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

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

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

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?