

The Consequences of Membership Suspension from International Organizations

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IO Suspensions

- International organizations (IOs) can suspend states that violate the group's agreements
- Focus on most common type: 48/95 after political backsliding
 - Coups, election irregularities, HR violations, democracy reversion
- Examples:
 - ✓ Egypt from African Union, 2013
 - ✓ Syria from Org of Islamic Conference, 2012
 - ✓ Paraguay from Mercosur, 2012
- **Research Question: Do IO suspensions generate reputational and material costs for states?** Arguments for and against...

Preview of Findings

Yes! IO suspensions for political backsliding generate reputational and material costs:

- ✓ Market analysts use IO suspension as a heuristic to **downgrade** the country's ability to honor its commitments
- ✓ **Country risk ratings** worsen/become less favorable
- ✓ Trickle down effects on the int'l flow of capital: **FDI and ODA**

Contributions to 3 literatures:

1. Role of IOs in sending signals / information provision
2. Effect of IO membership on state reputation
3. Debate on whether IO treaties are “scraps of paper”

Figure 1: IO Suspensions, 1980-2010

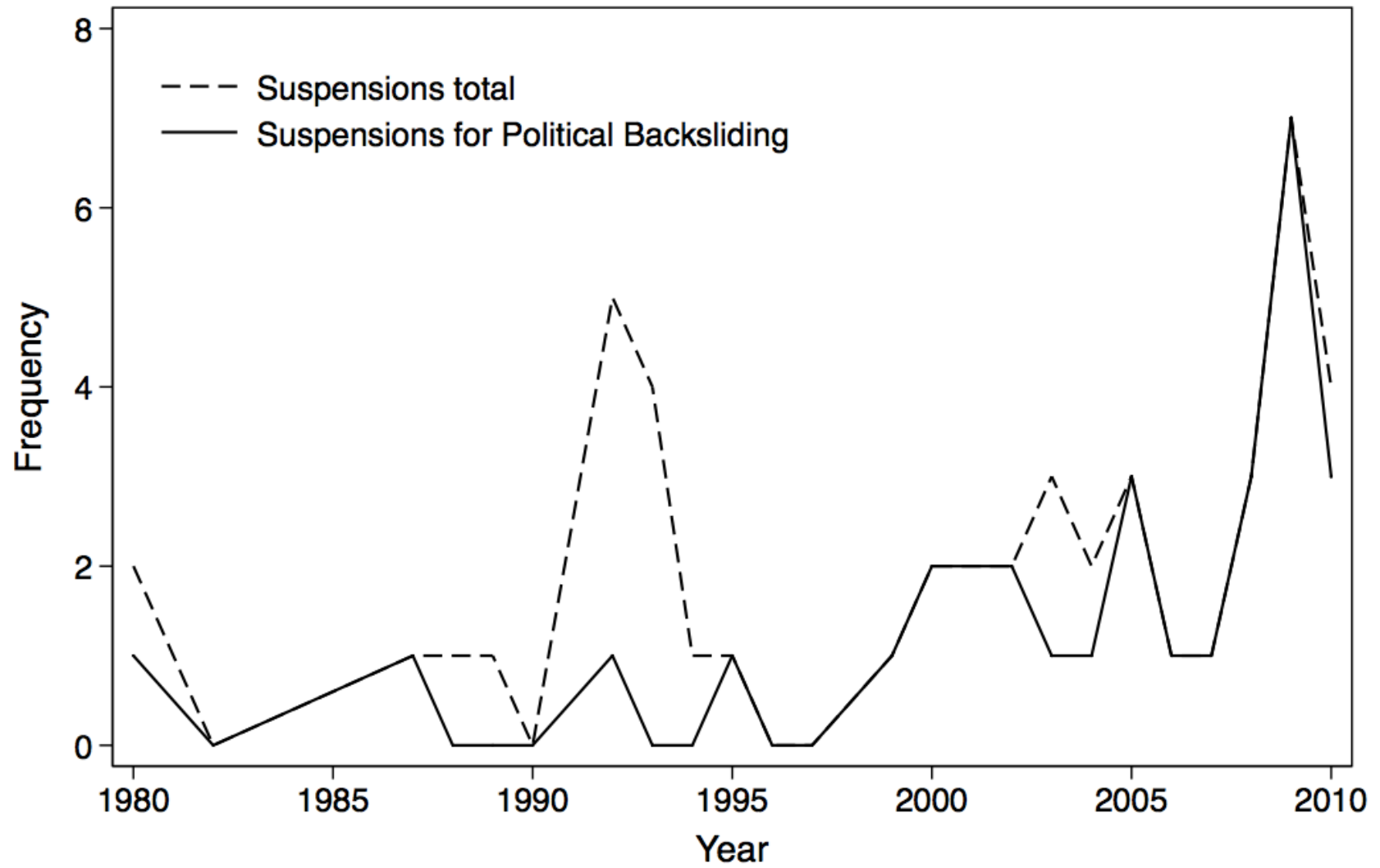
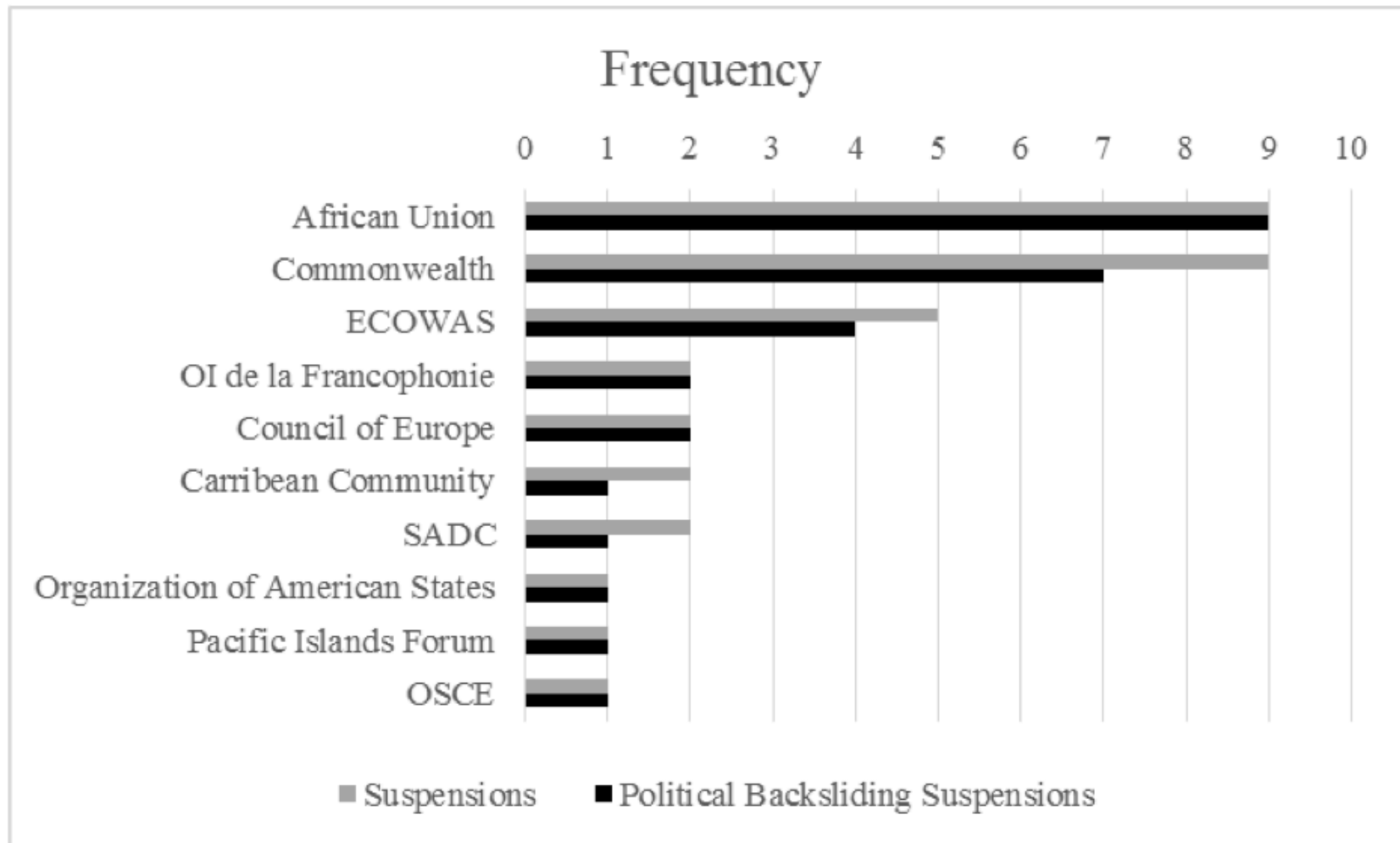


Figure 2: IGO Suspensions across IGOs, 1980-2010
 (some countries get suspended from multiple IGOs for same violation)



Theory

(1) IOs as credible commitment devices

- Costs associated with fulfilling accession conditions
- Costs that might come from being removed
- Suspended countries should be *less* credible because they break int'l agreements

(2) IO accession and market benefits

- Accession provides “seal of approval” of policies
- Allows investors’ expectations to converge; boosts markets
- Opposite should also hold: IO suspension as a “heuristic of disapproval,” country associated with more economic *risk*

Identification Challenge

- **Hypothesis:** When a country is suspended from an IO, its market credibility worsens
- Distinguish the effect of backsliding from suspension
 - Political backsliding itself may create market uneasiness!
- **IO suspensions provide clear signal**
 1. Political backsliding often difficult to interpret
 2. ... especially in information-poor developing countries
 3. IO signal when individual states are reticent to speak out

Research Design

- **Compare** countries that backslide *and* are suspended to similar countries that backslide but are *not* suspended
- **Universe of cases** = backsliding country-years, worldwide 1980-2010
- **Unit of Analysis:** country-year

Research Design

- **IV:** IO suspension due to political backsliding (original data)
- **DVs:** Yearly *change* in perceptions and outcomes
 - Perceptions: Political risk score, Risk premiums and Transfer risk
 - Outcomes: FDI as % of GDP, ODA as % of GDP
- **Controls:** GDP pc, GDP growth, trade, inflation, real interest rate, law and order, backsliding severity
- **Model:** OLS with robust SEs clustered on country

Results

Table 3: IO Suspensions and Change in Other Risk Ratings, FDI and ODA, 1980-2010

	(1) PRS	(2) Risk Premium	(3) Transfer Risk	(4) FDI	(5) ODA
IO Suspension	-3.392 (1.857)*	-3.977 (1.788)**	-0.060 (0.034)*	-1.343 (0.456)***	-1.649 (1.212)
Law and order index	-0.533 (0.160)***	-0.321 (0.303)	-0.027 (0.019)	0.081 (0.050)	-0.349 (0.214)
GDP per capita, logged	0.175 (0.143)	0.775 (0.370)**	0.029 (0.017)*	0.098 (0.078)	-0.321 (0.387)
Trade as % of GDP	0.000 (0.003)	-0.002 (0.005)	0.000 (0.000)	-0.003 (0.004)	0.015 (0.013)
GDP growth (annual %)	0.048 (0.029)	-0.067 (0.083)	0.008 (0.004)*	-0.000 (0.042)	0.026 (0.040)
Inflation	0.001 (0.006)	0.127 (0.117)	0.003 (0.002)	-0.002 (0.002)	-0.007 (0.006)
Real interest rate	-0.012 (0.011)	0.161 (0.093)*	0.002 (0.002)	0.003 (0.006)	0.015 (0.011)
Backsliding degree	-0.184 (0.087)**	-0.080 (0.113)	-0.004 (0.003)	0.013 (0.030)	-0.039 (0.123)
Constant	0.608 (1.052)	-7.046 (4.769)	-0.141 (0.125)	-0.598 (0.714)	2.214 (2.417)
Observations	586	287	367	578	490
R^2	0.050	0.215	0.028	0.008	0.025

Notes: Estimation is with pooled OLS. Standard errors are clustered at the country level in parentheses. Estimates significant at the 0.05 (0.10, 0.01) level are marked with ** (*, ***).

Substantive Results

Compared to violating countries which do not get suspended, suspended violators receive:

- ✓ 3.5 point reduction in **political risk scores** (full SD)
- ✓ 4.0 point reduction in **risk premiums** (46% of SD)
- ✓ .06 point reduction in **transfer risk** (15% of SD)
- ✓ 1.3% of GDP less in **FDI** (20% of SD)
- ✓ Less **foreign aid** (not significant)

Robustness checks

- **Post Cold War** as control variable and sample restriction
- Control for **left-leaning governments**
- Control for **drivers of suspension**
 - Powerful allies
 - Natural resources
 - Size of IO
 - Voting threshold in IO
- Expand sample but use **interaction term**: backsliding * susp.

Implications for IR

- **IOs play important role in information provision**
 - Not just when states join IOs
- **IO removal negatively affects state reputation**
 - Suspension increases perception of political risk
- **IOs are not scraps of paper**
 - Breaking agreements impacts international capital flows

Next steps & open questions

- **Further robustness checks**
 - 2-stage sample selection model
 - **More granular data?**
- **Expand effects beyond economic factors**
 - ✓ Better elections?
 - ✓ Swifter return to democratic rule?
 - ✓ Less violence in subsequent weeks?