for so many countries is not straightforward. As a starting point, I rely on the 2016 OECD regional outlook. Tradable sectors are defined as agriculture, industry, information/communication services, financial/insurance activities, and other services. Nontradable sectors are composed of construction, distributive trade, repairs, transport, accommodation, food services, real estate, business services, and public administration. Since the above classification does not clarify the status of tourism, I follow the European Commission Annual Macro-economic (AMECO) classification, and I treat it as tradable. In a few cases, I elected to deviate from the above coding scheme. I do so only when there is consistent, reliable, and clear evidence. For example, former Irish Prime Minister Garrett Fitzgerald founded a consultancy firm. While consultancy falls under the nontradable sector, there is consistent evidence that the firm had strong international ties. Fitzgerald's independent business consultancy partnered and eventually merged with the British Economist Intelligence Unit, of which he remained the managing director until the 70s.

Third, I code the likely size of the firm. Exact data on firm size is unavailable. Nevertheless, it is often possible to code whether the firm was small. This is usually the case of family-owned business (although one needs to pay attention to the socioeconomic status of the family). For example, former US President Carter managed the family-owned local peanut farm and a small-town store. The business activity was carried out on a small scale, thus unlikely to be involved in international trade. The leader is coded as having experience in the tradable sector, but at a small firm.

Fourth, (future) leaders should have worked in an environment sensitive to economic incentives. This is unambiguously the case of private firms, which are driven by profit-maximization motives. The issue is more complicated in the case of state-owned firms. On the one hand, public enterprises may respond to different incentives and may differ in terms of goals, business networks, and socialization processes. On the other side, a strict definition of private ownership would exclude any leader from several countries around the world. For example, any leader in the former Eastern bloc would be excluded even if, within the constraints of a command economy, they operated a profitable business. Moreover, while public firms' primary objective may not be profit *maximization*, they are unlikely to be completely shielded from economic incentives. As such, while I code public sector experience for all leaders, I do not exclude them from the main analysis. At any rate, the few cases where there is less ambiguity about the lack of profit motives tend to be in the nontradable sector and, as a result, already fail to satisfy that criterion. As it is the case with the possible miscoding of leaders with experience in small and/or import competing firms, the inclusion of leaders with business experience in the public sector would attenuate the overall effect, thus biasing the results in a conservative direction.⁶

As a final step, I code a leader as having business experience with a binary indicator that takes the value of 1 if the

leader held a managerial/executive position at non-small firm in the tradable sector. If any of these three core conditions is not met, the variable is coded as 0. As mentioned in the theory section, though, leaders' business experiences may be substantially more heterogenous than my baseline coding scheme allows. As such, I further code a leader as having export-oriented business experience. The criteria for coding export-oriented business experience—and some examples—are listed in the online appendix, which also contains the empirical results with this more fine-grained coding of business experience. In line with the theoretical expectations, the results tend to be stronger for this subsample of leaders.

Figure 1 shows the result of the data collection phase for the main independent variable (countries that never had a business leader are excluded). Each square represents a country-year observation. Red squares indicate the presence of a leader with business experience. White squares indicate missing values.⁷ Two points are worth emphasizing. First, there is an appreciable treatment variation over time and space. Some countries in the dataset were never led by leaders with business experience (Saudi Arabia), while others have been run mostly by former businesspersons (Zambia). Second, while business leaders have become more common over time, there has always been at least one business leader at any point in time. The online appendix also contains a descriptive table showing the distribution of business experience across levels of development, geography, and regime type.

Control Variables

I rely on the Design of Trade Agreement Dataset (DESTA) (Dür, Baccini, and Elsig 2014). Ideally, one would use information about the timing of all stages of trade negotiation—beginning of negotiation, signature, ratification, and entry into force. The DESTA dataset provides “signature” dates and “entry into force” dates, i.e., (usually) right after the last country in the agreement ratified it. I use both dates, although I leave the results using the latter in the online appendix. As a further robustness check, I also use the year when negotiations started for a subset of trade agreements. The data comes from Mölders (2016), who coded the beginning of negotiation of 123 trade agreements signed since 1969.

To test hypotheses 1, I operationalize the dependent variable in two ways: a count variable indicating the number of agreements signed in a given year; a dichotomous variable indicating whether at least one PTA was signed in a given year. To test the second hypothesis, I rely on two measures of depth directly available in the dataset. The first measurement of depth is an additive index (0–8) that captures the degree of tariff reduction as well as liberalizing provisions regarding services, investments, standards, public procurement, competition, and intellectual property rights. The second one is continuous and was constructed through latent trait analysis on forty-eight items that theoretically relate to liberalization. It ranges from –1.43 to 2.17. In both cases, higher values are associated with deeper agreements. The two measures of depth include 0 as a possible value, thus raising an econometric issue. Including them directly in a panel model would conflate cases when no agreement was signed with cases when a country joined an agreement whose content is coded as having 0 depth. To avoid that

⁶As I show in the online appendix, it is indeed the case that leaders with public sector experiences are not strongly correlated with more and deeper trade agreements.

⁷The graph ends in 2004 as it is the last year for which I have complete biographical data for all countries.

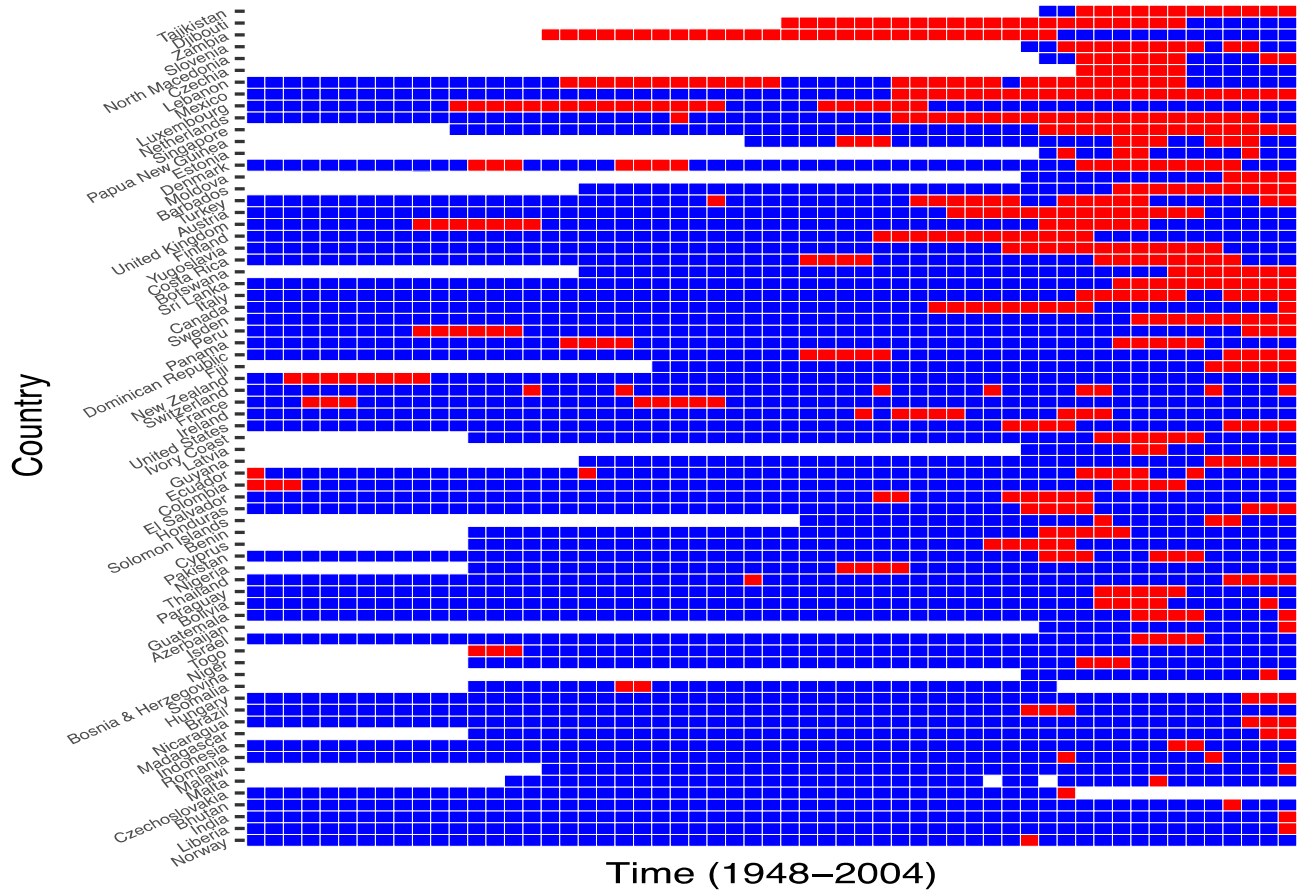


Figure 1. Business experience

Table 1. Descriptive statistics

Variable	Mean	Std. dev.	Min.	Max.
PTA (count)	0.284	0.699	0	9
PTA (binary)	0.207	0.405	0	1
PTA depth (latent)	1.326	0.937	1	8
PTA depth (additive)	1.409	0.395	0.010	3.621
Business (binary)	0.066	0.249	0	1
Export-oriented business (binary)	0.036	0.185	0	1

Table 2. Poisson fixed effect models

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Business	2.268*** (0.311)	2.211*** (0.305)	1.883*** (0.253)	1.394** (0.206)	1.335** (0.193)	1.302* (0.192)
Individual		Yes	Yes	Yes	Yes	Yes
Domestic (inst.)			Yes	Yes	Yes	Yes
Domestic (econ.)				Yes	Yes	Yes
Systemic					Yes	Yes
Country FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE						Yes
N	7,705	7,528	6,932	4,439	4,324	4,324
Chi	35.748	34.338	61.063	134.253	240.908	22,692.166
Log likelihood	-4,787.342	-4,721.227	-4,367.346	-3,114.629	-2,956.647	-2,760.873

Exponentiated coefficients. Clustered standard errors in parenthesis * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

while preserving the variables' distribution, I employ a simple linear transformation. To the first measure, I add + 1 to the index. Similarly, I simply add 0.01 to the second index minimum value after mean-centering the variable. This way, the country-year observations with no treaty have a value of 0, while the country-year observations with the shallowest treaty have a value of 1 or 0.01 in the first and second measures, respectively. Table 1 provides some descriptive statistics for the dependent variables as well as for the main explanatory variables.

The empirical analysis needs to account for factors that may affect a country's propensity to sign trade agreements as well as the likelihood of having a political leader with business experience. First, I account for the country's market size by including its GDP (in logarithmic scale), its level of development (GDP per capita), and the business cycle (GDP growth). These variables are obtained from the *Penn World Table 9.1* (Feenstra, Inklaar, and Timmer 2015). Mansfield and Milner (2018) document a tendency for countries to sign trade agreements during "hard times." As such, I follow past conventions, and I include a dummy variable (*recession*) that takes the value of 1 if a country's GDP declines by at least 1 percent in a given year. Then, I control for trade openness (exports and imports divided by GDP from the *World Bank*). Third, I include a count variable to capture the leader's experience in office (measured by the number of years). On the one hand, as any leader gains experience in office, it might become easier to implement their preferred policy. On the other side, leaders with business experience may have different "quality" than their nonbusiness counterparts, which might affect the likelihood that they would remain in office (Beach and Jones 2016). Fourth, a country's regime type is regarded as a major determinant of the likelihood of signing PTAs (Mansfield, Milner, and Rosendorff 2002). It is also possible that the selection process leading former businesspeople to positions of power differs across regime types. For example, while reminiscing about his decision to run for office in a 1998 interview, former President of El Salvador Alfredo Cristiani—a businessman dedicated to coffee production and export—explicitly stated: "It wasn't very normal for people involved in business in El Salvador to get involved because of the military dictatorships that we had for so long."⁸ Therefore, I control for regime type using the Polity2 score from the Polity dataset (Marshall et al. 2010). To capture the number of veto players in a country, I use the most recent version of the veto player measure from Henisz (2000). Finally, I control for global conditions regarding the economy as well as the international trade regime. More specifically, I control for world economic growth (*Maddison Project Dataset 2016*), the total number of PTAs signed per year, and the number of countries signing at least one PTA per year (Mansfield and Milner 2018). I also include two dummy variables to account for the occurrence of a GATT/WTO round and for the post-Cold War period. All control variables are lagged.

Empirical Tests

To test hypothesis 1, I rely on two sets of empirical models—Poisson and logit fixed-effects models, depending on the nature of the dependent variable.⁹ Standard errors are

⁸Available at https://archives.lib.duke.edu/catalog/duliving_aspace_a287565e51a8cflce936e4389c11d3.

⁹FE Poisson regression is preferred since it is consistent under very mild conditions, unlike other count data estimators (Wooldridge 1999). I also estimated random-effect negative binomial models (see online appendix).

Table 3. Marginal effects of democracy and business

	Business	Democracy
AME	0.058	0.079
95% CI	[0.001–0.115]	[0.017–0.142]

clustered at the country level. I exclude all EU countries from the main analysis since they are members of a single trading bloc. Table 2 shows the estimates derived from fixed-effects Poisson models. To address concerns about potential suppression effects of the main variable of interest, I introduce the covariates sequentially. Model 1 shows the simple bivariate relationship on the full sample. There are 7915 country-year observations for which I have complete data on both the dependent and independent variables (although 210 observations are dropped). Model 2 includes the leader's years of experience in office (individual-level control), Model 3 adds regime type and veto players (domestic-level *institutional* controls), and Model 4 further controls for the remaining domestic-level *economic* variables. Model 5 and Model 6 include the full set of controls with country and two-way fixed effects. These will be the specifications for all subsequent models unless otherwise noted.

As we can see, business experience has a positive and statistically significant effect on the number of PTAs signed. The results hold across specifications. Based on Model 5, as a country switches from an Executive leader without business experience to one with business experiences, the rate at which it signs a trade agreement in a given year increases by 34 percent.

Following the same procedure described above, I estimated logit fixed effects models. To account for temporal dependence, I include the cubic polynomial approximation of spell-time (Carter and Signorino 2010).¹⁰ To get a better sense of the magnitude of the effect on a more familiar scale, Table 3 shows the marginal effect of regime type and business experience based on the fully specified logit model. To facilitate comparison with the binary business variable, I dichotomize regime type at the 6-point score cut-off. As we can see, holding the covariates at their observed value, the substantive effect of having a leader with business experience is almost 75 percent as large as that of democracy.

Overall, multivariate analysis seems to support hypothesis 1. To test hypothesis 2, I rely on OLS fixed-effects estimation.¹¹ The control variables are the same as in previous models except for the exclusion of the total number of PTAs signed per year and the number of countries signing at least one PTA in a given year. There is little theoretical reason to suggest that these factors should affect the *design* of trade agreements. Indeed, they do not feature in previous studies on PTA design (Mansfield et al. 2008; Alee and Elsig 2017). I present the results using the additive index of depth (see online appendix for the results using the Rasch Index). As we can see from Table 4, business experience consistently exhibits a positive and statistically significant relationship with PTA depth. Based on Model 5, as a country moves from a nonbusiness leader to one with business experience, the depth of PTA measured by the additive index increases by

¹⁰In the online appendix, I show that the count model results (see table 2) also hold after controlling for the cubic polynomial approximation of time since the last PTA was signed. Likewise, the results are robust to controlling for the count of years elapsed since the first year that a country entered in the dataset.

¹¹I opt for OLS models so that one can more easily compare the results using the two depth indicators. See online appendix for substantively similar results using Tobit models.

Table 4. OLS models—additive index

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Business	0.613*** (0.111)	0.612*** (0.112)	0.566*** (0.108)	0.448*** (0.129)	0.417*** (0.128)	0.416*** (0.128)
Individual		Yes	Yes	Yes	Yes	Yes
Domestic (instit.)			Yes	Yes	Yes	Yes
Domestic (econ.)				Yes	Yes	Yes
Systemic					Yes	Yes
Country FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE						Yes
<i>N</i>	7,915	7,731	7,157	4,469	4,469	4,469
<i>R</i> ²	0.071	0.073	0.083	0.117	0.125	0.194
Adj. <i>R</i> ²	0.049	0.051	0.061	0.087	0.094	0.157

Clustered Standard Errors in parenthesis * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

0.416 points, on average, controlling for the covariates. The magnitude of the effect of business experience on the additive index of depth is in between a half and a third of the standard deviation ($SD = 1.06$).

Alternative Explanations and Endogeneity Concerns

While the correlation between business experience and PTA formation and PTA depth is robust, two alternative explanations may lead to observationally equivalent outcomes. First, it might be that business experience simply proxies for a leader's ideology. If that is the case, the variable of interest would be capturing an entirely different concept. Second, and most importantly, neither leaders' selection into their occupation (business) nor their selection into office happen in a vacuum (Krcmaric, Nelson, and Roberts 2020). In the online appendix, I discuss the possibility that ideology may confound the relationship between businesspersons-turned-leaders and trade policy and provide strong evidence that the results hold after accounting for this alternative channel. In what follows, instead, I focus on the issues of self-selection.

Self-Selection into Occupation

Future leaders self-select into their respective occupations. This makes it difficult to determine whether the observed relationship is driven by the individuals' actual experiences or whether individuals simply select into occupations that reflect their prior characteristics (Krcmaric, Nelson, and Roberts 2020). If the latter, professional experiences might be helpful to predict behavior, but they are not the true source of causality. While this problem is pervasive in leaders' studies, it is often only briefly acknowledged and assumed away, suggesting that both self-selection and socialization are at work (e.g., Fuhrmann 2020).

The specific problem at hand can be restated as follows: Leadership ability (or other unobservable personal traits) may affect the probability of: first, becoming a businessperson; second, becoming the head of the executive; and, third, of engaging in successful international cooperation. A possible solution is to rely on a plausibly exogenous source of variation that affects a (future) leader's decision to start a business career without directly affecting the other outcomes. This is, essentially, the realm of IV estimation. To find suitable instruments for individual leaders' business experience, I rely on a number of family background variables in the original LEAD dataset. The idea underlying such an

identification strategy comes from a vast literature in labor economics concerned with estimating the returns to schooling (Hou, Tian, and Wang 2020). The goal in such studies is to correct for endogeneity by including exogenous variables that affect schooling, but not earnings. To do so, scholars often rely on mother and father's educational background. In this vein, I utilize the following instruments: the leaders' fathers' business experience, their mothers' occupational status, their royalty status, their family's wealth level when they grew up, and their family's parental stability (i.e., whether their parents were married or not). Each variable is binary. While the original dataset does not provide an explicit variable for the father's business experience, it contains a short description of the father's occupation. As such, I construct the father's business experience dummy by coding those occupation descriptions that contain the word "business."¹² An important aspect is that these variables capture socioeconomic dimensions of the leader's family *at the time when he or she grew up*. Hence, their realizations materialized prior to their decision to venture into the business world and much prior to their decision to run for office. These thus-constructed variables are plausibly exogenous to the individual country's structural PTA equation, yet likely to be correlated with a leader's business experience in the reduced-form equation.

Table 5 shows the results from IV-2SLS estimation. In the online appendix, I show the results using the bivariate probit for the binary dependent variable. Since using multiple instruments can improve precision, I instrument a leader's business experience with all the variables mentioned above when possible. Unfortunately, the Sargan test of overidentification yields a statistically significant p -value in the first three models.¹³ As such, in Models 1–3, I instrument the endogenous regressor only with the father's business experience, arguably the most relevant instrument.

The F -statistic is above 10, thus satisfying the rule of thumb value for one endogenous regressor and one instrument. For the case with multiple instruments, instead, we have to rely on the critical value for one regressor and five instruments in Stock and Yogo (2005). The Kleibergen–Paap F statistics (which are equivalent to the standard F -

¹²More specifically, the father's business variable takes the value of 1 if any of the following is coded under father's occupation: "business," "Business," "Business Owner," "Business; landowner," "Business/Journalist," "businessman," "Businessman," "Businessman; Landowner," "Business," "Businessman (boating)."

¹³This is not surprising considering that a rejection of the null hypothesis indicates one of two problems: Either some of the instruments are invalid or the model is misspecified. Since the first three models contain fewer variables than the fully specified model, they are by construction somehow misspecified.

Table 5. Instrumental variable regression—PTA count

	IV	IV	IV	2SLS	2SLS	2SLS
Business	0.640*** (0.210)	0.670*** (0.219)	0.514** (0.223)	0.530* (0.322)	0.588* (0.335)	0.641** (0.325)
Individual		Yes	Yes	Yes	Yes	Yes
Domestic (instit.)			Yes	Yes	Yes	Yes
Domestic (econ.)				Yes	Yes	Yes
Systemic					Yes	Yes
Country FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE						Yes
Instrument	Father	Father	Father	All	All	All
Kleibergen–Paap F	105.46	101.68	97.01	17.87	16.20	16.47
Sargan's test (p -value)				0.59	0.52	0.39
N	7,915	7,729	7,157	4,468	4,355	4,355

Robust standard errors in parenthesis * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Table 6. Instrumental variable regression—PTA depth (additive)

	IV	IV	IV	2SLS	2SLS	2SLS
Business	0.874*** (0.328)	0.909*** (0.340)	0.629* (0.346)	0.795* (0.469)	0.809* (0.464)	0.924** (0.451)
Individual		Yes	Yes	Yes	Yes	Yes
Domestic (instit.)			Yes	Yes	Yes	Yes
Domestic (econ.)				Yes	Yes	Yes
Systemic					Yes	Yes
Country FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE						Yes
Instrument	Father	Father	Father	All	All	All
Kleibergen–Paap F	105.46	101.68	97.01	17.87	18.17	18.26
Sargan's test (p -value)				0.60	0.65	0.39
N	7,915	7,729	7,157	4,468	4,468	4,468

Robust standard errors in parenthesis. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

The Kleibergen–Paap Wald F statistic measures weak instruments, with the following critical values for a relative bias of 0.05, 0.10, 0.20, and 0.30: 18.37, 10.83, 6.77, and 5.25.

statistics in the case of one instrument) across all specifications are decidedly above 10.83, thus rejecting the null that the worst-case (maximum) relative bias of the two-stage least squares (2SLS) estimator is greater than 10 percent (with respect to the OLS bias). The Hansen J statistics further suggest the overidentifying restrictions to be valid. As a robustness check, I reestimate the models using Limited Information Maximum Likelihood, which is more robust to weak instruments (Stock and Yogo 2005). The business experience variable remains substantively and statistically significant across all specifications. As it is usually the case in the labor economics literature on the return to schooling, the 2SLS estimates are larger than the comparable OLS estimates. Reassuringly, the confidence intervals for the instrumented models overlap with the OLS ones, thus suggesting that the larger IV estimates are due to imprecise estimation rather than misspecification.¹⁴

I follow the same IV approach to test hypothesis 2 (see Table 6). As before, the diagnostic statistics do not detect any major issue in the statistical model. The coefficient for business experience is larger than in the OLS models and statistically significant across all specifications. After accounting for endogeneity, the exogenous part of business experience is still associated with an increase in the average depth of PTAs signed.

While an IV approach combined with the appropriate covariates and/or fixed effects should increase our confidence in the causal nature of the relationship, such strategy is not without drawbacks. To begin with, one may doubt the instruments exogeneity on theoretical grounds. For example, a country's economic development may be related to the probability that any individual will be born in a family with the characteristics captured by the instruments. In turn, given historical path-dependency, those characteristics affect a country's trade policy. As such, the instruments would not be uncorrelated with the error term in the first-stage equation, and the results would be biased. A second issue is that the family background characteristics may be directly related to the outcome of interest by, for example, affecting the (future) leaders' opinion toward free trade, thus also violating the exogeneity assumption. Likewise, family attributes may be correlated with a (future) leader's attitudes, such as cosmopolitan attitudes, that may affect their economic preferences. Finally, we should bear in mind that 2SLS yields only a weighted-average local treatment effects across all instrument-specific compliant subpopulations.¹⁵ Loosely speaking, then, the results above refer to those individuals who chose a business career because of their fam-

¹⁵Technically, this does not need to apply to the bivariate probit models in the online appendix. Indeed, the resulting marginal effects can be interpreted as average causal effects, but only under a demanding set of assumptions. Unfortunately, such assumptions are unlikely to be met in practice, and an Local average treatment effect (LATE) interpretation is often more sensible.

¹⁴I reestimated all models with OLS to compare the coefficients.

ily characteristics and who would have chosen a different career path had those family characteristics been different. While these limitations are serious and suggest caution in interpreting the results, such approach is arguably superior to ignoring the issue of self-selection into occupational experience.

Self-Selection into Office

Beside professional self-selection, the possibility that preexisting political and economic circumstances may influence leadership transitions is the most pressing endogeneity concern. During a period of perceived economic uncertainty, the electorate might opt for business candidates because of their perceived ability to run the country “like a business,” while at the same time not being “career politicians.” Alternatively, it is possible that candidates with business experience strategically wait for overall good economic conditions to reap the benefits once in office. In any case, endogeneity concerns loom large. As a result, the business experience variable might be capturing the effect of (partially) unobservable dynamics that are orthogonal to the effect of the individual leader’s trade preferences. Moreover, even if the timing (“when” a leader becomes the head of the executive) is exogenous, the selection of the next leader (the “who” becomes the head of the executive) is endogenous to the political process (Gift and Krmaric 2017).

I deal with endogenous selection as follows. To address the timing of leadership transitions, I rely on plausibly exogenous leadership transitions due to the previous leaders’ natural death or serious illness while in office (Jones and Olken 2005; Besley, Montalvo, and Reynal-Querol 2011; Gift and Krmaric 2017). I subset the sample to include only leaders who assumed power immediately after their predecessors suddenly stepped down due to natural illness or died of natural causes. In such cases, the timing of the power transfer from one leader to the next should be uncorrelated with the underlying economic and political conditions. Moreover, to ease concerns about the selection process being endogenous to political and economic conditions, I follow Gift and Krmaric (2017) and further subset the dataset to those transitions that took place via “regular” means. Hence, I am excluding those leaders who come into power because of an “irregular” (e.g., coup) or “foreign-imposed” processes, which are likely to be related to political-economic developments. In particular, I rely on the datasets constructed by Jones and Olken (2005) and Besley, Montalvo, and Reynal-Querol (2011). The thus-constructed sample includes eighty-eight as-if random transitions for which I have biographical data on the successor, after excluding two transitions in EU members. Since it is the timing of the leadership transition, rather than transition itself, to be as-if random I utilize only the first 2 years after the transition takes place (hence, there are $88 \times 2 = 176$ observations in Model 1 and fewer in the rest due to covariate missingness). Using 1 or 3 years after the transition does not substantially alter the results.

Given the characteristics and small size of the new sample, I have to make a few modifications to test hypotheses 1 and 2. First, country fixed effects are not included since the independent variable now is time-invariant. As a second-best option, then, I include random effects. Then, I also exclude trade openness since it is missing for more than 50 percent of leaders’ transitions. Third, I do not include year fixed effects since very few as-if random transitions temporally overlap, thus limiting the time dimension to a few data points.

Overall, leveraging as-if random regular transitions should increase our confidence in the causal nature of the relationship by minimizing concerns that leaders are being selected because of their professional background. Nevertheless, we should be explicit about some potential drawbacks. First, it is not the transition to be exogenous, but its *timing*. In other words, the occupational prior experience of the successor may not be random. Second, such strategy rests on the assumption that the general political and economic environment does not change because of the leadership transition in and of itself. Finally, the exogeneity of the timing of the transition with respect to the determinants of PTA formation would be called into question if economic and political circumstances were affecting the probability of natural death or serious illness. Given these limitations, we should interpret the empirical results with caution. Tables 7 and 8 show the results for the number and depth of PTAs. As we can see, business experience remains statistically and substantively significant across all specifications, and is larger in size than in the original models.

Mulroney and the 1988 US–Canada Trade Agreement

The historical example of Canada and the 1988 US–Canada FTA serves to illustrate my argument. This period corresponds to the first government led by Brian Mulroney (1984–1988). Mr. Mulroney transitioned to the private business sector after an auspicious career as a lawyer, ultimately assuming the role of president at Iron Ore Canada (IOC) in 1976. He held this position until his decision to pursue the Progressive Conservative Party leadership in 1983. I selected this case for three reasons. Firstly, Mulroney was a business executive in the tradable sector with distinct cross-border connections. Secondly, he wielded substantial influence as a Prime Minister, as evidenced by his documented ability to directly and/or indirectly impact policymaking (Blake 2007; Savoie 2022). Hence, it is an ideal case, effectively controlling for the possibility that other significant actors were the primary drivers of policymaking. Moreover, from a practical perspective, the life of Mr. Mulroney (before, during, and after his tenure) is well documented in numerous sources, including academic books and papers, biographies, as well as autobiographies of the key figures involved (Blake 2007; Mulroney 2011; Wilson 2022).

The September 1984 election marked a pivotal moment in recent Canadian history, signaling the conclusion of the Liberal Party’s dominance. Mr. Mulroney would win the elections again in 1988 and remain in power until 1993. The primary focus of his government’s trade policy was an emphasis on greater liberalization to increase Canada’s international competitiveness, which remained constant throughout this time frame (Gill 2021). In the economic domain, Mulroney’s administration is widely characterized as particularly proactive, “unveiling one reform after another, virtually from the day it assumed office” (Savoie 1994, 238). This approach was made possible by the increasing centralization of power in the hands of the Prime Minister. According to contemporaneous records, an “increased concentration of power under the prime minister” was the “most important organizational implication” under Mulroney’s first year in office (Auccoin 1986, 20). This was not merely a matter of the prime minister being present; it entailed “a significant personal intervention in those areas of priority to the prime minister and his government. The prime minister in this sense becomes the principal counterweight to ministerial

Table 7. Random effect models (count)—as-if random transitions (2 years)

	Model 1	Model 2	Model 3	Model 4	Model 5
Business	4.130*** (1.943)	3.944*** (1.837)	4.032*** (1.822)	3.015*** (1.189)	3.809*** (1.806)
Individual		Yes	Yes	Yes	Yes
Domestic (instit.)			Yes	Yes	Yes
Domestic (econ.)				Yes	Yes
Systemic					Yes
Country FE					
Year FE					
<i>N</i>	176	170	169	138	138
Chi	53.789	56.341	66.195	76.428	264.761
Log likelihood	−98.605	−97.604	−95.135	−82.859	−75.277

Exponentiated coefficients; clustered standard errors in parenthesis * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Table 8. Random effect models (additive depth)—as-if random transitions (2 years)

	Model 1	Model 2	Model 3	Model 4	Model 5
Business	0.602** (0.247)	0.613** (0.250)	0.608** (0.251)	0.551** (0.250)	0.560** (0.263)
Individual		Yes	Yes	Yes	Yes
Domestic (instit.)			Yes	Yes	Yes
Domestic (econ.)				Yes	Yes
Systemic					Yes
Country RE	Yes	Yes	Yes	Yes	Yes
<i>N</i>	176	170	169	138	138
Chi	5,347.639	685.169	1,775.444	162.691	483.570
Log likelihood	−210.980	−204.445	−201.799	−169.511	−167.196

Clustered standard errors in parenthesis * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

ambitions that are not in accord with his policies, priorities or strategy” (Aucoin 1986, 21).

It was during the 1984 electoral campaign and the preceding primary contest that the issue of free trade first arose. While Mulroney did not explicitly endorse a free trade deal with the United States at the time (initially proposed by another candidate), his decision was driven by strategic calculations. Acknowledging that it was a “powerful idea,” he and his team realized that he could not endorse it given that his “second-place status in the race [would make him] the focus of attacks on the idea” without reaping the benefits of exclusive political ownership (Mulroney 2011, 229). Strategic considerations notwithstanding, Mulroney and his team agreed that Mulroney’s book launching his campaign “should include my opinions on international trade” (Mulroney 2011, 230). In the book, he made his stance in favor of free trade unequivocal, stating that “For Canadians, with over 30 percent of our GNP devoted to trade, increasing global protectionism is totally contrary to our economic well-being. [...] [W]e must view with alarm the damaging consequences to ourselves and others of orchestrated restrictions to the flow of trade [...] [W]e [...] must energetically stand and press for the lowering of barriers to trade because trade is our lifeblood. In that direction lies our future prosperity. The government in Canada must see its role as creating with the private sector a greater and freer access to world markets and higher levels of trade [...] Access to trade is therefore a top priority for us” (cited in Mulroney 2011, 252). Once secured the premiership, Mulroney quickly moved to action, and the trade agreement with the United States would eventually become a defining topic of his 1988 campaign. It had indeed been the PM him-

self to raise the issue for the first time personally with Reagan in 1985 (Wilson 2022). As the negotiations unfolded, Mulroney “[N]ot only had approved every step of the negotiations, he had been thoroughly briefed by officials on the contents of the FTA” (Blake 2007, 427). He played an even more prominent role during several critical junctures of the process, both domestically and internationally. At home, the PM took the “incredibly high-risk [...] on-the-spot decision” (Blake 2007, 427) to publicly debate three hecklers on the merits of the proposed agreement. The sit-down with the protesters proved a success, with one contemporaneous source describing it as a “very civil, very Canadian moment” in a high-stake situation “in which the momentous decisions were Mulroney’s, and his alone, to make” (Blake 2007, 428). Meanwhile, on the international stage, Mulroney was no passive spectator. As the negotiations stalled on the controversial dispute-settlement issue, Canadian negotiators flew home “on Mulroney’s orders” on October 1, 1987 (Blake 2007, 427). Once again, this was a risky move, as Reagan’s fast-track authority would have expired two days later. Back on the negotiating table in Washington on October 3, an agreement was reached at last. Overall, primary and secondary accounts of the US–Canada agreement offer abundant evidence to suggest that Mulroney’s role was anything but passive. As one source notes, “What is clear is that it was Mulroney’s personal determination to get a deal, and to go over the heads of the negotiators to do so, that in fact made it happen” (Blake 2007, 420).

Beside playing an active role in the US–Canada deal, is there evidence to suggest that Mulroney’s trade preferences may have stemmed from his business experience? The answer seems in the affirmative. Indeed, in articulating

his trade (and, generally, economic) stances, Mulroney was quite explicit in linking his beliefs to his professional background, in ways consistent with the socialization and material interest channels. His achievements in the mining industry were notably successful (Mulroney 2011; Wilson 2022). During this formative period, as recounted by Mr. Mulroney in his *Memoirs*, the businessman “developed skills, talents, interests, and aptitudes hitherto unknown to me. They were extraordinarily beneficial [...] when I became prime minister” (Mulroney 2011, 178). What he learned informed his views on the primary economic challenges facing Canada. Reflecting on this, he notes, “In many ways, the presidency of IOC was a dream job. It was a demanding but challenging opportunity that provided new occasions to learn, travel, and grow. In the course of trips to China, Japan, Brazil, and central and eastern Europe, for example, I was able to witness first-hand [...] the remarkable stirrings of extraordinary trade possibilities in our own hemisphere [...] [W]ith time devoted to reading, study, and reflection, I was able to begin the process of thinking through some of Canada’s problems and elaborating realistic proposals to deal with them” (Mulroney 2011, 184). According to some, Mulroney’s pragmatic approach to policymaking and willingness to compromise are also rooted in his previous professional experience. As a senior cabinet member of his government recalled, “He likes to cut a deal. That is what he did for a living before he came to politics” (cited in Savoie 1994, 268).

Finally, there is some evidence to suggest that the material interest channel might have been at play as well. Unsurprisingly, Mulroney’s autobiography and the recollections of other cabinet members do not provide unequivocal statements connecting the PM’s preferences solely to the material interests of the business community. However, there seems to be little doubt that the economic policies pursued by his government aligned with the preferences of the business sector (Savoie 1994; Blake 2007; Nones 2023). As Michael Hart, an academic and trade policy advisor to the Canadian government during the US–Canada FTA negotiations, recalls the public perception of Mulroney at the time was that of “a consummate practitioner of the art of the deal; [...] too cozy with the Americans, too close to business barons, and too ready to help a crony,” further noticing that the Prime Minister himself actively promoted this image as a popular deal-maker at ease with “the Americans and business leaders” (Blake 2007, 62). Moreover, while clearly framing the US–Canada agreement as beneficial to the country as a whole, Mulroney’s own recollections hardly run counter to this view: “The Canadian business community [...] rallied vigorously in support of free trade. During the election campaign, business leaders spoke out bluntly and purchased ads in favour of the trade agreement. Their support was unprecedented and effective” (Mulroney 2011, 633).

Conclusion

This study has sought to explore a neglected aspect of international economic cooperation. The findings demonstrate that one of the most widely researched phenomena in international political economy is influenced by a factor overlooked in previous scholarship: the professional experience of political leaders. In so doing, the paper contributes to a growing body of literature, illustrating that political leaders can wield significant influence over the economic policy of their nations. I underlined two channels through which business experience can affect a (future) leader’s attitude toward trade liberalization—socialization effects and shared

material interests with one’s professional network. The empirical evidence reveals a strong and robust correlation between leaders and trade policy. Moreover, while far from definitive, the empirical strategy adopted in this paper suggests that self-selection into either a business career or political office cannot account for the association between business leaders and trade policy. In so doing, the analysis emphasizes the need to approach endogeneity concerns with due seriousness, urging researchers to consider the diverse factors that may influence a leader’s probability of attaining a position of power and to self-select into “acquired” characteristics. Finally, a qualitative, illustrative case study of the 1988 US–Canada trade agreement lends further support to the theory.

Overall, the paper provides systematic support for a basic intuition often suggested by practitioners and observers alike, but rarely acknowledged among scholars of International Political Economy (IPE): individuals make economic policy, and it matters who these individuals are and the web of experiences, beliefs, interests and perceptions that they bring with them. An intriguing direction for further exploration involves investigating whether the professional backgrounds of trade ministers influence trade policy and how they might interact with the head of the executive’s own background. Additionally, future research might explore potential variations across different trade policy instruments as well as the extent to which legislators’ backgrounds affect the probability of successful ratification of trade agreements in the parliament.

Supplementary Information

Supplementary information is available at the *International Studies Quarterly* data archive.

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