

**DO COUNTRIES' POWER TO INFLUENCE INVESTMENT AGREEMENTS  
DETERMINE THEIR SERVICES EXPORTS?**

**ANJANA JAGADISH**

*A project report submitted  
in partial fulfilment of the requirement for the award of the degree of,*

**MASTERS OF ARTS  
IN  
APPLIED QUANTITATIVE FINANCE**



*May 2024*

**MADRAS SCHOOL OF ECONOMICS**

**Chennai, 600085**

## ABSTRACT

Countries recycle the texts of their investment agreements, and the ability to consistently do so suggests that the country is “powerful” in negotiating them. In this study, we investigate the economic implications of countries recycling text from their investment agreements on services exports. The measure of “power” held by countries in negotiating investment agreements is constructed using NLP-based text similarity metrics. This metric is employed in a structural gravity framework to estimate its impact on bilateral services exports. The empirical analysis, based on a dataset covering 216 countries from 2000 to 2019, reveals that higher relative power exerted by an exporter country in an investment agreement leads to a more than proportionate increase in its services exports to the partner country. For an “average” treaty, the more powerful country increases its services exports by 7.7%, and the less powerful country’s services exports decreases by 7.1%. Subsample regressions further uncover heterogeneity across income groups, with developed and developing countries exhibiting a stronger positive impact of relative power on services exports when negotiating with other developed and developing nations respectively. Additionally, the results indicate that the relative power exerted translates into higher services exports for FTAs compared to BITs, suggesting that countries can leverage their negotiating strength more effectively through the broader scope of FTAs. The findings underscore the importance of carefully negotiating the institutional design of investment agreements, particularly for smaller, developing countries, to harness the full potential of services exports and international trade.

**Keywords:** investment agreements, services exports, BITs, FTAs, relative power, gravity

**JEL Codes:** F13, F14, F21, F53