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**Intergovernmental Organizations, Production  
Integration, and  
Property Rights Commitment in Non-  
democratic Regimes**

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# Intergovernmental Organizations, Production Integration, and Property Rights Commitment in Non-democratic Regimes

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## Abstract

This paper argues that participations in intergovernmental organizations (IGOs) provisionally benefits non-democratic regimes, mainly by allowing the government to make more credible commitments to the domestic audience on private property rights in the absence of domestic accountability mechanisms. The domestic commitment function of IGOs hinges on the domestic presence of transnational market actors whose interests are tightly linked to the efficiency of domestic economic governance. International organizations, by boosting the organizational capacity and bargaining power of transnational market actors, could induce spillovers of credibility to governance at the domestic level when the presence of foreign factors of production in the domestic process of value creation is strong enough. Through the diffusive transnational networks of production integration, international institutions indirectly alter the domestic distribution of bargaining power between the political authority and private economic actors, rendering the government's commitment to property rights protection more incentive compatible. An analysis of a panel dataset consisting of 105 non-democratic regimes from 1975 to 2005 produces supportive evidence. First, the estimated effect of IGO memberships on private property rights in non-democratic regime increases in domestic factor income earned by foreign nationals. Second, the property-rights-enhancing effect of IGOs is more evident in countries where the domestic institutional constraints on the executive are weak.

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# 1 Introduction

How do autocratic regimes make credible commitments on private property rights in the absence of institutional constraints and political accountability? This question raises an important puzzle that has long been studied and debated in the political economy literature. The tendency for regimes with weak political accountability to implement predatory and confiscatory policies that assist the elites in their accumulation of wealth at the cost of private property rights has been widely documented in the literature. Many believe the lack of institutional checks and balances of power leads to the inability of the authoritarian government to credibly commit to non-confiscatory economic policies, which significantly suppressed private investment and productive economic activities (North, 1993; McGuire and Olson, 1996; Acemoglu, Robinson and Verdier, 2004). At the same time, scholars have also taken notice of scenarios where an authoritarian government manages to credibly commit to private property rights despite the lack of liberal political institutions (Acemoglu, 2003; Gehlbach and Keefer, 2011). But what are the factors that make it *incentive-compatible* for some of the autocratic governments to respect property rights and refrain from abusing its power in a domestic environment free of institutionalized constraints?

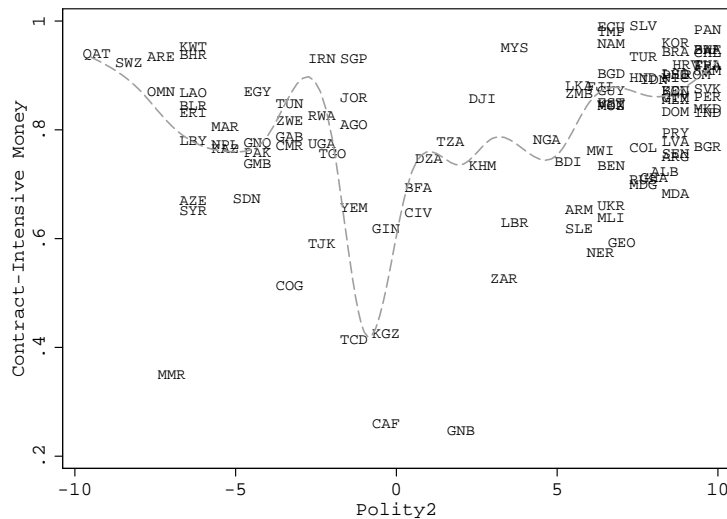


Figure 1: Private Property Rights and Polity2 Index in 2005

This puzzle comes even more compelling with the following observation: autocratic governments considered the most authoritarian (and hence subject to the weakest political constraints) actually tend to do better in upholding private property rights commitment than their peers. Figure 1 plots Contract-intensive Money (CIM) (Clague et al., 1999), a widely used measurement of property rights, against Polity2 index using cross-national data from 2005. A U-shaped pattern is visible in this figure where regimes with Polity2 score lower than -5 or higher than 5 seem to be associated with better performances in property rights protection. Table 1 further lists some of the non-democratic regimes

that ranked highly on property rights protection relative to political liberty. Regimes on this list, receiving some of the lowest scores in executive constraint, electoral rules, and political participation according to Polity IV project, are legitimately deemed the most illiberal in the world. They not only outperform the world average of property rights protection but also surpass a number of well-established democracies.<sup>1</sup> Such an observation not only contradicts the conventional wisdom that institutionalized political accountability is the prerequisite of secure property rights, but also finds itself at odds with propositions in the recent research on autocratic institutions such as [Wright \(2008\)](#) and [Boix and Svobik \(2013\)](#). As these research suggested, autocratic regimes set up liberal or semi-liberal political institutions to tie their hands to render property rights commitments more credible. But the preceding observation shows the opposite: the security of private property rights tends to be robust even in regimes with the absolute absence of liberal or accountability institutions at the domestic level.

Table 1: Countries with Strong Property Rights Regime Relative to Political Liberty

Country	CIM	Polity2	Constraint	Election	Competition
Qatar	0.942	-10	1	1	1
Bhutan	0.872	-10	1	1	1
Saudi Arabia	0.838	-10	1	1	1
Bahrain	0.944	-9	2	1	1
Swaziland	0.929	-9	2	2	1
Oman	0.885	-9	2	1	1
United Arab Emirates	0.921	-8	3	2	1
Belarus	0.852	-7	2	3	2
Laos	0.970	-7	3	3	1
Kuwait	0.949	-7	3	2	2
China	0.887	-7	3	3	1
Egypt	0.855	-6	3	3	2
Eritrea	0.847	-6	3	3	2
United States	0.922	10	7	8	10
Mexico	0.879	8	6	8	9
India	0.826	9	7	8	9
Argentina	0.861	8	6	8	9
Russia	0.733	6	5	7	9
Mongolia	0.610	10	7	8	10
<b>World Average</b>	<b>0.812</b>	<b>3.05</b>	<b>4.74</b>	<b>6.09</b>	<b>6.74</b>

Source: International Monetary Fund, Polity IV Project

This paper attempts to provide a partial account for this puzzle from an international political economy perspective. The key argument put forth here proposes that formal memberships in institutionalized intergovernmental organizations (IGOs), particularly those entitled with political economic functionalities, could provisionally enhance the government's capability of making credible property rights commitments. Furthermore, this credibility-enhancing effect of IGOs is more pronounced in

<sup>1</sup>While a handful of scholars have identified similar patterns of association between rule of law and political accountability using a range of alternative indicators ([Wang, 2015](#); [Kaufmann, Kraay and Mastruzzi, 2009](#)), the existing literature has yet to see a systematic cross-national inquiry seeking to unpack the dynamics underlying it.

regimes lacking executive constraints the most. The existing studies on the domestic commitment function of international organizations (e.g. [Tang and Wei \(2009\)](#) and [Dreher and Voigt \(2011\)](#)) put emphasis mostly on a *centralized* mechanism where formal constraints and enforcement apparatus embodied in IGOs directly shape the behavior of governments. This paper seeks to bring the inquiry further by examining a *decentralized* mechanism through which IGOs help transnational market actors, both domestic and foreign, to coordinate their strategies in ways that prompt the government to take its property rights commitment more seriously. International organizations, known for their weakness in enforcement and inability to directly discipline state behavior, have nevertheless been documented to be effective in boosting the organizational capacity and bargaining power of transnational market actors such as investors ([Allee and Peinhardt, 2010](#); [Dreher, Mikosch and Voigt, 2015](#)) and private creditors of sovereign debt ([Gould, 2003](#); [Gray, 2009](#)). Through the diffusive transnational networks of production integration, international institutions indirectly alter the domestic distribution of bargaining power, rendering property rights commitments more incentive-compatible even in the absence of domestic constraints.

An analysis of a panel dataset consisting of 105 non-democratic regimes from 1975 to 2005 produces evidence supportive of the argument. First, memberships in political economic IGOs are positively associated with the security of private property rights among non-democratic regimes, measured by Contract-intensive Money (CIM). Second, the estimated size of the association between IGO memberships and CIM increases in domestic factor income earned by foreign nationals. In economies where factor income paid to foreign owners is very low, the correlation between IGO memberships and property rights becomes insignificant. Third, the estimated results suggest the property-rights-enhancing effect of IGO memberships is more evident in countries where the domestic institutional constraints on the executive are weak, implicating countries seriously lacking domestic accountability mechanism are likely to salvage more of their domestic credibility than others by joining political economic IGOs. These findings are checked against possible biases caused by endogeneity and the results stay robust after including a series of policy-related indicators and instrumenting for IGO memberships. Using alternative measures of property rights protection from the International Country Risk Guide (ICRG), the last part of this paper also explores how IGO memberships and domestic political economic circumstances shape distinctive aspects of domestic property rights institutions: the rule of law and the protection of private property against expropriations. It is found that the effect of IGO memberships in improving the rule of law is more sensitive to the preexisting constraints on the government, while their effect in lowering expropriation risk is more sensitive to the domestic integration of foreign production factors.

## 2 Institutions and Commitments under Weak Accountability

One of the most salient features of non-democratic politics lies in the weak commitment capability of the authority due to the centralization of power and the lack of accountability. As autocratic governments typically wield the unilateral power to distribute and redistribute wealth among societal groups, the authority could easily abuse such power for its own private benefits. The tendency for non-democratic regimes to implement predatory and confiscatory policies that depress productive economic activities has been widely documented in the existing literature (North, 1993; McGuire and Olson, 1996; Acemoglu, Robinson and Verdier, 2004). Acemoglu (2003) suggested with the “Political Coase Theorem” that the optimal economic outcome can only be attained when the ruler is compelled by institutional constraints to commit to non-confiscatory policy *ex ante*. Even though the rulers in autocratic regimes well recognize such predatory tendency as pernicious, they themselves paradoxically lack the capability to credibly commit to less predatory policies in the absence of effective commitment institutions (Acemoglu, 2006). The inefficiency resulted from the lack of credible commitment to protect investment and private property not only decreases the revenue that the government seizes but also politically destabilizes the regime.<sup>2</sup> Resolving such a dilemma of commitment has been suggested in the existing research as a critical factor shaping the economic performance and political durability of regimes under non-democratic rules (Acemoglu, 2003; Gandhi and Przeworski, 2007; Magaloni, 2008; Gehlbach and Keefer, 2011).

Being aware of the pernicious consequence of commitment difficulty, autocratic rulers oftentimes established institutions and policies that dissipate the unilateral power of the authority as a strategy to win cooperation from the audience and co-opt potential oppositions. North and Weingast (1989) famously suggested that the House of Stuart, in the attempt to maintain its credibility as a trustworthy borrower, deliberately empowered the opposition through establishing a constitution that functioned mainly as an instrument to constrain the power of the King. In a more contemporary context, Wright (2008) found that the autocratic regimes strategically established binding legislature to strengthen commitments to property rights protection and promote private investment.<sup>3</sup> The existing studies suggesting hand-tying institutions as effective remedy for low commitment credibility under non-democratic rules have been produced in a variety of different contexts (Gandhi, 2008; Myerson, 2008; Magaloni, 2008; Gehlbach and Keefer, 2011; Boix and Svulik, 2013), and the field is seeing an emerging consensus on the benefits that domestic liberal and semi-liberal institutions bring to eco-

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<sup>2</sup>The fiscal revenue harvested from the domestic economy (the private sector in particular) constitutes the primary resource used by the autocrat to fund private/club goods in order to garner political support from within the selectorates (Bueno de Mesquita et al., 2002; Smith, 2008). Unless there exists natural access to unearned income such as aid and natural resource rent, leaders in non-democratic regimes are compelled to find ways to strengthen commitment credibility which is key to the vibrancy of private sector and satisfactory economic performance in the long run. The efficiency implication of the structure of public finance in non-democratic regimes is salient in recent works on the curse of unearned income such as Djankov, Montalvo and Reynal-Querol (2008); Dunning (2008, 2010); Smith (2008); Wright (2009).

<sup>3</sup>These autocratic regimes with binding legislatures, as Wright (2008) identified empirically, are associated with higher levels of domestic investment and outperformed other regimes in economic development.

conomic governance and political rule under autocracy (Lorentzen, 2013, 2014; Jensen, Malesky and Weymouth, 2014; Miller, 2015).

Given the propositions in these studies, autocratic regimes with some liberal or semi-liberal institutions should be associated with better protections of property rights. But as the observation in Figure 1 implies, those who do best on property rights protection among all non-democratic regimes turned out to be the most illiberal in terms of power concentration and the lack of political participation. This anomaly suggests domestic institutional changes might not be the only tools that autocratic leaders could use to address the domestic commitment difficulty. A field of IPE literature that examines the domestic political functions of international institutions now comes into the picture. Works in this field suggest that state leaders oftentimes resort to external institutions for solutions when caught in domestic political difficulties (Broz, 2002; Mansfield and Pevehouse, 2006; Simmons and Danner, 2010; Fang, 2008; Fang and Owen, 2011). In particular, certain types of international institutions have distinctive advantages in tackling domestic political dilemmas caused by commitment difficulty stemming from the incompatibility of domestic actors' strategic incentives. International institutions that impose policy constraints on the domestic authority are of particular value to governments having a hard time making credible domestic commitments. Intergovernmental organizations requiring substantial delegations of authority are particularly likely to be viable external devices that assist the government in strengthening the credibility of domestic commitments on core political policies (Pevehouse, 2003; Simmons and Danner, 2010; Fang and Owen, 2011; Poast and Urpelainen, 2013).

In the specific context of economic policy, binding institutions at the international level have been shown to have the effect of strengthening domestic policy commitments in countries with weak domestic institutions. International institutions suggested by the existing studies to fulfill domestic commitment function include preferential trade agreements (Staiger and Tabellini, 1999; Maggi and Rodriguez-Clare, 2007; Büthe and Milner, 2008; Baccini and Urpelainen, 2014), multilateral financial institutions such as the International Monetary Fund (Martin, 2000; Simmons, 2000; Fang and Owen, 2011) and the World Bank Group (Dreher and Voigt, 2011; Dreher, Mikosch and Voigt, 2015), and international investment agreements under the auspices of the International Center for Settlement of Investment Disputes (ICSID) (Allee and Huth, 2006). In particular, Fang and Owen (2011) found that countries lacking political accountability strategically seek involvement in IMF programs which tie the hand of the government and render the commitment to economic reform more credible. Similar findings are also seen in a study on the impact of the rule of accession to GATT/WTO on the quality of economic governance by Tang and Wei (2009). They found countries that acquired GATT/WTO membership through rigorous processes of accession are able to make stronger commitments to economic reform and saw better economic performances in the subsequent years. In a broader context of international institutions, Dreher and Voigt (2011) found that memberships in intergovernmental organizations requiring substantial delegation of power are positively associated with the strength of

the commitment to the protection of domestic private property rights.

In light of the existing research on the domestic commitment function of international institutions, this paper seeks to deepen the inquiry. First, the mechanism through which international institutions function as devices for domestic commitment has not been fully depicted. With the debate on the efficacy of intergovernmental organizations in altering state behavior (Simmons, 2000; Von Stein, 2005) remaining unresolved, existing studies proclaiming the domestic commitment function of IGOs, albeit identifying supportive empirical evidence, are short of an analytical treatment of the channels in which sovereign state's domestic policy behavior is subject to constraints from external institutions. As only a few international organizations are powerful enough to directly shape economic policy at the domestic level, observers may wonder how well the hand-tying-device argument generalizes to a more general set of international institutions. The argument in this paper highlighted the global production networks and their participants as a set of diffusive and decentralized mechanisms through which the institutional capacity of intergovernmental organizations transmits to shape policy initiatives at the domestic level.

Secondly and more specifically, the interaction between the economic process of global integration and the political context of non-democratic regimes needs to be highlighted in order to better understand the impact of international institutions at the sub-national level. The proliferation of transnational market actors, who are the major participants in global production networks, is gradually altering the distribution of bargaining power between political authority and the private sector in these regimes (Johns and Wellhausen, 2016; Wang, 2015). Moreover, by reshaping the economic landscape in non-democratic context, transnational market actors serve as the essential instrument for institutions at the international level to induce incentive-compatible policy changes. To understand the effect of international institutions on the practice of domestic economic governance, it is therefore critical to examine the transnational economic networks and business linkages that precipitate the institutional influence among the market actors. The next section elaborates this theoretical argument in greater detail and depth.

### **3 International Institutions as Domestic Commitment Devices**

While international institutions were originally devised to facilitate interstate cooperation, the practice of governance entailed in international organizations has increasingly encompassed issues at the sub-national level. On the one hand, domestic economic problems that used to be comfortably handled by national governments increasingly call for initiatives at the global level for adequate resolutions. On the other hand, maintenance of the stability and robustness of the complex economic system at the global level becomes more sensitive to the development and healthiness of the economic sub-system at the national level. International institutions and organizations have developed a strengthening inter-



est in monitoring and harmonizing the domestic practice of economic governance. The participation of sovereign states into political-economic intergovernmental organizations is oftentimes accompanied by the imposition of *de jure* constraints on domestic policy behavior of the government.<sup>4</sup> The specific domestic policy constraints imposed by IGOs that are relevant in strengthening commitments to the private sector encompass areas such as government spending (International Monetary Fund, World Bank, GATT/WTO), intellectual property rights (GATT/WTO, International Intellectual Property Rights Organization or IPRO), subsidies and domestic income transfer (GATT/WTO, IMF, World Bank), monetary and fiscal policy (IMF, World Bank), legal institutions (GATT/WTO, International Center for Settlement of Investment Disputes, IPRO). The *de jure* policy constraints administered by powerful IGOs are monitored and implemented in a formal and centralized manner through the institutional procedures at the international level. These constraints are precipitated by institutional feedback to compliance and non-compliance (either reward or punishment) carried out by centralized mechanisms within the organizations. Memberships and participation in these powerful IGOs have been found to have a significant impact on the behavior of the national government at the domestic level and contribute to subsequent improvement in credit and political risk ratings as well as macroeconomic performance (Tang and Wei, 2009; Dreher and Voigt, 2011).

Besides these formal policy constraints, institutionalized intergovernmental organizations also impose *de facto* constraints that shape the policy behavior through a set of much more spontaneous and decentralized mechanisms. In contrast to the *de jure* constraints, the *de facto* constraints are precipitated through the activities of transnational market actors such as foreign contributors of production factors and private financiers of sovereign debt. Recent literature on global governance has seen a growing emphasis on the prominence of international market actors as the actual apparatus for enforcement of institutional rules and commitments (Simmons, 2000; Levy and Prakash, 2003; Dahan, Doh and Guay, 2006). Foreign owners of production factors have played increasingly important roles in national economies worldwide by providing capital, technology, and human/managerial skills in the local process of value creation.<sup>5</sup> Regulatory policies and internal legal practice traditionally considered domestic issues generate far-reaching transnational implications through the transnational linkages established by foreign factors owners (Wei, 2000a,b; Levy, 2008; Ahlquist and Prakash, 2008). While private financiers of sovereign debt do not directly take part in the domestic process of value creation, they hold important financial resources with which they could wield considerable influence on the domestic policy of the borrowing country. As these private lenders are natural stakeholders of the stable domestic economy and robust practice of public finance (Schultz and Weingast,

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<sup>4</sup>In light of the existing studies such as Dreher and Voigt (2011) and Dreher, Mikosch and Voigt (2015), some of the IGOs that administer the most binding constraints with regard to domestic economic governance includes the World Trade Organization (WTO), International Bank for Reconstruction and Development (IBRD), International Development Association (IDA), International Finance Corporation (IFC), International Center for Settlement of Investment Disputes (ICSID), International Intellectual Property Rights Organization (IPRO).

<sup>5</sup>According the 2014 World Investment Report, global multinational enterprises, who are essentially conglomerates of foreign owners of production factors, contributed to 5% of the total GDP and 17% of the total government revenue in the developing world (UNCTAD, 2015).

2003; Stasavage, 2007; Beaulieu, Cox and Saiegh, 2012), the borrowing cost of sovereign debt is critically dependent on the domestic economy and institutions that ensure the debt can be properly served.<sup>6</sup>

The involvement of states in the collective networks of intergovernmental organizations constitutes *de facto* constraints on the member states through strengthening the *organizational* capacity of international market actors. While foreign factors owners and private creditors possess some influence on the recipient state behavior, they nevertheless face high transaction cost of successful coordination and collaboration among them. Neo-Institutionalist economists have long taken notice that competitive market behavior alone may not be enough to constrain and shape the opportunistic behavior of powerful political actors. Bringing in the insight from Greif, Milgrom and Weingast (1994) and Greif (2006), transnational market actors in the contemporary context resemble the foreign medieval merchants dwelling in trade hubs who constantly face the risk of predation by the authority. Suffering from problems such as poor information sharing and pervasive free-riding behavior, merchants on their own were usually unable to organize to push for stronger protection of their interests. Absent effective institutional device for communication and coordination, the spontaneous market response to state predation and is deemed *diffusive* and weak. In a contemporary context, Wellhausen (2013, 2015) highlighted the lack of an alignment of strategic interest and coordinated action among market actors such as direct investors and sovereign bond holders which enable the host government to behave strategically to exploit their organizational weakness.<sup>7</sup>

The prominence of the mechanism strengthening the organizational capacity of international market actors is seen in two aspects, namely information revealing and selective incentives. The multilateral information regime underpinning the growing networks of IGOs disseminate sensitive information on state behavior among private market actors and elevate the significance of state reputation (Maggi, 1999; Guzman, 2008). The reputation effect reduces the cost of information and makes collective market response from market actors to opportunistic government behavior more readily achievable. The formal information collection mechanism of intergovernmental organizations frequently makes up for the informational disadvantage of international market actors by providing public signals. For example, Gray (2009) suggested that the rigorous accession procedure of the European Union provides information on key market policies that would not be revealed otherwise and

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<sup>6</sup>For example, Butler and Fauver (2006) found that both sovereign bond yields and sovereign credit ratings are strongly affected by the managerial impression of multinational corporations on the quality of domestic legal institutions and the regulatory stability. These ratings of the domestic institutional and legal quality are most frequently based on the experience of international market actors. More directly, activities of foreign investors in the financial sector have been taken as a signal of the sovereign creditworthiness and the country risk. The presence of multinational financial intermediaries in the domestic financial sector has a significant impact on the creditworthiness of borrowing countries, as these transnational economic linkages facilitated the transfer of information on the robustness of domestic governance and regulatory institutions as suggested in works by Fang (2005), Flandreau and Flores (2012), and Grittersová (2014).

<sup>7</sup>Conceptually analogous to the *merchant guild* in the argument of Greif (2006), institutionalized intergovernmental organizations incorporate mechanisms that strengthen the organizational capacity of international market actors who become more ready for effective collective responses when risks are present.

help “coordinating” the expectations and responses of the sovereign debt market. The revealing of private information during the accession then prompted the government to behave in a consistent way with the market expectations. This market-based mechanism of feedback was also suggested to be at work in the compliance behavior with IMF restrictions on current account openness (Simmons, 2000).

Through providing institutionalized platform for plurilateral coordination and negotiation, inter-governmental organizations also makes selective incentives among international market actors possible, elevating their bargaining power vis-à-vis the state. The coordination platform provided by IGOs helped market actors to unify stance and exert greater influence on the policy behavior of the government, with the private financiers of IMF programs studied by Gould (2003) being an example. These private financiers, mostly international private financial institutions, partially funded the IMF loans and had access to the institutional platform within the architecture of the International Monetary Fund. These private financial institutions, as Gould articulated, could have been placed in a way more disadvantageous position than the official financiers (i.e., state lenders or IMF itself) due to greater default risk tied intrinsically to the organizational vulnerability of these private financiers. The coordination platform of IMF helped multiple private financial institutions to internalize the cost of collaboration and coordination, who then became more capable of overcoming the collective action problem and gained greater bargaining power. It is evident in the argument of both Gray (2009) and Gould (2003) that the involvement of an intergovernmental organization capable of extending its institutional capacities and resources to the market actors significantly consolidated the influence of market participants on state behavior. By allowing the information and coordinating mechanism to work towards the advantage of international market actors, states joining binding intergovernmental organizations strengthen the bargaining power of these market actors who in turn possess greater influence on the state internal policy.<sup>8</sup>

The significance of the policy networks formed among political economic IGOs stands at the center of the argument. As recent scholarship suggested, the networks of even moderately institutionalized IGOs could have a substantive impact on domestic economic and regulatory policy (Cao, 2009, 2010). Among the proposed mechanisms underlying the effect of IGO networks on domestic policy change (competition, socialization, emulation, etc.), the competition dynamics (Elkins and Simmons, 2005; Cao, 2012; Alcacer and Ingram, 2013) is most directly tied to the shift in bargaining power between international market actors and the state induced by international institutions. In the competition dynamics, the network of IGO memberships fulfill both informational (Kinne, 2013) and behavioral functions (Alcacer and Ingram, 2013) that make up for the disadvantages of external actors.<sup>9</sup> From an international business perspective, Levy and Prakash (2003) and Dahan, Doh and

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<sup>8</sup>These mechanisms also implicitly underlie the aforementioned literature such as Tang and Wei (2009) and Dreher and Voigt (2011) documenting the positive influence of IGO memberships on the quality of domestic governance.

<sup>9</sup>While the existing studies on policy diffusion increasingly connect institutional networks with the organization of international market (Cao, 2009, 2012; Alcacer and Ingram, 2013), there exist very few studies that systematically examined

Guay (2006) each provided an illustrating case for the effect of international institutional networks in enhancing the collective bargaining power of transnational market actors. Their account particularly highlighted multinational corporations actively taking advantage of the network resources of transnational political-economic institutions that help coordinate and align the diffusive influence of corporate actors across borders. Levy and Prakash (2003) characterized the global institutional dynamics as a multi-level and multi-actor bargaining process where supra-national organizations potentially lend certain institutional influence to multinational corporations in influencing the policy-making outcome in the host country. Conceiving external institutions as major intersection points of the so-called “transnational policy networks”, Dahan, Doh and Guay (2006) highlighted the salience of the *resource exchange platform* provided by the networks of international organizations in enhancing the bargaining power of multinational corporations vis-à-vis national governments.<sup>10</sup>

Generalizing the insights from the aforementioned works such as Levy and Prakash (2003) and Dahan, Doh and Guay (2006), intergovernmental organizations in such a global organizational network shall feature two institutional characteristics in fulfilling the function of *resource exchange platforms*. The first is an organizational issue coverage of crucial political and economic affairs. Entitled to coordinate substantive political and economic issues among sovereign states, such international organizations provide productive contexts for issue linkage and horsing trading among relevant parties. The second characteristic is a highly institutionalized organizational structure that is capable of effectively reducing the transaction cost of bargaining and resource exchange. Once joined these international organizations with both political-economic functionalities and high levels of institutionalization, national governments will see the intensification of competitive pressures from their peers due to the institutionally elevated bargaining position of transnational market actors.<sup>11</sup>

### 3.1 Inward Economic Exposure and Credibility Spillover

With the preceding discussion laying out the mechanisms through which intergovernmental organizations impose *de facto* as well as *de jure* constraints on the domestic policy behavior of member states, this section discusses the conditions under which such externally induced policy restraints helps rendering credible commitments to the domestic audience. While intergovernmental organizations strengthen the bargaining power of the foreign market actors as elaborated, the domestic audience may not automatically benefit from the externally imposed constraints on the government.

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the role that international market actors plays in the process of policy diffusion as well as how the institutional features of IGO networks reshaped these actors’ bargaining positions.

<sup>10</sup>The resources exchanged among transnational market actors to align incentives for collective action includes information, selective incentives, and authorities. Some prominent examples of transnational collective corporate endeavor made possible by the resource exchange platform of international institutions include the European Round Table of Industrialist (ERT) and Transatlantic Business Dialogue (TABD) (Dahan, Doh and Guay, 2006). The salience of their positions on such *policy networks* for MNCs competitiveness is also highlighted in Rizopoulos and Sergakis (2010).

<sup>11</sup>This theoretically-grounded perspective largely drives the operationalization of IGO memberships to be elaborated in the empirical section.

Most importantly, with the constraints imposed by external institutions pertain mostly to the domestic presence of foreign economic interests, the government may be able to treat foreign and domestic audiences differently with regard to the implementation of domestic policy. As the existing research suggested, strengthened commitments to foreign market actors may not equally benefit their domestic counterparts and could even harm the interests of the domestic private sector (Huang, 2003). It is thus important to carefully evaluate the domestic consequences and implications of the externally induced credibility.

The spillover effect of the credibility induced by external institutional involvement to the domestic audience is shaped by the extensiveness of the participation of foreign production factors in the domestic process of value creation, or *inward economic exposure*. The *de facto* and *de jure* constraints imposed by intergovernmental organizations would benefit the interaction between the government and its domestic audience only when the domestic presence of foreign production factors is extensive enough. Prominent foreign factors of production contributing to domestic value creation worldwide include fixed and financial capital, technology, human/managerial capital, and resources. As GDP accounts for all economic input yielded by production factors working within the borders of a country regardless of the nationality of the factor owners<sup>12</sup>, the extensiveness of foreign contribution in domestic economy is most directly reflected by the portion of GDP yielded by factors of production owned by foreign individuals and corporations. While the existing GDP data do not allow distinguishing the nationality of the owners of production factors, the inward economic exposure can be alternatively measured by factor returns earned by foreign factor owners using data from the balance of payment statistics. The top 20 non-democratic countries in making the biggest factor income payment to foreign owners are listed in Table 2.

A high level of integration of the foreign production factors in the domestic process of production is the key element that precipitates spillovers of institutionally induced credibility into domestic governance. First, the global production networks embodied in the inward economic exposure interconnect domestic and international factor contributors and align their interest in resisting predation and extortion from power political actors. Johns and Wellhausen (2016) found that governments took their commitment to property rights protection and regulatory stability more seriously when domestic and foreign firms are “tightly linked” in the global production networks. In the specific context of the authoritarian regime in China, Wang (2015) also found that the presence of foreign investment interests had a significant effect on the behavior of local governments in protecting property rights. As Wang (2015) argued, foreign investors with mobile assets contributing to local economic growth acquire significant bargaining leverage vis-à-vis the local authority in pushing for more robust rule of law and property rights institution. In a more general context, Rizopoulos and Sergakis (2010) suggested that the investment position of multinational corporations in the host country has a major

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<sup>12</sup>Gross national product (GNP) or gross national income (GNI), on the contrary, account for the value of economic output by nationality.

Table 2: Returns to Foreign Factors: Top 20 Non-democracies in 2005

	<b>Country</b>	<b>Factor Income Payment</b>	<b>% of GDP</b>
1	China	59.26	2.62
2	Russia	41.95	5.49
3	Singapore	39.78	32.21
4	Saudi Arabia	19.4	6.14
5	Malaysia	16.47	11.47
6	Kazakhstan	7.601	13.30
7	Venezuela	7.066	4.85
8	Algeria	6.795	6.63
9	Bahrain	6.652	49.41
10	Kuwait	4.261	5.27
11	Angola	4.202	14.88
12	Oman	4.044	13.08
13	Nigeria	3.277	2.91
14	Libya	3.17	7.20
15	Sudan	1.886	7.10
16	Yemen	1.843	11.00
17	Tunisia	1.822	5.64
18	Republic of Congo	1.652	27.14
19	Egypt	1.543	1.72
20	Cote d'Ivoire	1.504	9.19

Source: IMF International Financial Statistics. Unit: billion USD

impact on their bargaining power and choice of political strategies in coping with the host government. The concept of inward economic exposure particularly quantifies the significance of foreign production factor contributors in domestic value creations which quantifies spillovers of credibility from international commitments to domestic commitments.

Second, intense contributions made by foreign factors of production make it difficult for the domestic authority to discriminate foreign interests from domestic interests in making and implementing economic policies. When the level of inward economic exposure is low, it is administratively less costly to discriminate treatment of economic actors by their national origins. In such a case, the credibility-enhancing effect of external commitment to the protection of property rights is likely to be limited to foreign economic agents. But with higher levels of exposure, it requires more institutional capacities and cost to tailor and administer the policies targeting domestic and foreign audience respectively. It is important to consider in this respect the strategic response that domestic and foreign audience has for policies that are discriminatory in nature. For example, [Huang \(2007\)](#) showed in his study of firm ownership in China that in regions where foreign enterprises are under better protection than the domestic peers, local private enterprises strategically arrange ownership structure of the firm to bring in the foreign component as a way to free-ride the protection provided to foreign investors. Similar findings are also seen in a study of the impact of corruption on the composition of FDI by [Javorcik and Wei \(2009\)](#). [Wang \(2015\)](#) also suggested that foreign ownership of firms in the authoritarian context have a significant impact on the strategy of asset holders in seeking property rights protection from the local government. When foreign asset holders find legal and constitutional means

of seeking protection more favorable than non-legal means, as Wang (2015) implies, governments are more likely to establish universalistic protection on property rights rather than discriminating investors by their nationality and political connections. Such strategic responses that balance the impact of discriminatory policies is more plausible in an economic context where the participation of foreign economic agents in the domestic economy is extensive. In such a scenario, the actual impact of the discriminatory policy put in place will extend far beyond the targeted audience, rendering the original purpose of discrimination futile. The spillover of external institution-induced protection to domestic audience thus becomes the strongest when inward economic exposure is extensive that makes discriminatory policy costly to take the intended effect.

Third, the contribution made by foreign factors of production in domestic production is the key to ensuring the self-enforceability of commitments induced by external institutions. With a high level of inward foreign exposure, the domestic economy is more dependent on foreign factor input, giving the market actors more bargaining leverage in shaping the domestic economic policy. This is particular salient in the context of autocratic regimes where the authority seeks to maintain the legitimacy of its political rule through promoting economic growth. Foreign contributors of production factors acquire political leverages in the autocratic economy as they oftentimes constitute one of the critical economic forces in keeping the closed political rule intact (Wang, 2015). If the contribution from foreign factors in the domestic production is very limited, the effect of the spillover of institutionally induced credibility would be weak and may not have a substantial impact on the making of relevant domestic policies. After all, the “enforcement” mechanism of the commitment device brought by international institutions dwells in large part on the weight and influence of the international market actors in shaping the domestic economic outcome. Furthermore, extensive participation of foreign production factors in domestic value creation indicates a greater rate of interaction between transnational economic actors and the governing authority of the local economy, elevating the significance of shadow of the future as well as making good reputation more salient in future interactions. Greater domestic presence of foreign production factors thus enables international market actors and intergovernmental organizations to exert greater influence in shaping the outcome of the domestic policy-making process.

**Hypothesis 1.** *Memberships in IGOs enhance the domestic credibility of the government only if inward economic exposure is high.*

### **3.2 Domestic Constraint and Observed Effectiveness of Commitment Device**

International institutions strengthening the organizational capacity of international market actors constitute substitutes for domestic commitment devices, particularly for regimes where the government is subject to weak institutional constraint. If the inward exposure of the economy is high enough to materialize credibility spillovers, the observed effect of IGO membership on domestic credibility is greater when the presence of domestic commitment devices is weak. As elaborated earlier, do-

mestic commitment devices consist of political institutions that administer separation of power and, most critically, constrain the power of the executive. When such domestic institutional constraints on the executive are weak, the imposition of external constraints precipitated by IGO membership should have a stronger effect on the behavior of the government than that in a scenario where the government is already disciplined internally. There have been studies suggesting external hand-tying devices could function as effective substitutes specifically for domestic accountability mechanisms (Broz, 2002; Simmons and Danner, 2010; Fang and Owen, 2011). Memberships in IGOs are thus expected to have a greater observed effect of enhancing the credibility of the government in regimes lacking effective institutional constraints. In contrast, in countries with mature internal institutions administering checks and balances of power, the impact of signing onto external commitment devices on domestic credibility is weaker.

**Hypothesis 2.** *Memberships in IGOs enhance the domestic credibility of the government only if the domestic institutional constraints on the executive are weak.*

In the meantime, the association between the existing domestic constraint and IGO's effect on government behavior is also conditioned by the level of inward economic exposure that shapes the spillover of credibility in a weak domestic institutional environment. While IGO memberships positively affect domestic credibility when the domestic constraint is weak enough, the range of the level of domestic constraints begetting positive and significant IGO effect is shaped by the extent of the spillover of credibility. When the spillover of credibility precipitated by high levels of inward economic exposure is extensive, the positive association between IGO memberships and the domestic credibility of the government in a weak domestic institutional environment will be magnified. Thus, the positive effect of IGO memberships on domestic credibility could stay detectable even in the presence of relatively high levels of domestic constraints. When the inward economic exposure is too low, in contrast, IGO memberships may not contribute meaningfully to domestic credibility even if the domestic institutional constraints is among the weakest. In such a case, regimes with varying degrees of institutional constraint on the executive at home may not see much of difference in the effect of IGO membership on domestic credibility. Given this logic, one should expect a strong presence of the *observed* negative relationship between internal constraints on the executive and the credibility-enhancing effect of IGO memberships in economies featuring an extensive presence of foreign factors of production in local value creation process.

**Hypothesis 3.** *The negative association between domestic institutional constraint and the enhancing effect of IGO membership on the domestic credibility of the government is significant when the inward economic exposure is high enough.*

Built on the theoretical claims explicated earlier, Hypothesis 3 characterizes the effect of memberships in IGOs on government credibility as one jointly conditioned by inward economic exposure and domestic constraints on the government. When exposures are high, the credibility-enhancing effect is detectable in countries where the domestic constraints are weak, and this effect weakens as



the domestic constraints grow stronger. The credibility-enhancing effect of IGOs is thus expected to be negatively associated with domestic constraints in a statistically significant manner. If exposures are weak, in contrast, the economic foundation for the commitment function of IGOs no longer exists and the credibility effect of IGO memberships would not be present irrespective of the strength of domestic constraints. This formulation thus details the very key and specific observational implications to be tested in the empirical analysis.

## 4 IGO Membership and Property Rights: Panel Data Evidence

Using a panel data from 1974 to 2005 at the country-year level, this part of the analysis seeks to substantiate the association between the perceived protection of domestic private property rights, measured by Contract-intensive Money (CIM), and the number of formal memberships in political and economic IGOs. Contract-intensive Money is a widely used measurement of domestic property rights developed by [Clague et al. \(1999\)](#). Contract-intensive Money reflects the proportion of highly liquid assets in the economy (i.e. money and quasi-money, or  $m_2$ ) that are held outside banks. The logic underlying this measurement is that the security of liquid assets in financial institutions is ultimately tied to contract enforcement and soundness of property rights regime. The percentage of liquid assets that individuals choose to keep in banks is thus a reflection of the credibility of the government's commitment to the protection of private property rights.<sup>13</sup> Capturing economic agents' asset structure with easily accessible banking sector data, CIM comes with wide cross-national and time-series coverage that is not commonly seen in other existing measurements of property rights and rule of law. Also, using standardized international banking statistics, CIM suffers less from the issue of subjectivity and the robustness of cross-country comparison than other property rights index. Another desirable feature of CIM is that it uses information coming from within the country, thus reflecting the degree of property rights protection that the domestic audience is under in general.<sup>14</sup> Empirical works that examine the cross-national variation in economic and property rights institutions using Contract-intensive Money as the dependent variable include [Clague et al. \(1996\)](#), [Fagerberg, Srholec and Knell \(2007\)](#), [Ahlquist and Prakash \(2008\)](#), and [Moon \(2015\)](#).

Using CIM as the dependable variable, the data is analyzed using country fixed effect model which favorably purges potential biases caused by unobserved unit heterogeneity. The model is specified with an auto-regressive model with lagged dependent variable formulated as follows.

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<sup>13</sup>As treated thoroughly in [Clague et al. \(1999\)](#), CIM is distinct from conventional measures of financial sector development and constitutes a reflection of the institutional environment for domestic economic transactions.

<sup>14</sup>The existing measurements of property rights such International Country Risk Guide (ICRG) rely on international business sources and arbitrary methodology in compiling and coding the data and are hence less capable of distinguishing the protection of foreign property from the protection of domestic property. [Ahlquist and Prakash \(2008\)](#) provides a thorough examination of the robustness of Contract-intensive Money as a measurement for property rights and contracting cost.

$$\begin{aligned}
\text{CIM}_{i,t} = & \alpha \cdot \text{CIM}_{i,t-1} + \beta_1 \cdot \text{IGO}_{i,t-1} + \beta_2 \cdot \text{XCONST}_{i,t-1} + \beta_3 \cdot \text{EXPOS}_{i,t-1} \\
& + \beta_{12} \cdot (\text{IGO} \times \text{XCONST})_{i,t-1} + \beta_{13} \cdot (\text{IGO} \times \text{EXPOS})_{i,t-1} \\
& + \mathbf{V}'_{i,j} \cdot \boldsymbol{\gamma} + u_i + Yr_t + \varepsilon_{i,t}
\end{aligned} \tag{4.1}$$

In this specification, “IGO” is the cumulative number of memberships in political and economic intergovernmental organizations, “XCONST” is the domestic political constraint on the executive, and “EXPOS” is the inward economic exposure.  $\mathbf{V}'$  is the vector of control variables.  $u_i$  captures country specific effect and  $\varepsilon_{i,t}$  is idiosyncratic error. According to the theoretical argument elaborated earlier,  $\beta_{13}$  is expected to acquire positive sign (Hypothesis 1) and  $\beta_{12}$  is expected to acquire negative sign (Hypothesis 2). Adopting an auto-regressive specification in the analysis based on OLS method is backed by the following characterization of the data generating process. The dynamics of the dependent variable, contract-intensive money, follows a partial adjustment mechanism. That is, the actual response in the dependent variable,  $y_{i,t}$ , to changes in the independent variables is determined both by the equilibrium value of the dependent variable,  $y_{i,t}^*$  (which is the ideal value of  $y_{i,t}$  if adjustment is instantaneously accomplished), and the speed of adjustment,  $\delta$ . This can be represented by the equation  $y_{i,t} - y_{i,t-1} = \delta \cdot (y_{i,t}^* - y_{i,t-1})$ . Incorporating the equation for  $y_{i,t}^*$ <sup>15</sup> and rearranging provides:

$$y_{i,t} = (1 - \delta) \cdot y_{i,t-1} + \delta \cdot \boldsymbol{\beta} \cdot \mathbf{x}_{i,t} + \delta \cdot v_{i,t} \tag{4.2}$$

The coefficient of the lagged dependent variable,  $1 - \delta \equiv \alpha$ , is thus interpreted as the reciprocal of the speed of adjustment. The partial adjustment mechanism is substantively relevant in the context of understanding the impact of institutional and economic factors on the private economic agents’ evaluation of the security of their property. As the analysis relies on domestic economic agents’ decision in structuring their assets for measuring the protection of property rights, it not only takes time for the economic agents to acquire information and update their belief of the strength of the government’s commitment to private property rights, but also takes time to restructure the profile of their asset as a result. The observed change in the dependent variable is likely to reflect an imperfect adjustment of monetary and financial assets within the time span of a year. Given the substantive rationale supporting the partial adjustment assumption, the model has a nice feature that the idiosyncratic error is *i.i.d.* which makes OLS based method applicable in analyzing the data.<sup>16</sup>

<sup>15</sup> $y_{i,t}^* = \boldsymbol{\beta} \cdot \mathbf{x}_{i,t} + v_{i,t}$ .

<sup>16</sup>Wooldridge test is performed after fitting panel data models to check for the presence of first-order auto-correlation in idiosyncratic errors. See details in regression output in Tabel 4.

## 4.1 Independent Variables

Discussion of the measurement of three key independent variables is now in order. The “IGO” variable counts the number of political economic intergovernmental organizations of which the country is a current member. Construction of the variable uses the IGO membership dataset from the Correlates of War Project (Pevehouse, Nordstrom and Warnke, 2004) and codes all the intergovernmental organizations in the dataset with regards to whether or not they both fulfill the institutionalization criterion defined by Boehmer, Gartzke and Nordstrom (2004), and acquire key political economic functionality as defined in Poast and Urpelainen (2013).<sup>17</sup> A full list of institutionalized political economic IGOs as per defined can be found in Appendix B. The newest version of COW-IGO dataset (v2.3) provides a data coverage up to 2005.

The “XCONST” variable measures the domestic institutional constraint imposed on the government. This variable uses the “executive constraints” component variable from Polity IV project. According to the data manual of PolityIV, “XCONST” corresponds to “the extent of institutionalized constraints on the decision-making powers of chief executives, whether individuals or collectivities”. Among the five components underpinning the construction of Polity2 index, “XCONST” captures the institutional aspect of the regime that guarantees horizontal separation of political power with the system. In light of recent studies such as Treier and Jackman (2008) and Cheibub, Gandhi and Vreeland (2010), scholars have been increasingly wary of the process of aggregating component variables into the composite Polity2 index. Thus, while “XCONST” constitutes probably the important source of variation in Polity2 Index, the use of specific component variables that analytically corresponds to the concept under examination is still preferred than using the composite index.

Table 3: Primary Income Account

Components of Primary Income Account
1. Compensation of Employees
2. Investment Income
2.1 Direct investment
2.1.1 Income on equity
2.1.2 Interest
2.2 Portfolio Investment
2.2.1 Income on equity and investment fund shares
2.2.1 Interest
3. Reserve Assets Income and Interest
4. Rent
5. Subsidies/Tax on Products and Production

Source: International Monetary Fund

<sup>17</sup>Excluding organizations with dominant military and defense purposes, formal memberships are counted in IGOs that corresponds to “Structured” and “Interventionist” categories in Boehmer, Gartzke and Nordstrom (2004) and “Political” and “General-Economic” categories of the classification of IGOs in Poast and Urpelainen (2013).

Another key independent variable is “EXPOS<sub>R</sub>”, the inward economic exposure of a country. While there exist commonly used measurements of economic globalization based on international trade and investment, the inward exposure of domestic economy to international integration, as conceptualized in theory development section, is most relevantly captured by the debit entry in “primary income” account found in the balance of payments statistics. Recorded in the current account, “primary income payment” consists of compensations, dividends, interests, and rents paid to foreign persons and corporations. With the components displayed in Table 3, primary income represents “the return that accrues to institutional units for their contribution to the production process or for the provision of financial assets and renting natural resources to other institutional units” ([International Monetary Fund, 2013](#)).<sup>18</sup> This measurement quantifies the contribution of foreign production factors (capital, human capital, and technologies) in the process of value creation and specifically the extent of the presence of foreign stakeholders in domestic economic governance.<sup>19</sup>

The following control variables are selected to be included in the analysis. Given that endogeneity is a primary concern in establishing a causal relationship, selection of the control variables are particularly designed to tackle observable factors that are likely to affect both IGO membership and private property rights within each unit. Economically, the size of the economy, per capita income, and growth rate is controlled for. Additional indicators of economic openness, namely trade volume and foreign direct investment inflows are also included. Natural resource rent is included to account for the impact of resource abundance on economic structure and the pattern of governance. A group of variables is included to capture the evolving policy-orientation and government characteristics. First, a dummy variable is included indicating if a new executive came to power is included. Second, the consecutive years that the current executive has been in power is included. Third, government size measured by government spending as the percentage of GDP is controlled for. Finally, capital account freedom is included to capture the general policy dynamics towards liberalization. While more in-depth treatment is adjourned to the part where the results are discussed, these factors could potentially both increase memberships in IGO and enhance protection of private property. Two additional control variables are included to indicate if there was any currently on-going World Bank or IMF program. To account for any possible bias caused by global systemic shocks as well as trend and drifts in the data, year dummies and a year  $t$  variable are also included.

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<sup>18</sup>To provide some background on the measurements of economic integration, international trade statistics are recorded under “goods and services” account in the current account and investment is recorded whereas direct investment statistics are recorded in the financial account. Primary income is closely related to the link between Gross Domestic Product (GDP) and Gross National Income (GNI). The difference between the GNI and GDP is equal to the difference of primary income receivable from nonresidents and primary income payable to nonresidents, often described as “net income from abroad” ([International Monetary Fund, 2013](#)).

<sup>19</sup>In contrast, the volume of international trade only quantifies the exchange of commodities and does not directly get on the presence of foreign factors in domestic production process. FDI inflows and stock may capture the *process* of the integration of foreign capital in domestic economy but does not provide a dynamic characterization of the contribution of production factors more broadly to the materialized domestic economic *output*. Conceptually, primary income payment as a measurement of economic interdependence also causes less concern of endogeneity in terms of reversed causality than trade and FDI as factor income generated at year  $t$  is oftentimes due to factor input from many years back.

## 4.2 Results

The regression results are displayed in Table 4. Given the data generating process stipulated earlier in eq. 4.2, the coefficient of the lagged dependent variable provides the reciprocal of the speed of adjustment (i.e.,  $\alpha = 1 - \delta$ ). Based on the results from Model (1) through (3), the average of the speed of adjustment is .304. Thus within the time-span of one year, roughly one-third of the adjustment from the past to new equilibrium level of CIM will be completed. As seen in eq. 4.2, the true impact of the independent variables on the *equilibrium* level of CIM should be provided by the coefficients presented in Table 4 divided by the respective speed of adjustment.<sup>20</sup>

In the baseline model (model (1)), where no interaction term is included, IGO membership shows no significant association with Contract-intensive Money. This suggests obtaining merely the average effect of IGO membership without conditioning on domestic constraints and economic exposure could mask the real impact channeled through nuanced channels. In model (2) where “IGO×XCONST” is added, the coefficient of interaction term is negative and significant at 0.05 level, a result that is consistent with the expectation. This indicates that the marginal enhancing effect of increased IGO memberships on the domestic protection of property rights would be greater when the domestic political constraint on the executive is weak. When “IGO×EXPOSR” is added in Model (3), its coefficient gains positive sign and statistical significance at 0.05 level, with the results from Model (2) staying robust at the same time. It indicates that the enhancing effect of IGO membership on domestic property rights is greater when foreign production factors earn more from domestic value creation.

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<sup>20</sup>To minimize confusion, all coefficients presented in Table 4 are raw regression output without accounting for the speed of adjustment.

Table 4: IGO Membership and Contract-intensive Money

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
IGO [ $\beta_1$ ]	-0.301 (0.571)	0.380 (0.671)	0.263 (0.695)	0.257 (0.697)	0.276 (0.690)	0.354 (0.686)	0.231 (0.752)	0.283 (0.688)	0.310 (0.674)
XCONST	0.035 (0.619)	5.099** (2.350)	5.478** (2.305)	5.495** (2.298)	5.628** (2.311)	5.720** (2.338)	4.140* (2.213)	5.487** (2.298)	5.667** (2.282)
EXPOS	0.701* (0.387)	0.700* (0.396)	-0.929 (0.854)	-0.918 (0.846)	-0.644 (0.878)	-0.906 (0.851)	-0.516 (0.845)	-1.074 (0.817)	-0.949 (0.880)
IGO $\times$ XCONST [ $\beta_{12}$ ]		-0.235** (0.101)	-0.253** (0.0993)	-0.253** (0.0992)	-0.247** (0.0989)	-0.263** (0.102)	-0.202** (0.0958)	-0.252** (0.0988)	-0.264*** (0.0983)
IGO $\times$ EXPOS [ $\beta_{13}$ ]			0.0716** (0.0331)	0.0713** (0.0329)	0.0603* (0.0345)	0.0709** (0.0334)	0.0611* (0.0345)	0.0753** (0.0323)	0.0694** (0.0333)
GDP	5.354 (4.368)	6.649 (4.808)	3.611 (3.751)	3.605 (3.694)	3.842 (3.820)	3.737 (3.685)	2.974 (3.539)	6.474 (4.088)	4.363 (3.957)
Per capita GDP	6.800* (3.806)	7.253** (3.542)	9.034** (4.091)	9.012** (4.074)	8.644* (4.363)	9.441** (4.074)	6.059 (3.690)	9.423** (3.995)	9.676** (4.226)
GDP Growth	0.279** (0.121)	0.296** (0.117)	0.296** (0.117)	0.296** (0.117)	0.313** (0.120)	0.266** (0.115)	0.303** (0.118)	0.290** (0.117)	0.315*** (0.118)
Trade Openness	0.0553 (0.0418)	0.0761* (0.0441)	0.0730 (0.0452)	0.0725 (0.0453)	0.0690 (0.0459)	0.0751 (0.0457)	0.0663 (0.0428)	0.0770* (0.0450)	0.0673 (0.0451)
FDI Inflow	-0.233 (0.328)	-0.371 (0.331)	-0.383 (0.332)	-0.390 (0.333)	-0.370 (0.329)	-0.378 (0.332)	-0.231 (0.280)	-0.405 (0.327)	-0.317 (0.327)
Natural Resource Rent	-2.125 (20.36)	-11.26 (20.99)	-10.51 (20.89)	-10.47 (20.89)	-9.670 (20.65)	-13.91 (20.80)	-10.19 (21.06)	-11.91 (20.85)	-10.14 (21.10)
New Executive				-0.959 (1.464)					
Years in Office					0.220** (0.0973)				
Govern't Size						-0.456 (0.367)			
Capital Acc't Freedom							10.01** (3.860)		
World Bank Program								0.731** (0.317)	
IMF Program									4.455** (2.110)
Lagged DV [ $1 - \delta$ ]	0.711*** (0.0402)	0.695*** (0.0412)	0.694*** (0.0413)	0.694*** (0.0414)	0.689*** (0.0415)	0.691*** (0.0406)	0.677*** (0.0438)	0.694*** (0.0412)	0.693*** (0.0413)
Wooldridge Test ( $p$ -value)	0.045	0.101	0.101	0.097	0.097	0.099	0.098	0.099	0.097
$r^2$ within	0.626	0.640	0.640	0.640	0.640	0.641	0.641	0.641	0.641
$\rho$	0.534	0.578	0.580	0.580	0.589	0.574	0.609	0.571	0.574
Year Fixed Effect	yes	yes	yes	yes	yes	yes	yes	yes	yes
Countries	105	105	105	105	105	105	105	105	105
Obs	1781	1781	1781	1781	1775	1781	1744	1781	1781

All models are within effect panel models with year dummies (1974-2005) included.

Cluster standard errors in parentheses: \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

Among the control variables, per capita GDP and GDP growth rates are positively and significantly associated with domestic property rights. The two alternative measurements of economic openness, namely trade and FDI inflow, are not shown to be directly correlated with contract-intensive money. The coefficient of resource rents gains negative sign but is not statistically significant at 0.10 level. The size of the economy measured by total GDP is also not shown to be associated with domestic property rights.

In the dynamic specification seen in eq. 4.1 and 4.2, the marginal effect of IGO membership on Contract-insentive Money is provided by:

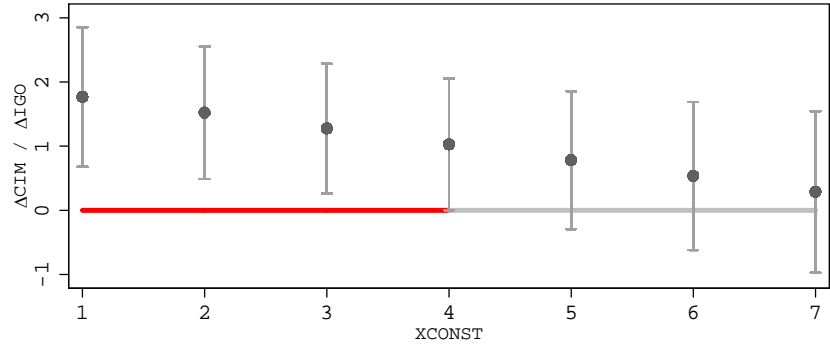
$$\frac{\Delta \text{CIM}}{\Delta \text{IGO}} = \beta_1 + \beta_{12} \cdot \text{XCONST} + \beta_{13} \cdot \text{EXPOSR}^{21} \quad (4.3)$$

Using the output in model (3) of Table 4, it becomes  $0.263 - 0.253 \cdot \text{XCONST} + 0.071 \cdot \text{EXPOSR}$ . To more directly relate to the prediction in Hypothesis 3 and better illustrate the size and significance of the marginal effect of IGO membership, Figure 2 and 3 plot  $\frac{\Delta \text{CIM}}{\Delta \text{IGO}}$  as a function of each of the two factors at different levels of the other variable. As seen in Figure 2, the marginal effect of IGO membership decreases in XCONST. In Figure 2a where EXPOSR is relatively high at the 75th percentile, IGO has a positive and significant marginal effect on CIM when XCONST is below or equal to 4.<sup>22</sup> In contrast, when EXPOSR is relatively low at the 25th percentile (Figure 2c), the marginal effect IGO on CIM becomes insignificant across the range of XCONST. This result suggests XCONST negatively shapes the credibility effect of IGO memberships if and only if EXPOSR is high enough. This observation directly supports Hypothesis 3 on the significance of domestic constraints conditioning the observational effect of IGO memberships.

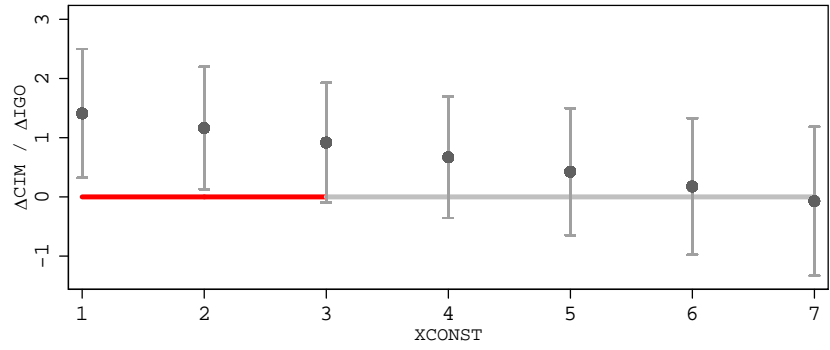
The marginal effect of IGO as an increasing function of EXPOSR (as shown in Figure 3) is also affected by the value of XCONST. When XCONST = 1 (Figure 3a) which indicates the institutional constraint on the executive is very weak, the marginal effect of IGO is positive and significant at 0.05 level if EXPOSR is greater than 5.5 (denoted by the left end of the red line in Figure 3a). When XCONST grows to 4 (Figure 3b), the minimal level of EXPOSR for a significant marginal effect of IGO increases to 22.3. If XCONST reaches its highest level at 7 (Figure 3c), the marginal effect is no longer significant at 0.05 level with the horizontal axis at zero being completely enclosed within the 95% confidence interval. Thus, the magnitude of the effect of IGO membership on domestic property rights is most sensitive to inward economic exposure (EXPOSR) when the domestic political constraint (XCONST) is the weakest.

<sup>21</sup>This formulation only considers the instantaneous change in CIM in the current period. If the long run equilibrium level of CIM is considered, RHS of the equation would become  $\frac{\beta_1 + \beta_{12} \cdot \text{XCONST} + \beta_{13} \cdot \text{EXPOSR}}{1 - \delta}$ . Given  $\delta$  is around 0.3, the marginal effect of IGO on CIM in the long run is roughly 1.5 times greater than estimated in this equation.

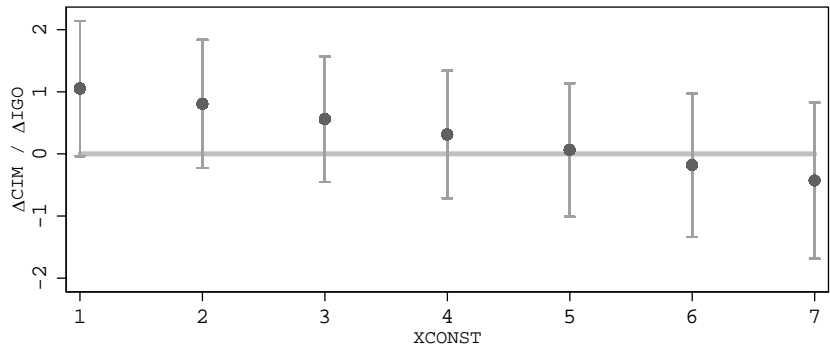
<sup>22</sup>Some cases for XCONST = 4 include Cambodia (1998-2005), Malaysia (1995-2005), Mexico (1988-1996), Zimbabwe (1983-1986).



(a) EXPOSR at the 75th percentile



(b) EXPOSR at the 50th percentile



(c) EXPOSR at the 25th percentile

Figure 2: Marginal Effect of IGO Membership by XCONST. Figure generated with estimation in Model (3) of Table 4. Point estimates are shown by solid dots and 95% confidence interval are shown by capped spikes.

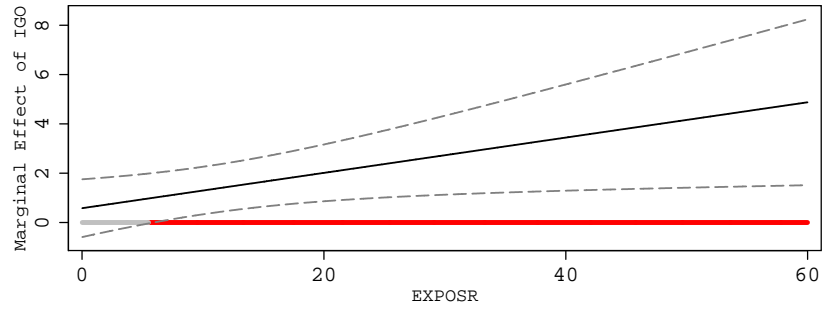


In Model (4) through (9) in Table 4, more political and policy-related variables are added to the specification. These added variables are intended to capture the evolution of government characteristics which could potentially lead to changes in both IGO membership and protection of property rights. For example, when a new executive came to power, changes in economic policy and strategies for international involvement could well be more likely. If that is the case, the association between IGO and Contract-intensive Money may disappear after controlling for whether a power transition just took place. Model (4) includes a dummy variable indicating if a new executive just rose to power. The coefficient of “New Executive” is nevertheless insignificant while all the key results in Model (3) hold in Model (4). To address a similar concern, model (5) includes a variable indicating the years the current executive stays in office. As more durable leadership is more capable of enhancing the domestic regime for private property rights as the existing evidence suggested (Clague et al., 1996; Moon, 2015), plus that the years in office is potentially associated with cumulative IGO membership, the correlation between IGO and property rights could potentially be spurious. “Years in Office” in Model (5) indeed gains positive coefficient that is significant at 0.05 level, indicating stable and durable leadership in autocratic regime is strongly associated with better protection of property rights. “Years in Office” does seem to affect the relationship between IGO and domestic property rights, particularly the part conditioned by inward economic exposure, as the significance level of “IGO  $\times$  EXPOS” changes from 0.05 to 0.10. The overall result from the models is nevertheless highly consistent with that from the original specifications.

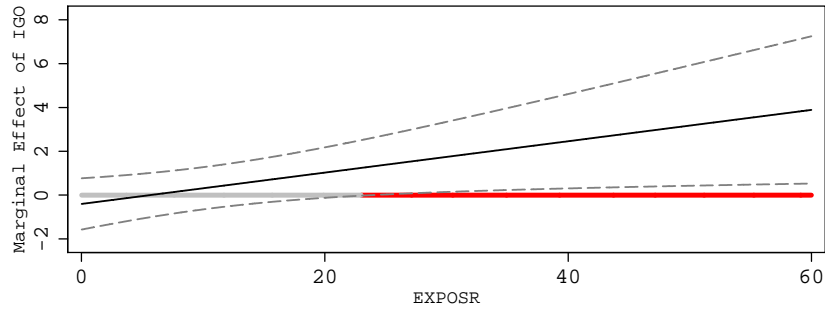
Furthermore, Model (6) and (7) control for the size of government and capital account freedom which both directly reflect the policy orientation of the incumbent and could potentially shape international involvement as well as domestic property rights. Model (6) and (7) seek to rule out the possibility that the association between IGO and Contract-intensive Money is due to systematic liberalization of economic policy orchestrated at the domestic level. While “Government Size” gains no statistical significance in model (6), capital account freedom is shown in model (7) to be positively and significantly associated with Contract-intensive Money.<sup>23</sup> The statistical significance of the interaction term “IGO  $\times$  EXPOS” somewhat weakens (significance level changes from 0.05 to 0.10) in Model (7). But all other key results in previous models continue to hold. Model (8) and (9) further take into account the impact of participation in programs of the World Bank Group and International Monetary Fund. Indicating if the government is part of any currently ongoing program administered by these two organizations, the two variables, “World Bank Program” and “IMF Program”, intend to capture firstly the impact of domestic crisis as well as the ensuing need for external resources, and secondly the potential push from participation in these programs for greater international involvement. Even though both are shown to have a positive and statistically significant (at the significance

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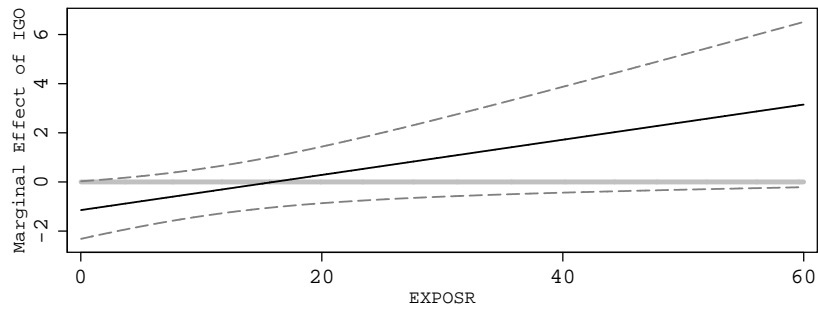
<sup>23</sup>While there exist studies advocating the benefit of capital account liberalization (Gourinchas and Jeanne, 2002; Kaminsky and Schmukler, 2003), prudence needs to be applied to whether this relationship between capital account freedom and private property could be conceived as causal. As discussed earlier, both could be due to the broader domestic initiatives of liberalization.



(a) XCONST = 1



(b) XCONST = 4



(c) XCONST = 7

Figure 3: Marginal Effect of IGO Membership by EXPOSR. Figure generated with estimation in Model (3) of Table 4. 95% confidence interval shown with dash lines.

level of 0.05) association with property rights, the association between IGO and Contract-intensive Money is not weakened. While caveat needs to be cast regarding if World Bank and IMF programs actually cause better protection of property rights, such a result lends greater confidence to the claim that memberships in broader IGOs (in addition to a few highly powerful organizations) have some distinct associations with the domestic protection of property rights.<sup>24</sup>

### 4.3 Additional Evidence from 2SLS Regressions

As an additional check on the robustness of the finding under potential endogeneity, the instrumental variable approach is employed. This part of the analysis seeks to address potential correlations between IGO memberships and the error term that cannot be accounted for by the series of control variables included in models shown in Table 4. The membership in institutionalized IGOs is instrumented by a variable that counts the number of years passed since the independence of the country. The rationale for choosing such an instrument is as follows. First, the number of IGO memberships a country is strongly associated with the time since the country has been recognized as a sovereign state in the world system. The time since a country started being included in the world state system has a strong proportional impact, both across countries and over time, on the rate of acquiring formal memberships in IGOs.<sup>25</sup> Such an instrument is thus *relevant*. Second, years since independence is not likely to directly affect domestic institutional quality in property rights protection. As the existing empirical studies suggest, the quality of domestic governance is not bound to improve over time when a more structural impact of the domestic political and economic variable is partialled out. The exclusion restriction of using years of independence as IV is violated if there is evidence suggesting domestic property rights institution steadily improves over time regardless of contextual factors such as political change or policy reorientation. The existing research, however, does not lend a strong evidence for this claim. Thus, the theoretical ground for using years since independence as an instrument for IGO membership is not unfounded.<sup>26</sup> The *exogeneity* of the variable as a valid instrument is thus defensible.

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<sup>24</sup>As the IGO membership in the preceding analysis is restricted to those with high institutionalization and political-economic functions, it is worth examining if the same result holds for non-political-economic IGOs whose membership is excluded from the main analysis. As the core of the argument proposes, the credibility-enhancing effect of IGO membership is critically attached to the special features of institutionalized political-economic organizations. If memberships in IGOs of broader scopes are counted, the IGO's effect on domestic credibility (most importantly seen through the interaction effects with XCONST and EXPOSR) is expected to be significantly muffled. To test this proposition, a subsidiary analysis is undertaken using expanded IGO membership data. The analysis specifically examines the effect of memberships in IGOs with no significant political-economic functionality. The finding of the analysis (provided in Table 8 in the appendix.) suggests memberships in non-political-economic IGOs fail to precipitate the same effect on government credibility as memberships in institutionalized political-economic IGOs, confirming the distinctive impact of political-economic IGOs on government behavior.

<sup>25</sup>Years since independence has been used to instrument for democracy in existing studies (Eichengreen and Leblang, 2008; Milner and Mukherjee, 2009; Pandya, 2014) for its significant association with democratization. As the succeeding analysis shows, it is an even stronger correlate for IGO memberships.

<sup>26</sup>This understanding underlies the use of this variable as an instrument for understanding the driving forces of economic liberalization policy in studies such as Eichengreen and Leblang (2008) and Pandya (2014).

Table 5: Instrumenting for IGO Membership: 2SLS Results

	Full Sample		XCONST		EXPOS		Added Instrument	
	(1.1) 1st Stage	(1.2) 2nd Stage	(2) <i>low</i> [<4]	(3) <i>high</i> [≥ 4]	(4) <i>low</i> [< 13]	(5) <i>high</i> [≥ 13]	(6.1) 1st Stage	(6.2) 2nd Stage
IGO		1.500*** (0.347)	1.872*** (0.438)	0.403 (0.863)	1.119*** (0.399)	3.106*** (1.105)		1.490*** (0.354)
Years since Independence	0.414*** (0.00748)						0.410*** (0.00731)	
Natural Resource Rent							-8.699*** (0.921)	
XCONST	0.0466 (0.0427)	-0.210 (0.633)	2.048* (1.067)	-9.574 (6.631)	-0.0807 (0.660)	-1.311 (1.627)	0.0334 (0.0417)	-0.193 (0.640)
EXPOS	-0.0292 (0.0316)	0.972*** (0.335)	1.020** (0.484)	-0.572 (0.872)	5.918** (2.447)	1.424*** (0.282)	-0.0471 (0.0309)	0.981*** (0.334)
GDP	0.651* (0.395)	3.456 (3.480)	3.697 (5.063)	103.1** (46.36)	58.92* (35.52)	0.0296 (2.449)	0.746* (0.386)	3.383 (3.448)
Per capita GDP	-0.164 (0.326)	3.931 (4.017)	5.020 (4.815)	-11.74 (19.63)	0.735 (5.988)	-4.352 (7.604)	0.0100 (0.319)	3.994 (3.973)
GDP Growth	-0.00829 (0.00826)	0.316** (0.125)	0.246* (0.139)	0.414* (0.244)	0.312** (0.133)	0.372* (0.197)	-0.00115 (0.00810)	0.310** (0.125)
Trade Openness	-0.00588** (0.00288)	0.0358 (0.0446)	0.0643 (0.0659)	0.0926 (0.0778)	0.0656 (0.0526)	-0.0839 (0.0656)	0.000922 (0.00290)	0.0333 (0.0447)
FDI Inflow	-0.0308 (0.0192)	-0.155 (0.295)	-0.0348 (0.313)	-1.083 (0.957)	-0.217 (0.405)	-0.345* (0.205)	-0.0180 (0.0187)	-0.154 (0.294)
Years in Office	0.00804 (0.00710)	0.220** (0.101)	0.200 (0.130)	-0.0359 (0.175)	0.199* (0.111)	0.264 (0.172)	0.00488 (0.00693)	0.225** (0.101)
Capital Acc't Freedom	0.860*** (0.264)	6.391 (4.315)	7.877 (5.834)	13.23 (8.527)	5.655 (4.972)	-2.821 (4.547)	0.736*** (0.258)	6.486 (4.307)
Lagged DV	-0.000601 (0.00116)	0.676*** (0.0412)	0.643*** (0.0542)	0.614*** (0.112)	0.667*** (0.0444)	0.590*** (0.0685)	-0.00146 (0.00114)	0.676*** (0.0419)
<i>F</i> -test (excluded instruments)	453.5	-	573.4	88.75	142.5	199.3	444.4	-
<i>p</i> -value	(<0.01)	-	(<0.01)	(<0.01)	(<0.01)	(<0.01)	(<0.01)	-
Hansen <i>J</i> -statistic	-	-	-	-	-	-	-	0.105
<i>p</i> -value	-	-	-	-	-	-	-	(0.746)
<i>t</i> -test for diff. in IGO coefficient			46.2668		49.8197			
<i>p</i> -value (one-tailed)			(<0.01)		(<0.01)			
Countries	105	105	91	45	99	17	105	105
Observations	1748	1744	1303	439	1539	199	1742	1738

The 1st stage regression results for model (2)-(5) are omitted. Results of *F*-test are presented instead.

All regressions includes country fixed effect. Cluster robust standard errors in parentheses

\*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

The results of 2SLS fixed effect regressions are presented in Tabel 5. Model (1.x) uses the full sample of nondemocratic regimes and implements “Years since Independence” as the only instrument for IGO membership. As the first stage regression result in model (1.1) shows, “Years since Independence” is a very strong predictor for IGO membership even after controlling for a series of significant exogenous regressors. In the second stage results shown in Model (1.2), IGO membership acquires positive and highly significant (at 0.01 level) coefficient. To detect the conditioning effect of XCONST, the full sample was divided into two sub-samples by the level of domestic constraint in model (2) and (3).<sup>27</sup> As the result shows, the coefficient of IGO is positive and highly significant in the sub-sample with XCONST lower than 4 but not in the sub-sample with higher levels of domestic

<sup>27</sup> Interaction terms are avoided due to issues with identification in 2SLS.

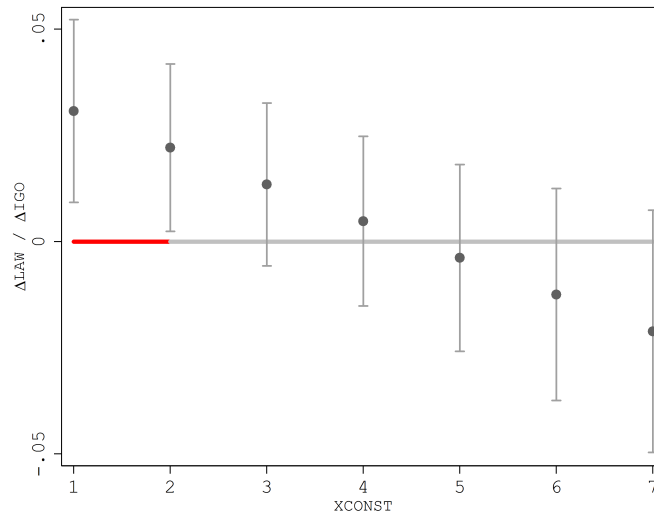


Figure 4: Marginal Effect of IGO Membership on Law & Order Index. Point estimates shown by solid dots and 95% confidence interval shown by capped spikes. Figure generated using estimation obtained in Model (3) of Table 6.

constraint (model 3)<sup>28</sup>. In model (4) and (5), the full sample is similarly divided into two by the level of inward economic exposure. The coefficient of IGO is significant in both models but the magnitude of the effect in the sub-sample with higher levels of EXPOSR is much larger (3.106 versus 1.119).<sup>29</sup> The issue of weak instruments, as the result of the  $F$ -test from the first stage regression suggests, is unlikely to be a concern.

For the purpose of providing additional evidence on instrument exogeneity, another instrument is added to allow for testing for overidentifying restrictions. The additional instrument is “Natural Resource Rent” which is shown to adversely affect IGO membership.<sup>30</sup> The Hansen  $J$ -test in Model (6.2) produce  $p$ -value of 0.746, suggesting the null hypothesis that overidentifying restrictions are valid cannot be rejected. The results from 2SLS models are generally consistent with the results of previous analyses.

#### 4.4 Further Robustness Check: IGO Membership, Rule of Law, and Protection Against Expropriation

To evaluate the robustness in the preceding empirical finding, this sub-section employs alternative measures of the credibility of property rights commitment – *Law & Order* and *Property Rights Index*

<sup>28</sup>This result stays robust when using 5 as the cut-point.

<sup>29</sup>A simple  $t$ -test shown in lower part of Table 5 suggests the difference between IGO coefficient is also extremely significant with  $p$ -value smaller than 0.01.

<sup>30</sup>This variable, however, may be questioned as the exclusion restrictions may not be satisfied as natural resource income could affect domestic institutional quality independent of involvement in international institutions.

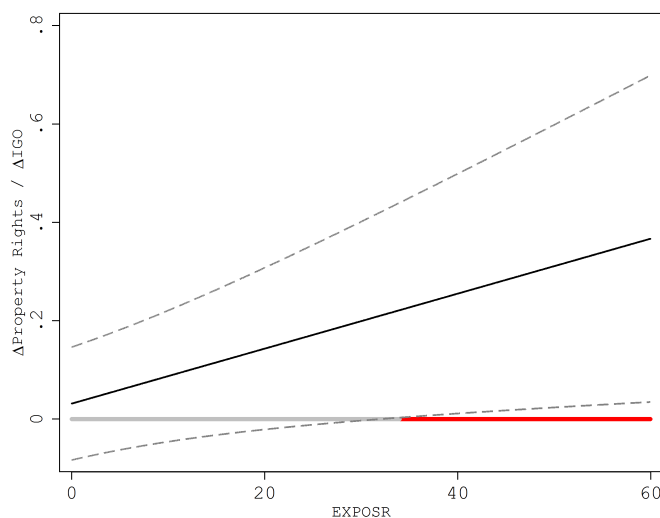


Figure 5: Marginal Effect of IGO Membership on Property Rights Index. 95% confidence interval shown with dash lines. Figure generated using estimation obtained in Model (5) of Table 6.

from International Country Risk Guide (ICRG). Quantifying the “strength and impartiality” of the domestic legal system (Howell, 2011), the *Law & Order* Index has been used in the existing studies to provide measures of the rule of law as well as the legal capacity of political regimes. *Property Rights* Index is a composite measure combining the efficiency in government bureaucracy with the perception of corruption.<sup>31</sup> The notable distinction between the two lies in that the former corresponds more to so-called “contracting institutions” and the latter corresponds more to “property rights institutions” in the framework provided by North (1981)<sup>32</sup>. In light of the work of Acemoglu and Johnson (2005), both contracting and property rights institutions contribute separately to the commitment capability of governments, which then shapes the ensuing developmental outcomes. As Contract-intensive Money constitutes a *behavioral* proxy for the outcome of domestic institutions, the two indexes from ICRG more directly capture different *institutional* and *procedural* aspects of the domestic commitment process. Given the close association between the two types of institutions with the commitment capability of the state, examining the conditional impact on IGO memberships could yield additional and more nuanced evidence for the theoretical argument put forth. The model fitted in this sub-section adopts the same specification as those in Equation 4.1 and Table 4.

The key results from the estimation as shown in Table 6 is, in general, in line with those in models using Contract-intensive Money as the DV (Table 4 and 5). The two key coefficients of interaction terms in testing the hypotheses,  $\beta_{12}$  and  $\beta_{13}$  all gain the expected signs (negative and positive) across

<sup>31</sup> Adopted from Moon (2015), the component variables of *Property Rights* Index includes government stability, corruption, and bureaucratic quality from ICRG cross-country dataset.

<sup>32</sup> Contracting institutions provide an impartial and efficient legal framework that support private contracting practice to facilitate transactions while property rights institutions provide checks against expropriation by the political authority.

Table 6: IGO Membership, Rule of Law and Private Property Rights

	<i>Law &amp; Order</i>			<i>Property Rights</i>		
	(1)	(2)	(3)	(4)	(5)	(6)
IGO [ $\beta_1$ ]	0.0343** (0.0138)	0.0343** (0.0138)	0.0344** (0.0138)	0.0374 (0.0627)	0.0316 (0.0617)	0.0364 (0.0627)
XCONST	0.234*** (0.0750)	0.231*** (0.0763)	0.235*** (0.0751)	0.667 (0.447)	0.613 (0.431)	0.669 (0.451)
EXPOSR	-0.0263 (0.0159)	-0.0280 (0.0172)	-0.0252 (0.0171)	-0.166** (0.0686)	-0.183** (0.0719)	-0.177** (0.0688)
IGO $\times$ XCONST [ $\beta_{12}$ ]	-0.00860*** (0.00292)	-0.00855*** (0.00294)	-0.00864*** (0.00293)	-0.0205 (0.0182)	-0.0192 (0.0179)	-0.0204 (0.0183)
IGO $\times$ EXPOSR [ $\beta_{13}$ ]	0.000577 (0.000742)	0.000640 (0.000790)	0.000552 (0.000793)	0.00491* (0.00250)	0.00559** (0.00259)	0.00526** (0.00246)
GDP	0.0877 (0.0670)	0.0881 (0.0688)	0.0854 (0.0731)	0.431*** (0.153)	0.425*** (0.158)	0.583*** (0.182)
Per capita GDP	0.148** (0.0699)	0.152** (0.0757)	0.149** (0.0697)	1.106*** (0.393)	1.118*** (0.379)	1.119*** (0.396)
GDP Growth	0.00289 (0.00292)	0.00276 (0.00292)	0.00284 (0.00291)	0.0199 (0.0121)	0.0203 (0.0122)	0.0198 (0.0120)
Trade Openness	0.000612 (0.00101)	0.000623 (0.00100)	0.000712 (0.000988)	0.00819* (0.00420)	0.00807* (0.00424)	0.00875** (0.00429)
FDI Inflow	0.00733* (0.00369)	0.00731* (0.00376)	0.00659* (0.00377)	-0.000845 (0.0186)	-0.00111 (0.0189)	-0.00437 (0.0182)
Natural Resource Rent	0.412 (0.320)	0.417 (0.326)	0.413 (0.320)	1.379 (1.152)	1.599 (1.108)	1.226 (1.167)
New Executive		0.00530 (0.0381)			-0.00623 (0.161)	
Years in Office		-0.00122 (0.00200)			-0.0135 (0.0131)	
Govern't Size		-0.000901 (0.00620)			0.0164 (0.0257)	
World Bank Program			-0.0000609 (0.00755)			0.0428 (0.0264)
IMF Program			-0.0476 (0.0423)			-0.109 (0.207)
Lagged DV	0.818*** (0.0204)	0.819*** (0.0205)	0.817*** (0.0202)	0.802*** (0.0200)	0.803*** (0.0208)	0.801*** (0.0205)
Wooldridge Test ( $p$ -value)	0.143	0.085	0.097	0.091	0.094	0.109
$r^2$	0.823	0.823	0.823	0.793	0.794	0.794
$\rho$	0.403	0.401	0.410	0.367	0.369	0.365
Year Fixed Effect	yes	yes	yes	yes	yes	yes
Countries	78	78	78	79	79	79
Obs.	1060	1060	1060	1078	1078	1078

All models are within effect panel models with year dummies (1974-2005) included.  
Cluster standard errors in parentheses: \* ( $p < 0.10$ ), \*\* ( $p < 0.05$ ), \*\*\* ( $p < 0.01$ )

the six models in Table 6, a result consistent with estimations in Table 4. The statistical significance of  $\beta_{12}$  and  $\beta_{13}$ , however, varies:  $\beta_{12}$ , representing the conditioning effect of XCONST, is significant at 0.05 level only in models of *Law & Order* (Model (1)-(3)).  $\beta_{13}$ , representing the conditioning effect of EXPOSR is significant only in models of *Property Rights* (Model (4)-(6)). Based on these results, the enhancing effect of IGO membership on the rule of law seems to be more strongly affected by executive constraints (shown in Figure 4) while its enhancing effect on the protection against expropriation is more strongly conditioned by inward economic exposure (shown in Figure 5). This observation generates meaningful implications. First, the constraints imposed by IGOs are likely to lead to more pronounced improvements in the rule of law in autocratic regimes severely lacking checks and balances on the executive power. In light of the burgeoning literature on the rule of law in authoritarian regimes (e.g., Ginsburg and Moustafa (2008)), autocratic politics and the legal system interact with each other in intricate ways. The presence of external institutional rules could shape the role that the authoritarian government plays in the evolution of the domestic legal infrastructure. Second, the property rights-enhancing effect of IGO memberships is likely to be much stronger in autocratic states with a greater exposure to the international integration of production factors. This observation is in line with recent studies highlighting the positive mediating effect of transnational economic linkages on the protection against government predation in non-democratic regimes (Wang, 2015; Johns and Wellhausen, 2016). While more dedicated theoretical and empirical enterprises are to be undertaken to further unpack the effect of global economic and institutional integration on distinct aspects of domestic institutions in the autocratic context, the key result of this robustness analysis is likely to confirm the key findings in the main analysis.

## 5 Conclusion

Broadly conceived, this paper seeks to contribute to understanding the interaction between the global economic networks and the politics of governance at the domestic level. With the unveiling of a puzzling association between property rights commitment and political accountability among non-democratic regimes, this paper provides an analytical perspective that connects intergovernmental organizations and global integration of production with the evolving structure of economic governance. What is to be highlighted in such a perspective is the role of international organizations in indirectly shaping the behavior of national governments. The process of global economic integration has long been conceived by some to have the effect of eroding the power of sovereign states. Scholars, however, have yet to more systematically examine the interaction between the diffusive economic forces of globalization and the expanding institutional infrastructure of global governance, as well as the impact of such interaction on the governance at the domestic level. As this paper argues, international institutions are potentially able to reshape the distribution of bargaining power between a powerful government and the private economic actors without directly wielding the kind of institutional influence traditionally believed necessary to alter government behavior. The institutional infrastructure



of intergovernmental organizations could do a tremendous service to the transnational market actors who are usually disadvantaged in dealing with national governments.

The evidence collected from a series of analysis of a panel dataset largely supports the theoretical argument. Most importantly, the involvement in political-economic IGOs is more likely to contribute to a greater domestic credibility of the government when the domestic constraints on the executive are weak and when the integration of foreign production factors in the economy is substantial. This finding stays robust as the analysis accounts for a variety of potential biases. It is also found that the effect of political-economic IGOs in improving the rule of law is more sensitive to the preexisting constraints on the government, while their effect in enhancing private property rights is more sensitive to the integration of foreign production factors. While this paper collected aggregated-level evidence to substantiate the theoretical claims, future studies will significantly benefit from micro empirical evidence that more specifically connects the market behavior of international actors with the institutional functioning of intergovernmental organizations, thus marching the empirics further with decomposed causal components and linkages.

## **A Additional Tables**

Table 7: Summary Statistics and Source of Data

<b>Variable</b>	<b>Mean</b>	<b>Std. Dev.</b>	<b>Min.</b>	<b>Max.</b>	<b>N</b>	<b>Source</b>
Confrac-intensive Money	75.7	10.1	36.2	93.8	1967	IMF International Financial Statistics
Political Economic IGOs Membership	21.063	5.921	7	39	1967	Correlates of War Project
EXCONST	2.67	1.639	1	7	1967	Polity IV Project
EXPOSR	11.23	5.45	0	59.26	1949	IMF Balance of Payment Statistics
Years since Independence	31.648	12.692	1	60	1967	Correlates of War Project
GDP (real)	764.40	3019.58	1.04	56259.67	1936	Penn World Tables 8.1
GDP per capita	42.25	61.92	2.89	489.40	1936	Penn World Tables 8.1
GDP Growth	3.91	5.87	-50.248	71.188	1873	Penn World Tables 8.1
Trade Openness	73.672	52.062	6.32	442.475	1936	Penn World Tables 8.1
FDI Inflows	3.343	3.17	-8.423	11.672	1913	World Development Indicators
Natural Resource Rent	0.072	0.147	0	1.139	1890	World Development Indicators
New Executive	0.113	0.317	0	1	1967	Database of Political Institutions ( <a href="#">Beck et al., 2001</a> )
Years in Office	9.74	8.543	1	46	1954	Database of Political Institutions ( <a href="#">Beck et al., 2001</a> )
Government Size	11.691	8.572	0.898	58.641	1936	IMF Government Financial Statistics
Capital Account Freedom	0.331	0.312	0	1	1902	Chinn-Ito Index ( <a href="#">Chinn and Ito, 2008</a> )
World Bank Program	1.315	2.401	0	19	1967	<a href="#">Boockmann and Dreher (2003)</a>
IMF Program	0.249	0.432	0	1	1967	<a href="#">Dreher (2006)</a>

Table 8: IGO Membership and Contract-intensive Money: A Placebo Test

	All IGOs				Non Political-Economic IGOs			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
IGO Membership	-0.490 (0.313)	-0.383 (0.380)	-0.414 (0.374)	-0.373 (0.374)	-0.703* (0.313)	-0.671 (0.380)	-0.765 (0.374)	-0.675 (0.374)
XCONST	-0.0132 (0.629)	2.167 (2.845)	1.976 (2.820)	1.955 (2.838)	0.00154 (0.629)	0.369 (2.440)	0.116 (2.386)	0.0516 (2.447)
EXPOSR	0.732* (0.389)	-0.196 (0.983)	0.144 (0.978)	-0.239 (0.995)	0.761* (0.395)	0.685 (0.907)	0.941 (0.859)	0.654 (0.933)
IGO×XCONST		-0.0401 (0.0489)	-0.0308 (0.0489)	-0.0368 (0.0486)		-0.0111 (0.0695)	0.00672 (0.0692)	-0.00262 (0.0695)
IGO×EXPOSR		0.0143 (0.0137)	0.00975 (0.0139)	0.0134 (0.0139)		0.00184 (0.0171)	-0.00300 (0.0165)	0.0000518 (0.0175)
GDP	7.628 (4.716)	5.949 (4.373)	6.325 (4.384)	8.705* (4.684)	7.540 (4.674)	7.422 (4.534)	7.619* (4.427)	10.27** (4.750)
Per capita GDP	5.992* (3.578)	7.468* (4.124)	7.211* (4.336)	8.184* (4.164)	5.778 (3.494)	5.913 (3.841)	5.604 (4.034)	6.603* (3.828)
GDP Growth	0.311*** (0.116)	0.309*** (0.116)	0.303** (0.117)	0.322*** (0.118)	0.310*** (0.116)	0.310*** (0.116)	0.304** (0.118)	0.323*** (0.118)
Trade Openness	0.0542 (0.0408)	0.0574 (0.0433)	0.0525 (0.0448)	0.0548 (0.0437)	0.0504 (0.0413)	0.0511 (0.0422)	0.0443 (0.0438)	0.0484 (0.0426)
FDI Inflow	-0.344 (0.335)	-0.356 (0.334)	-0.337 (0.333)	-0.315 (0.328)	-0.337 (0.334)	-0.340 (0.336)	-0.319 (0.336)	-0.298 (0.331)
Natural Resource Rent	-11.77 (21.22)	-11.58 (21.16)	-14.24 (20.62)	-12.29 (21.28)	-8.805 (20.94)	-8.792 (20.98)	-11.40 (20.15)	-9.634 (21.08)
New Executive			0.532 (1.523)				0.665 (1.525)	
Years in Office			0.274** (0.105)				0.293*** (0.107)	
Govern't Size			-0.456 (0.377)				-0.478 (0.379)	
World Bank Program				0.512 (0.337)				0.525 (0.341)
IMF Program				3.804* (2.176)				3.847* (2.194)
Lagged DV	0.694*** (0.0415)	0.694*** (0.0416)	0.684*** (0.0414)	0.694*** (0.0415)	0.693*** (0.0415)	0.693*** (0.0415)	0.683*** (0.0415)	0.693*** (0.0415)
$r^2$	0.639	0.640	0.641	0.641	0.640	0.640	0.642	0.641
sigma_u	31.09	30.99	31.18	30.17	31.69	31.66	32.10	30.85
sigma_e	24.63	24.64	24.62	24.61	24.62	24.64	24.61	24.60
$\rho$	0.614	0.613	0.616	0.600	0.624	0.623	0.630	0.611
Year fixed effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Countries	105	105	105	105	105	105	105	105
Obs.	1781	1781	1775	1781	1781	1781	1775	1781

Standard errors in parentheses: \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

Model (1)-(3) examines the effect of memberships in all IGOs regardless of functionality, whereas model (4)-(6) examines the effect of memberships in non-political-economic IGOs on government credibility. In the baseline model (i.e., model (1) and (4)) where the effect of IGO membership is assumed to unconditional, neither all IGO memberships nor non-political-economic IGO memberships show a significant effect on Contract-intensive Money at the 0.05 level. In model (4), memberships in non-political-economic organizations even shows a negative impact on government credibility at the 0.10 significance level. Most importantly, the interaction terms between all/non-political-economic IGO membership and CONST/EXPOSR fail to gain statistical significance at 0.10 level, suggesting the conditional effect of political-economic IGOs documented in the main analysis (Table 4) is inapplicable to IGOs with low levels of institutionalization and do not cover significant issues and topics with regard to national political economy.

Table 9: Country Coverage and Time Span in the Main Analysis

Country	Year	Country	Year	Country	Year
Afghanistan	1989-1991	Gabon	1978-2005	Niger	1974-2003
Albania	1994-2001	Gambia	1994-1998	Nigeria	1977-2005
Algeria	1977-2005	Gambia	2003-2005	Oman	1977-2005
Angola	1995-2005	Georgia	1997-2003	Pakistan	1977-1987
Argentina	1976-1982	Ghana	1975-2000	Pakistan	1999-2005
Armenia	1995-2005	Guatemala	1977-1995	Papua New Guinea	1977-2005
Azerbaijan	1995-2005	Guinea	1991-2005	Paraguay	1975-1991
Bahrain	1976-2005	Guinea-Bissau	1986-2004	Peru	1977-2000
Bangladesh	1976-1990	Guyana	1977-1985	Philippines	1977-1986
Belarus	1996-2005	Haiti	1972-2005	Poland	1986-1990
Benin	1979-1990	Honduras	1975-1988	Portugal	1975-1976
Bolivia	1976-1981	Hungary	1986-1989	Romania	1976-1995
Botswana	1976-1986	Indonesia	1981-1998	Rwanda	1976-2005
Brazil	1975-1984	Iran	1977-2000	Saudi Arabia	1986-2005
Burkina Faso	1988-2005	Jordan	1972-2005	Senegal	1974-1999
Burundi	1985-2005	Kazakhstan	1997-2005	Sierra Leone	1977-2005
Cambodia	1995-2005	Kenya	1975-2001	Singapore	1972-2005
Cameroon	1977-2005	South Korea	1976-1987	South Africa	1972-1990
Cape Verde	1982-1990	Kuwait	1986-2005	Spain	1975-1977
Central African Republic	1977-1994	Kyrgyzstan	1997-2005	Sri Lanka	1982-2005
Chad	1977-1994	Laos	1989-2005	Sudan	1977-2005
Chile	1975-1988	Lesotho	1980-2000	Swaziland	1974-2005
China	1988-2005	Liberia	1979-2005	Syria	1977-2005
Comoros	1982-1995	Libya	1986-2005	Tajikistan	2002-2005
Republic of Congo	1978-2005	Madagascar	1975-1991	Tanzania	1977-2005
Cote d'Ivoire	1975-2005	Malawi	1977-2003	Thailand	1975-1990
Djibouti	1991-2005	Malaysia	1975-2005	Togo	1974-2005
Dominican Republic	1972-1977	Mali	1975-1991	Tunisia	1976-2005
Ecuador	1976-1978	Mauritania	1975-1998	Turkey	1980-1982
Egypt	1977-2005	Mexico	1979-1996	Uganda	1980-2005
El Salvador	1976-1983	Morocco	1975-2005	Uruguay	1978-1984
Equatorial Guinea	1987-1996	Mozambique	1988-2005	Vietnam	1996-2002
Eritrea	1998-2005	Namibia	1994-2005	Yemen	1995-2005
Ethiopia	1977-2005	Nepal	1976-2005	Zambia	1978-2005
Fiji	1988-2003	Nicaragua	1977-1989	Zimbabwe	1984-1994

## B Political Economic IGOs: Trend and List

Table 10: Total Number of Political-economic IGOs: 1975-2005

Types of IGOs	1975	1985	1995	2005
<i>Political-economic</i>	74	102	126	119
<i>Non-political-economic</i>	166	191	211	225
<i>All</i>	240	293	337	344

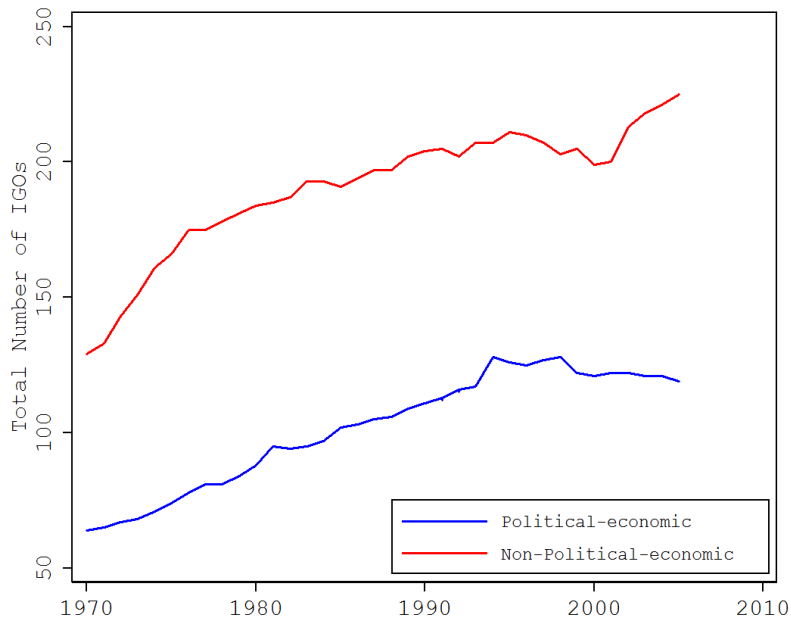


Figure 6: Political-economic and non-political economic IGOs: 1970-2005

## **B.1 List of Political-economic IGOs**

<b>COW-IGO code</b>	<b>Full Name of IO</b>
AAAID	Arab Auth. for Ag. Invest. & Development
AACB	Assoc. of African Central Banks
AALCO	Asian-African Legal Consultative Org
AARO	Afro-Asian Rural Development Org
AATA	Assoc. of African Tax Administrators
AATPO	Assoc. of Afr. Trade Promotion Orgs.
ABEDA	Arab Bank for Econ. Dev. in Africa
ACP	ACP Group
ACPEU	ACP/EU Joint Assembly
ACS	Association of Caribbean States
ACSO	African Civil Service Observatory
ACSSRB	Administrative Center for Soc Security for Rhine Boatmen
ACU	Asian Clearing Union
AfDB	African Development Bank
AFESD	Arab Fund for Social/Economic Development
AFEXIMB	Afr. Exp/Import Bank
AFGEC	Afr. Fund Guarantee & Econ. Coop.
AGPUNDO	Arab Gulf Prog. for UN Dev. Org.
AIC	Arab Investment Company
AIDO	Arab Industrial Devel. & Mining Org.
AIOEC	Assoc. Iron Ore Expt. Countries
AIPO	African Intellectual Property Organization
ALO	Arab Labor Org.
AMF	Arab Monetary Fund
AMU	Arab Maghreb Union
AOAD	Arab Org for Ag. & Develop.
AP	Andean Parliament
APEC	Asia-Pacific Economic Cooperation
APO	Asian Productivity Organization
ARC	Asian Reinsurance Corp.
ARIPO	Afr. Regional Industrial Property Org.
ASBLAC	Assoc. Superv. Banks of L/A & Caribb.
AsDB	Asian Dev. Bank
ASEAN	Association of Southeast Asian Nations
ASPAC	Asia & Pacific Council
AU	African Union
BENELUX	Benelux Community
BESCC	Benelux Economic & Social Cons. Committee
BIS	Bank for International Settlements
BNDP	Board of Nordic Dev. Projects
BSEC	Black Sea Economic Council
CAAD	Concerted Action for African Develop.
CAECC	Central Asian Economic Community
CAMSF	Cent. Am Monetary Stab.
CARICOM	Caribbean Community
CARIFTA	Caribbean Free Trade Association



<b>COW-IGO code</b>	<b>Full Name of IO</b>
CBSS	Council of Baltic Sea States
CDB	Caribbean Development Bank
CEAO	West African Economic Community
CEEPN	Central & Eastern Eur. Privatization Network
CEFTA	Central Europe FTA
CEMAC	Central African Economic & Monetary Union
CEPGL	Economic Community of Great Lakes States
COE	Council of Europe
COMESA	Comm Market for East/South Africa
DBGLS	Dev. Bank of Great Lake States
EACS	Sec. for the Commission for East Afr. Coop.
EACM	Comm Market for East/South Africa
EADB	East African Development Bank
EAPC	Euro-Atlantic Partnership Council
ECCM	European Common Market
ECSC	European Coal & Steel Community
EBRD	European Bank for Reconstruction & Development
ECB	European Central Bank
ECCAS	Economic Community of Central African States
ECCB	Eastern Caribb. Central Bank
ECO	Economic Cooperation Organization
ECOWAS	Economic Community of West African States
EFTA	Euro Free Trade Assn
EIB	Euro Investment Bank
EEC	European Economic Community
EMI	European Monetary Institute
Entente	Entente Council
EPO	European Patent Organization
EU	European Union
G24	Group of 24
GATT	General Agreement on Tariffs and Trade
GCC	Gulf Cooperation Council
GRBDO	Gambia River Basin Dev. Org.
IADB	Inter-Am Dev Bank
IAIC	Inter-Am Invest Corp.
IAIGC	Inter-Arab Investment Guarantee Corp.
IBEC	Intl Bank Economic Coop
IBRD	International Bank for Reconstruction and Development
IFAD	Int Fund for Agriculture & Development
IFC	Int'l Financial Corporation
ILO	Intl Labour Org
IMF	Intl Monetary Fund
ISB	Interstate Bank
ISDB	Islamic Dev. Bank
IUPIP	Intl Union for Protection of Industrial Prop
LAFTA	Latin American Free Trade Area

<b>COW-IGO code</b>	<b>Full Name of IO</b>
LAIA	Latin Am Integration Assn
LOAS	League of Arab States
Mercosur	MERCOSUR
MIGA	Multilateral Investment Guarantee Agency
NAFTA	North American FTA
NCM	Nordic Council of Ministers
NDF	Nordic Development Fund
NIB	Nordic Investment Bank
NordC	Nordic Council
OAU	Org for African Unity
OECD	Org for Econ Coop and Development
OECS	Org. Eastern Caribbean States
OSLO	Oslo Commission
PCA	Permanent Court of Arbitration
PTASEA	Pref Trade Area: S & E Africa
PIPD	Partners in Population & Development
SAARC	South Asian Assoc Regional Coop
SACU	Southern African CU
SADC	Southern African Dev. Community
SELA	Latin American Economic System
SICA	Central American Integration System
SIECA	General Treaty on Cent Am Econ Integration
SEGIB	Ibero-American General Secretariat
TIC	Trade/Invest Council
UDEAC	Central African Customs & Economic Union
UEMOA	West African Economic & Monetary Union
UMAC	Central African Monetary Union
UN	United Nations
UMOA	West African Monetary Union
UNDROIT	Intl Instit for Unification of Private Law
UNIDO	UN Industrial Development Org
WCO	World Customs Org
WEU	Western European Union
WIPO	World Intell Prop Org
WTO	World Trade Org
AmCC	Amazonian Coop. Council

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