Do state visits affect research and development after crisis in selected countries?

Abstract. State visits, as a diplomatic tool, are significant to facilitate economic relations via creation of favourable political and legislative conditions. The purpose of this paper is to investigate how state visits of Ukrainian Presidents affect export flows. We have analysed 74 Ukrainian trading partners in the period of 1995-2014. To control for economic, geographical, cultural and political variables, we applied a multiple regression analysis based on the gravity model of trade. Our result shows that any kind of official visits is positively associated with export flows. The output of the conducted regression analysis varies depending on methods which are used.

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Introduction. National leaders, like Heads of State and Government, perform a lot of foreign trips in order to represent their countries, establish friendly relations and develop good political and economic ties. Foreign visits of Ukrainian high representatives are not an exception. For example, Ukrainian heads of state have made about 270 visits during the last twenty years. Second Ukrainian President L. Kuchma, for instance, paid approximately 128 visits during his 2 presidential terms. In 2015, Ukrainian President P. Poroshenko made 32 foreign visits, including 24 working visits, 6 official visits and 2 state visits (one to Poland and one to Azerbaijan, Bulgaria, Romania, Japan, etc. [1]).

In 2015, the value of Ukrainian export flows exceeded 38.1 billion USD (195% increase of the volume of export in 1995). Import of goods and services was about 37.5 billion USD (195% increase of the volume of import in 1995). The most valuable import partners were the Russian Federation (20% of total imports), Germany (10.6%), China (10.1%), Belarus (6.5%), and Poland (6.2%). In recent years, the structure of exports commodities of Ukraine has remained almost unchanged. The main export commodities were ferrous metals, crops, fats and oils, electrical machinery, mechanical machinery etc [2].

According to empirical literature, state visits of the country’s leaders present quite a significant diplomatic tool to maintain and develop bilateral and international relations between particular countries. If talking about purpose of state visits, we can mention various reasons why Heads of State and Government travel abroad. A particular visit may be concentrated on political, cultural, humanitarian issues as well as economic relations. Presidents of both countries, for example, may meet to sign a bilateral trade or investment agreement in order to boost mutual trade and support national economic growth. Economic purposes of state visits may vary, including negotiations on important infrastructure projects and trade disputes [3]. In this context, it is necessary to mention a phenomenon of presidential diplomacy which can be defined as an active personal engagement of the president which exceeds his ex officio obligations [4]. It is clear that the purpose of state visits is to do good politics and economics.
of a state visit is not just establishment of friendship between the two countries. It is also a political act to deepen mutual trust and strategic cooperation in various fields like politics or economics.

2. Brief Literature Review. The link between diplomatic relations and international trade is not a new issue nowadays. A lot of experts and researchers, especially from the west, have made several studies on this problem. Considering diplomatic representation and its influence on international trade, we can distinguish two main vectors which have consolidated within scientific literature already. The first cohort of researchers is concentrated on the issue of diplomatic and non-diplomatic representations abroad, such as foreign diplomatic offices, general consulates, honorary consulates. Particular attention is given to non-diplomatic representations, for instance, trade and investment promotion agencies, foreign offices of chambers of commerce, regional trade representations, etc. For example, Lederman et al. (2006) had made a study on relationship between export promotion agencies and trade flows [5]. The researcher made a conclusion that targeted export promotion units have a positive impact on trade flows. Rose (2007) presented a prominent work on the issue of diplomatic representation and international trade [6]. He made an analysis based on 22 exporting countries and 200 importing countries during a two-year period. Rose had confirmed a positive 6-10% impact of embassies and consulates on trade flows by means of the application of the extended gravity model [6].

Also, there is a certain amount of scientific studies focused on the so-called high-level diplomacy. Here we need to mention high-level diplomatic issues like presidential state visits, which can stimulate not only political and cultural relations but also facilitate international trade. Taking into consideration the results obtained by Rose, Nitsch (2007) made a conclusion that not only diplomatic representation has an impact on international trade [3, 6]. According to Nitsch, presidential visits may serve as a very important diplomatic tool to stimulate trade because they create favourable political and legislative conditions for further development of economic relations [3]. Nitsch's gravity model based the research shows that each official (state, official or working) visit of a US, German and French high representative fosters export by 8-10% depending on econometric tool that is used [3]. Another politically oriented study regarding state visits and presidential diplomacy was conducted by Ekmecki and Yildirim (2013) [7]. Using a linear regression model Ekmecki and Yildirim had investigated the political vector of Turkish foreign relations within an analysis of Turkish Prime Minister's official visits abroad [7]. Yeo and Lee (2009) conducted a single-country research on the relationship between state visits and exports [8]. They had investigated the annual trade flows of 54 countries and South Korean presidential visits during the 27-year period. Conclusion shows that foreign visits of South Korean leaders have a positive impact on Korean trade. The last but not least relevant research is dedicated to the effect of globalisation trends and diplomatic action on the Brazil's trade. Using particular econometric tools, Vieira (2014) shows how diplomatic actions, including official trips of the Head of State, can influence the direction of Brazilian trade flows [9].

The abovementioned studies on presidential diplomacy and international trade have a common result that denotes the positive impact of foreign trips of countrystates on international trade, especially exports. The core characteristic here is also the implementation of the extended gravity model, which enables to control for different economic, geographical, cultural and diplomatic factors including dummy variables for state visits.

3. The purpose of the paper is to verify the impact of presidential state visits on trade flows based by state visits of heads of states on export of European countries during a two-year period. The output of the multiple regression analysis is reported in Table 1. Each column of the table illustrates two different regression methods, including ordinary least squares method and fixed effects model. If the first method is general, the fixed effects model is using between groups methodology which is more suitable for the defined kind of data [19]. To chose the model which is better fitted, we have performed a panel model diagnostics. According to Lukacikova and Lukacik (2008), an appropriate way to test for model choosing is the Hausman test [19]. The output of panel data diagnostics and Hausman test is reported in Table 2. Particular tests show that P-value is less than 0.05. A low P-value against the null hypothesis that the pooled OLS model is adequate. We reject the null hypothesis and accept an alternative hypothesis that fixed effects model is suitable.
The fixed effects model is also statistically robust, as significance $F$ is lower than 0.05. Additionally, the model explains relatively large 78% of variation in exports. The general assumption of the gravity model of trade for the fixed effects model has not been confirmed. Export diminishes with the distance and higher economic mass of trading partners ($/coefficient = -0.015$). Similarly to OLS estimation, the population of our common colony, the language and the landlocked character of the trading partner have a positive effect on export flows. Island, border and RTA have an unfavourable impact on exports due to the negative coefficients. Parameter of interest $\gamma$ is positive and statistically significant at 1% confidence level. Within the fixed effect model state visits have a positive impact on Ukrainian export flows. Any kind of presidential official visits is associated with larger volumes of export flows to Ukraine by 29% (exp[3.393]-1=28.7). OLS and the fixed effects estimator have quite a large gap between the parameters of interest. However, we use the fixed effects model estimation for its better fitting.

6. Conclusions. Although the high-level visits of heads of state or government do not stimulate trade directly, indeed, the core of official visits is to create a favourable political and economic background for further economic development (trade and investment). Signing treaties of friendship, regional trade agreements, regular visits of presidential and government cooperation treaties, and regional cooperation treaties on bilateral or multilateral level is the first step in a long process of development of political and economical relations.

This paper is investigates if foreign trips of Ukrainian presidents boost bilateral trade relations. In our research, we have analysed Ukrainian export flows to 74 countries during the period from 1995 to 2014. We have carried out the multiple regression analysis on the basis of the extended gravity model of trade which enables to control for economic, geographical, cultural and diplomatic variables (sum of state, official and working visits was the variable of interest). Having applied different regression methods, we investigated that presidential visits of Ukrainian Heads of State are positively associated with export flows. The result of the regression analysis is robust but depends on the method that was chosen.

There is still enough space for further research in the field of the impact of presidential visits on trade. Attention should be paid to the core problem of relationship between exports and foreign state visits. In this context it should be noted that not only presidential trips can influence the volume of exports but also export may be the reason why state visits to a particular country are performed. National leaders and government bodies frequently make a decision to visit one of the trading partners on the basis of already established strong political and economical relations. Regarding Ukraine, attention could be paid to post-Soviet countries where regular state visits are the case. Consequently, the problem of reverse causality could be an issue.

References