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## Membership has its Privileges: On the Effects of Delegating Powers Internationally

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Membership has its Privileges -  
On the Effects of Delegating Powers  
Internationally

von

Stefan Voigt

Nr. 73/05

**Volkswirtschaftliche Diskussionsbeiträge**

# Membership has its Privileges – On the Effects of Delegating Powers Internationally

Stefan Voigt, University of Kassel and ICER, Torino\*

*Abstract:*

*This paper analyzes whether nation-state governments can increase their credibility by becoming members of international organizations. Credibility is an important asset because it determines the real interest rate and is expected to have an important impact on investment and growth. It is hypothesized that the degree of delegation to international organizations can improve the credibility of nation-state governments. This hypothesis is tested by introducing a new indicator. On the basis of 136 countries, various versions of an indicator of international delegation are highly significant for explaining variation in countries' credibility. The effect of international delegation on credibility is particularly strong among the group of lower income countries (N=60).*

*Key words: Delegation of Competence, Credibility, Dilemma of the Strong State, International Organizations,*

*JEL classification: F02, F21, H11, K33, P26.*

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## **Membership has its privileges – On the effects of delegating powers internationally**

### **1 Introduction**

Membership in international organizations is often considered to have beneficial consequences for their member countries – as well as for the international community at large. The WTO is supposed to enhance international trade, the IMF is supposed to stabilize the international financial system, the UN are supposed to increase security and peace to name but a few possible examples. But what do we really know about the consequences of being a member in international organizations? In a recently published paper, Rose (2004) was unable to show that GATT/WTO membership had increased international trade. In this paper, we are interested in a slightly different question, namely whether membership in International Organizations (IOs) increases the credibility of member countries – and thus confers privileges onto their members.

It has often been pointed out that it can be a disadvantage to be too strong (e.g. Weingast 1993). A state that is strong enough to protect private property rights and to enforce private contracts is also strong enough to expropriate private wealth. This could be called the dilemma of the strong state. Rational subjects know this and will therefore invest less than they would if they could be sure that the state will not misuse its strength. States that have not had the chance to build up a reputation as being an impartial arbiter will be especially affected. In such cases, the creation of domestic independent agencies will often not be a credible commitment because such agencies can be abolished with relative ease. It might therefore be rational for these countries to delegate relatively more powers internationally. Majone (1996, 12) has even argued that “credibility, rather than the legitimate use of coercion is now the most valuable resource of policy-makers.” It will be asked if policy-makers can “buy” that resource by delegating powers internationally – or whether they will have to “make” it on the nation-state level.

Levy and Spiller (1994, 210) have dealt with the issue of regulatory commitment and have hypothesized that countries that do not have an independent judiciary will have difficulties to develop regulatory systems which attract substantial levels of private investment. In such cases, “alternative mechanisms of securing commitment (like international guarantees) will be necessary (ibid.)” Increasing one’s credibility via international delegation appears a plausible idea. Yet, we know very little about the economic effects of such delegation. This paper aims at

providing some preliminary answers to the question whether international delegation of competences increases government credibility.

Three different indicators to measure the degree of international delegation that a government has committed to are constructed. On the basis of 136 countries, all three indicators are highly significant for explaining the observed variation in the countries' risk ratings that are used as a proxy for credibility here. This is the case even after controlling for other variables such as openness, government consumption, outstanding debt or the debt-to-export ratio. For low income countries (N=60), membership in international organizations has particularly important effects. Thus, membership does seem to have its privileges, especially if one is poor. Ratification of the New York Convention and membership in ICSID (the International Center for the Settlement of Investment Disputes) are particularly conducive to boost credibility.

In this paper, the delegation decisions of governments are taken as exogenously given. We are thus not interested in explaining delegation decisions but in the consequences of delegation decisions. The remainder of the paper is organized as follows: the next section contains a number of arguments in favor of the presupposition that the international delegation of powers could have credibility-enhancing effects. Section three proposes a number of ways to make international delegation measurable – and thus comparable. In section four, our estimation approach is presented, section five contains a discussion of the results and section six concludes.

## **2 Why Should International Delegation Enhance Credibility?**

### **2.1 Some Theory**

Credibility can be an important asset of a government. If a government that promises to enforce private property rights is credible, then actors will invest more than if the government was not credible. Higher investment levels translate into additional income. This, in turn, leads to higher utility levels for both the governed and the governing because higher (aggregate) income also means increased tax revenue. The credibility of a government can thus make everybody better off.

The separation of powers has often been discussed as a way to increase government credibility (Landes and Posner 1975, Barzel 1997, Tsebelis 2002). Beyond the conventional separation into the three functions of legislating, executing and adjudicating, the delegation to independent or non-majoritarian

institutions has received a lot of attention lately (see, e.g. Majone 2001 or Voigt and Salzberger 2002). Independent central banks are the most frequently cited example: on the long run, everybody profits from stable money. On the short run, politicians can, however, increase their popularity by increasing monetary supply. If citizens expect this, the short-term positive effects will not materialize but the policy will nevertheless be costly because it will lead to a higher inflation rate. Delegating monetary authority to an independent central bank can be interpreted as a solution to the problem of time-inconsistent preferences as introduced by Kydland and Prescott (1977). This problem is not unique to monetary policy but can be identified with regard to a variety of government policies including, e.g., environmental and competition policy. Correspondingly, many states have introduced independent agencies that are responsible for policies in these areas.

It would thus seem that rational nation state governments should aim at increasing their credibility by delegating some competence to independent agencies. Yet, creating such agencies and respecting their independence are not identical. Decision-makers who are subject to time-inconsistent preferences and who have delegated decision-making power might be tempted to interfere with the decisions of their agents once a certain decision has to be made. Worse yet, unsatisfied delegators might simply get rid off their delegates or even abolish the independent agency altogether. This problem has been coined “second order commitment problem” (Moser 1999). On a worldwide scale, the effective average term-length of both supreme court judges and central bank governors is substantially below the term-length to be expected according to the statutes of those agencies.<sup>1</sup> Formal delegation is thus not sufficient to solve the problem of time inconsistency. Hence the question is whether other institutional arrangements – like the delegation of competence to IOs – are more likely to make government promises credible.

Actors with time-inconsistent preferences will make decisions that are not in their own long-term interest. They thus have an interest in restructuring the relevant decision-making situations. Rational actors with time-inconsistent preferences will try to transform simple promises (e.g. to enforce private property rights) into

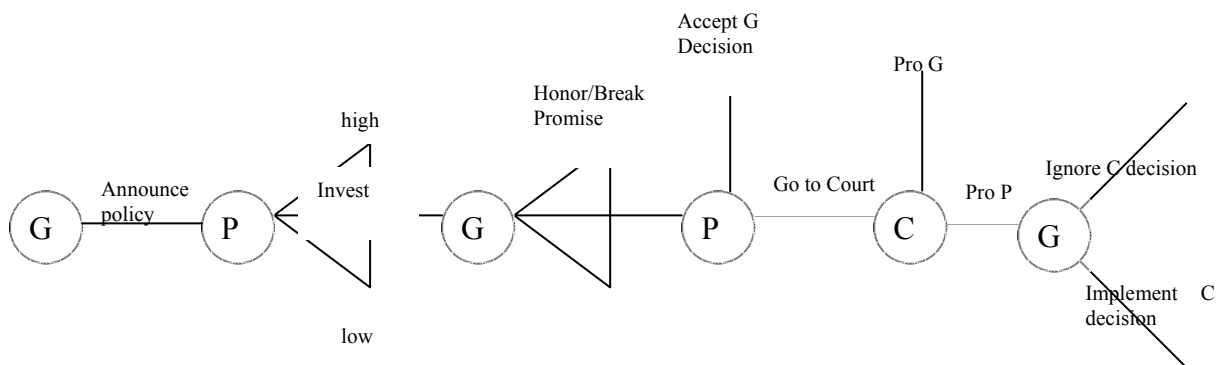
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<sup>1</sup> The effective average term-length of the members of the Supreme Court of Paraguay between 1960 and 1990 has, e.g., been a mere 1.1 years (Henisz 2000). Many states have judiciaries that are formally quite independent. But *de facto* judicial independence is only loosely correlated with *de jure* independence (the correlation coefficient between the two being 0.22; see Feld and Voigt 2003). This means that the credibility of government promises is often not substantially enhanced by a formally independent agency although this is one of its functions.

credible commitments by modifying the relevant payoffs. If, once the time has come to honor or break one's promises, honoring one's promises leads to higher utility than breaking them and this is common knowledge among the participating actors, a simple promise has been transformed into a credible commitment.

One can think of the relevant interactions as a simple non-iterated game: in the first stage, government announces its policies (it could, e.g., announce to create private property rights and promise to enforce them), in the second stage, private actors make their investment decisions based on the credibility of government promises and in the third stage, government decides whether to honor its promises (enforce private property rights) or whether to break them (attenuate private property rights). After government has made its choice, the private actors can decide whether to take the case to court (stage four). If the court decides that government action was in congruence with its promises, the game is over. If the court, however, decides that government had broken its promises and that it was its duty to make up for it, the next stage follows in which government either accepts the court decision (i.e. makes up for the damage it has caused) or ignores the court decision.

Figure 1: A Stylized Game



G = Government; P = Private actors; C = Court

The government will ignore the court decision if that is connected with a higher utility level than implementing it. Continuing to solve the game backwardly leads

to the prediction that private actors will choose a low level of voluntary investment if government is expected to ignore the court decision.<sup>2</sup>

Repetition of the game greatly increases the number of possible equilibria. Governments might – but need not – honor their own promises because they know that what they do in this round of the game affects private actor decisions in the next round of the game. Whether repetition makes governments comply depends *inter alia* on their time preferences.

The question thus is whether delegation of competence to IOs changes the payoffs in such a way that the government cannot make itself better off by breaking its own promises. We are thus interested in a comparative institutional analysis which compares domestic with international commitment capacities. In order to compare the two institutional alternatives, a look at a stylized game that could be played on the international level is necessary. Comparison of the payoffs will contain some information on likely equilibria.

The game tree of a game involving international delegation is quite similar to the one just discussed. In the international game the first stage does not simply consist of announcing a policy but announcing a policy by joining an international organization. If the respective IO has a court, stages four and five are exactly identical with those of the domestic game, if it does not, the decision whether a memberstate has played by the rules of the organization (has honored its promises) can be taken by some other actor (such as a general assembly). Just as in the domestic game, here too, governments have the option not to implement the decision made by the IO. If that was the last stage of the game, the likelihood of government implementing the (court) decision would *prima facie* not seem substantially higher than in the game played domestically. Yet, it can be argued that the international game consists of one more stage in which the other member states of the IO decide whether and how to sanction a government that ignores the decision made in stage five of the game. Possible sanctions include the freezing of financial aid, the refusal to make further concessions on trade issues, an economic embargo and – as *ultima ratio* – even the threat to go to war. Given a sufficiently high probability of being subject to sanctions, implementing the (court) decision might well prove to have a higher payoff than ignoring it.

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<sup>2</sup> If all actors are rational and this is common knowledge, it is hard to explain why government would promise to enforce private property rights in the first place.



It could be argued that the domestic game also entails a seventh stage, in which the voters or the public could sanction government by, e.g., refusing to re-elect it, criticizing it in the press etc. One would then have to compare the expected value of the domestic sanction with that of the international sanction. If the expected value of the international sanction (but not that of the domestic one) leads the government to choose the implement-the-court-decision strategy, the international delegation of competence can be expected to have a credibility-enhancing effect.<sup>3</sup>

It might be worth while pointing out some of the possible implications of these two games with regard to their capacity to enable governments to make credible commitments.

The first stage of both the domestic as well as the international game consists of announcing a policy. It seems reasonable to assume that policy announcements on the international level are much more stable than on the domestic level in the sense that changes in these announcements cannot be made unilaterally on the international level. Joining an existing IO can be interpreted as joining a given policy announcement. Given that the policy announcement is conducive to securing private property rights, joining an IO can entail higher credibility gains because the announced policies cannot be changed easily.

Suppose an IO has the reputation for implementing private property rights (we are thus now dealing with the iterated version of the game), membership is hence valuable and non-members are interested in joining – possibly even without appropriately modifying their own policies. A deterioration of the IOs reputation would be the consequence. But the reputation can be up-held if incumbents are aware of that danger and specify the conditions under which newcomers may join in a way that secures their playing by the rules. The example of China having to modify a substantial number of domestic structures before being admitted to the WTO proves that this is more than a mere theoretical possibility. Carefully selecting club members is one way of keeping up the reputation of the club, but is, as such, not sufficient as countries who were admitted might decide not to play by the rules once they are members.

Before turning to formal sanctions and the issue of their reliable provision, let us shortly deal with the possibilities of “informal sanctions” that a government not implementing a (court) decision might be subject to. Investment decisions are

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<sup>3</sup> Assuming that governments might still be sanctioned domestically after having joined an IO, the relevant expected value is the sum of the cost of the international plus the domestic sanction.

decisions under uncertainty. Potential investors search for clues regarding the possible actions of the government of the country in which they might invest. If the court – or the international body – making the decision on the compatibility of the government’s actions with its announced policies is perceived to be neutral, its decisions might very well influence investment decisions. If one thinks of the game as an iterated one, the court might have an effect even in the absence of formal sanctions against a government not complying with the court’s decision if court decisions are interpreted as valuable information by potential investors. This can be true in both the domestic and the international versions of the game.

Remember that we are interested in identifying mechanisms which make governments comply with their policy announcements when playing an international game but not (or to a lower degree) when playing the game domestically. It is interesting to compare the possible effects of public opinion of the game played domestically with the one played internationally. Suppose public opinion is critical of a government not honoring its promises no matter whether the game is played domestically or internationally. Further suppose that one’s country’s international reputation is an independent argument in the utility function of many citizens. It then follows that public opinion reacts more fiercely in the internationally embedded game. Whether the differential impact is sufficient to provoke a change in the dominant strategy of government is, of course, the crucial question.

We now turn to formal sanctions. Here stages seven and four are crucial. Assuming that bringing suit is costly, one has to ask for the incentives to do so. If private actors – in the domestic version of the game – expect government to ignore court decisions, incentives to bring suit would appear to be very low. If state actors – in the international version of the game – cannot expect to be better off as a consequence of bringing suit, the corresponding incentives to bring suit would appear to be similarly low.<sup>4</sup>

Sanctioning rule breakers is usually costly, the provision of sanctions thus amounts to the production of a public good and its provision can therefore not be taken for granted. The delegation of competence to IOs will be interpreted as a credible commitment to play by the rules of the organization only if rule-breaking behavior is sanctioned with high probability. The track-record of the IOs in sanctioning rule breakers is an important indicator in this regard: bailing out

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<sup>4</sup> One incentive for nation-state governments to bring suit could be their desire not to appear weak after other have reneged upon them.

countries or prolonging credits although conditionality requirements have not been fulfilled reduces the value of membership in such an organization in terms of credibility gains for the respective country because rule-breaking behavior is not costly. It can thus not serve to increase a country's credibility. Given that the threat of IOs in sanctioning non-complying governments is sufficiently credible, governments will prefer to implement court decisions. This, in turn, will induce more actors to bring suit in the fourth stage of the game as they can expect that a favorable court decision will indeed make them better off.

Having to suffer substantial losses in utility after having broken a rule cannot only increase the likelihood of governments honoring their promises but also their desire to exit from an IO. High costs of sanctions can thus only be expected to increase credibility if exit is sufficiently costly. If the international delegation of powers can be reversed at low or even zero cost, delegation cannot be expected to increase credibility. Only if a government has to incur substantial costs if it tries to "renationalize" a policy competence can the delegation decision be expected to be interpreted as a credible commitment and hence to increase government credibility.

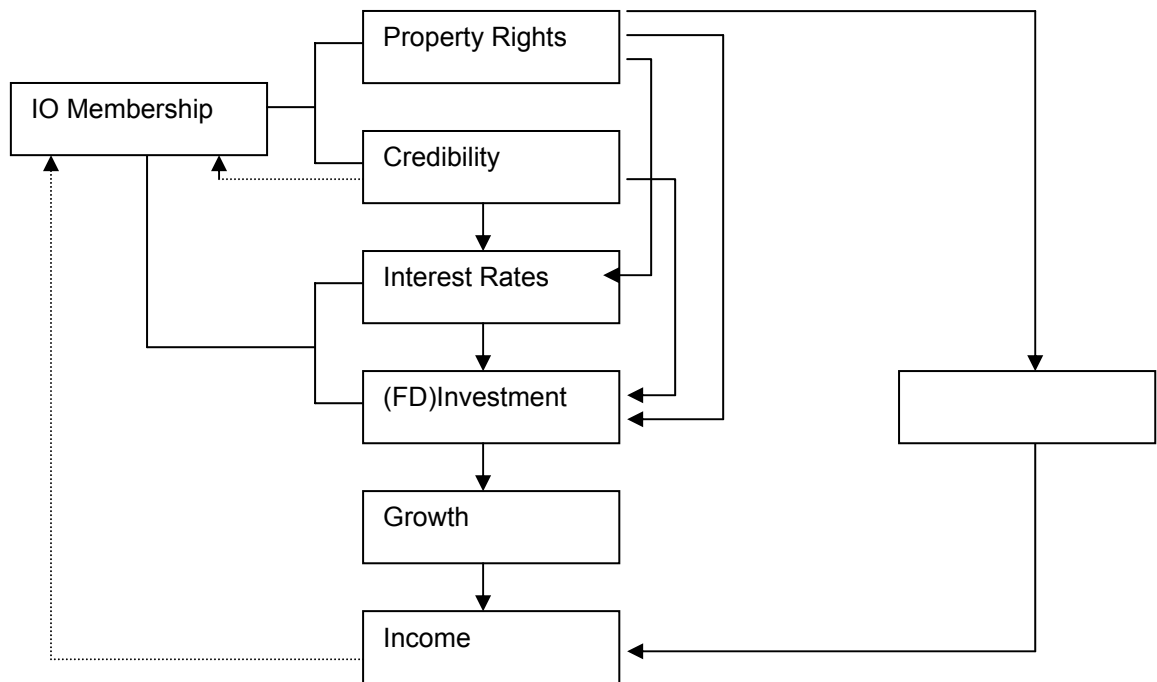
To sum up: some theoretical possibilities for why the commitment capacity of governments could be enhanced by delegating some of their powers internationally have been described. In a nutshell, the idea is that by voluntarily tying their hands, governments can make themselves better off. Conventional wisdom has it, though, that IOs are hugely inefficient and ineffective organizations. The question thus is whether one can show empirically that some of the theoretically possible effects do play a role, that membership in IOs does indeed improve governments' capacity to credibly commit themselves – and that membership hence does indeed have its privileges. In order to do so, the possible transmission channels will be spelled out in the next sub-section, followed by some considerations how they can be put to an empirical test in section 3.

## **2.2 Possible Transmission Mechanisms**

If delegation of competence to IOs enhances the commitment capacity of nation-state governments, then countries that are members in the adequate IOs should enjoy a higher credibility than non-members, *c.p.*. This should show in a number of objective variables such as the respective interest rates and (foreign direct) investment but also in more subjective variables such as country risk and creditworthiness rankings as well as security of property rights evaluations.

At the end of the day, we are not interested in subjective evaluations but in hard facts. It seems plausible to assume that high levels of government credibility should also be conducive to (foreign direct) investment as well as to low interest rates (Figure 2). The

Figure 2: Potential transmission mechanisms



security of property rights should be positively correlated with high levels of total factor productivity. All of these positive effects should lead to increased rates of economic growth and, over time, to higher levels of income.

The two dotted lines indicate two possible endogeneity problems. It could be the case that countries with high incomes have fewer difficulties of joining IOs than countries with low incomes. Secondly, it could be the case that countries that enjoy higher credibility levels have fewer difficulties of joining IOs than countries with bad country risk ratings. Possibilities to control for these potential endogeneity problems will be discussed below.

This section has presented the basic economic rationale for delegating powers internationally. Some possible cost components that can result from not following the rules of the international game have been mentioned, many of them, however, very difficult to quantify. We therefore now turn to search for proxies that allow us to assess the effects of the international delegation of competence on credibility empirically.

### 3 Making International Delegation Measurable

In order to find out whether the international delegation of competences can increase a country's credibility, one needs to devise tests with which that proposition can be assessed empirically. This section serves to sketch some possible tests but also to highlight some of the conceptual problems in devising such tests. *Prima facie*, it would seem straightforward to assume that the higher a country's overall degree of integration into the international community, the more credible its promises should be. A general indicator measuring some "integration degree" could consist of counting the number of IOs that a country is member of and to compare them with the membership numbers of other countries. This is indeed the first variation of our international delegation indicator. It is based on the 2003 edition of the CIA World Book of Facts which contains a category "International Organization Participation". We simply counted the number of IOs that a country was a member of in 2003.

This is, of course, a very crude indicator with definite disadvantages. It has been noted that the number of IOs has been steadily rising since World War II. The Yearbook of International Organizations lists more than 1000 IOs today (Union of International Associations 2003). The rising number of IOs as such is, however, not equivalent with an increase in the delegation of powers. Ideally, one would thus not count the number of memberships but the degree to which powers have been delegated onto the international level. Further, some countries appear to be "more integrated" simply because they are geographically located in world areas that have more regional IOs. This indicator thus contains serious bias. Furthermore, no distinction whatsoever is made between the substantive areas in which IOs are active, i.e. IOs like the international financial institutions or the WTO are counted just as heavily as IOs that have nothing to do with property rights or are even inimical to their protection. Different degrees of membership, which might indicate different degrees of "earnestness" in membership are not taken explicitly into account in this approach either: whether a state has ratified additional conventions within the realm of an IO could be valuable information that is not used with this very simply indicator.

We therefore developed a second indicator

- which is confined to IOs that are active on a global scale,
- which is confined to IOs that put some weight on the protection of property rights and possibly endow individuals with standing before international dispute settlement mechanisms and

- that takes “degrees of membership” explicitly into account. Ratified conventions within these IOs that promise to be either particularly relevant for the protection of private property rights or to indicate a high degree of earnestness, e.g., because membership implies monitoring by international groups, sanctions are severe etc. are explicitly recognized.

This leads to an “unweighted” indicator. We further developed a variant of the unweighted indicator that does not simply count whether a country is member of our subset of IOs or not but that counts the number of years it has already been a member. This variant thus takes into account explicitly the possibility that the length of membership could have an effect on the degree of credibility it conveys.<sup>5</sup> This is the “weighted” indicator. Thus, the unweighted indicator simply adds up the number of “qualifying” organizations which a nation-state is member of. The weighted indicator, in turn, weighs membership with the number of years that a country has been member.

Membership in the following IOs and – more specifically – in the following conventions has been taken into account in the construction of the indicator:

- (1) Membership in the GATT/WTO; membership in this IO reduces the discretionary leeway of governments with regard to trade policy. Recently, membership in the WTO has become almost universal which means that little variation results. In order to pick up some variation, we did not only count the number of years that a state has been a member of GATT/WTO but also the number of commitments that it has ratified within the framework of GATS in the weighted version of the indicator.<sup>6</sup> Market access is not equivalent to the protection of private property rights. But broad market access enables property rights owners to use their property where it promises the highest return. It further enables foreign investors to rely on least cost suppliers with regard to both goods and services.

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<sup>5</sup> Remember that the credit cards of the organization that claims that membership had its privileges also contain the information “member since x” suggesting that longer membership translates into more privileges, i.e. higher credibility.

<sup>6</sup> We normalized this aspect by first identifying the country with the highest number of commitments among all memberstates. This number (162) was then set at 100% and all other memberstates were given values reflecting the percentage of commitments that they had made in comparison to the state with most commitments. The number of GATS commitments is, however, not weighted with the number of years that they have been in force.

- (2) Membership in the IBRD (The World Bank) has also become quasi-universal and does not convey a valuable signal anymore. Within the IBRD, there are, however, certain sub-organizations, membership of which could make a country more credible: The International Center for the Settlement of Investment Disputes (ICSID) gives private investors who believe that a member-state to ICSID has not complied with its contractual obligations the possibility of a trial against that state. Members thus explicitly choose to have their behavior monitored by third parties. The organizational vicinity of ICSID to the World Bank might be an additional advantage: not complying with a decision of an ICSID panel could potentially mean huge payoff losses if World Bank credits are not prolonged etc. Furthermore, membership in the International Finance Corporation (IFC) is counted because its aim is to promote private enterprise by improving the investment climate.
- (3) Membership in the UN is even more universal than membership in the World Bank. But ratification of the International Convention for Civil and Political Rights (ICCPR) as well as ratification of the International Convention for Economic, Social, and Cultural Rights (ICESCR) are not as widespread. Whereas the Universal Declaration of Human Rights does not have a legally binding character, these two conventions are endowed with a supervisory committee that monitors implementation. The ICCPR guarantees basic individual rights, some of which can be interpreted as a precondition for secure property rights (freedom from torture and slavery, right to personal freedom and security), others as important aspects of the realization of the rule of law (right to a fair trial, prohibition of ex post facto laws etc.). The guarantees contained in the ICESCR are a lot more controversial with regard to their effect on the protection of private property rights. It could even be argued that some of them are inimical to the protection of private property rights. We have decided to take both covenants into account also in order to be able to compare the two effects on credibility.

Variation can be further increased by counting the states that have agreed to the so-called optional protocol in which they promise to abolish capital punishment. Ratification of this optional protocol is not directly related to property rights issues but can be interpreted as a signal of a government's earnestness to implement the rules it has agreed to. Further, it is taken into account whether a government has ratified the "Convention on the Recognition and Enforcement of Foreign Arbitral Awards" – often also called the New York Convention. This convention specifies the conditions

under which states promise to recognize and enforce arbitration awards that are not issued by state courts but by non-state courts.

Contracting parties often prefer arbitration courts over state courts because their decisions take the specific problems of the conflicting parties better into account than state courts, and decision-making takes less time than in state courts. Since they are voluntarily chosen by the contracting parties, the choice of private arbitration courts reveals the contracting parties' preferences. If contracting parties did not believe that their property rights were sufficiently protected in these courts, they would not choose them. It can hence be inferred that governments that announce that they will enforce foreign arbitration awards give up some of their sovereignty in favor of a better protection of private property rights.

- (4) The International Court of Justice (ICJ) is the dispute settlement branch of the UN. UN-Members do not, however, have to accept its jurisdiction qua membership but can opt in to do so voluntarily. We therefore count whether the country has opted into compulsory jurisdiction by the ICJ.<sup>7</sup>

For the unweighted indicator, membership in an IO is coded "1", whereas non-membership is coded "0". Membership in up to 9 IOs (and conventions and protocols) is possible, which is why the sum is divided by 9. The unweighted indicator can thus take on any value between 0 and 1 with 1 indicating the highest possible degree of international integration. For the weighted indicator, membership has been weighted with its length in number of years for the membership in 8 IOs (and conventions and protocols). Additionally, the number of commitments ratified within GATS is recognized according to the procedure described above. Both indicators are calculated for 1998. The partial correlation coefficient between the two indicators is 0.635. Top scorers in the unweighted indicator are Austria, Belgium, Costa Rica and Uruguay, whereas Norway, Denmark and the Netherlands have scored best in the weighted indicator. According to the unweighted indicator, Taiwan, Fiji, Guinea-Bissau, Papua New Guinea, and Kazakhstan have delegated least competence internationally, whereas Taiwan, Kazakhstan and Tajikistan come in last according to the weighted

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<sup>7</sup> This variable was only recognized in the unweighted version of the indicator. Countries accepting ICJ jurisdiction with reservations were coded .5. Additionally, it would, of course, be interesting to take into account to what degree various countries factually implement ICJ dicta. But over the course of its existence, the ICJ has only pronounced some 100 decisions, which does not seem to be a sufficiently large base for that type of information.



indicator. The appendix contains both the various indicator values and the descriptive statistics concerning the indicators.

#### **4 Estimation Approach and Data Description**

The purpose of this paper is to make first steps in answering the question whether the international delegation of competence reduces the credibility problems of governments. In the last section, a number of possible proxies for the degree of international delegation have been discussed. We now turn to possible indicators of our endogenous variable, namely the degree of credibility that is conjectured to be influenced by the degree to which governments have delegated competence internationally.

Two possibilities to proxy for “credibility” or “changes in credibility” immediately suggest themselves, namely (i) the variance in interest rates among countries and (ii) the level of investment measured either as total private investment or as foreign direct investment. These are objective indicators. The credibility of government promises should also be reflected in subjective indicators such as (i) the perceived security of property rights and (ii) the creditworthiness scores as assigned by various risk firms. The use of both subjective and objective indicators has definite advantages and disadvantages. The objective indicators have the advantage of reflecting real decisions (of where to invest, e.g.) and not just personal evaluations that are possibly not followed by some corresponding action. The subjective indicators have the advantage of being available for a larger number of countries. The subjective construction of credit ratings has the additional advantage of implicitly controlling for a number of factors that might influence a country’s capacity to repay a large debt but that would be very difficult to control for using objective controls (Keefer and Knack 2003).<sup>8</sup>

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<sup>8</sup> With regard to creditworthiness ratings, Keefer and Knack (2003, 173) cite a study by Feder and Ross (1982) who show that out of a sample of 78 Euromarket loans for 34 countries, the interest rate spread was strongly and inversely correlated with the creditworthiness ratings, controlling for maturity and length of the grace period. They (ibid.) also cite a study published by the General Accounting Office of the U.S. in 1994 that found the creditworthiness indicator similarly strongly related to the discount on 38 sovereign debt instruments, owed by 21 countries, which were traded on secondary markets. Keefer and Knack draw on another creditworthiness rating which is, however, very highly correlated with the one used here.

In this study, the following indicators will be used: a modified version of the country risk ratings produced by Euromoney and the indicator on the security of property rights produced jointly by the Heritage Foundation and the Wall Street Journal within their Index of Economic Freedom on an annual basis. The choice of the country risk ratings as a proxy for a country's credibility is based on the assumption that good risk ratings imply that a government's announcement to pay back loans as agreed upon is evaluated as credible.

Euromoney's risk ratings are based on the view of experts, heads of syndication and loans, as well as data from the World Bank, forfaiting houses and credit rating agencies. To obtain the overall country risk score, Euromoney assigns a weighting to nine categories. These are political risk (25% weighting), economic performance (25%), debt indicators (10%), debt in default or rescheduled (10%), credit ratings (10%), access to bank finance (5%), access to short-term finance (5%), access to capital markets (5%), discount on forfaiting (5%). We use a modified version of the indicator as some of the components included in Euromoney's risk ratings seem to belong on the right hand side of the equation because they explain country risk. Good economic performance should, e.g., lead to an improvement in the risk rating. The components used here are: (i) *Political risk*, which comprises the risk of non-payment or non-servicing of payment for goods or services, loans, trade-related finance and dividends, and the non-repatriation of capital that is evaluated by the risk analysts. It thus reflects the perceived probability of governments breaking some of their promises; (ii) the *credit ratings* assigned to sovereign ratings from Moody's, S&P and Fitch IBCA, and (iii) the *discount on forfaiting* reflecting the average maximum tenor for forfaiting and the average spread over riskless countries such as the US.

In all three categories, higher values mean higher credibility. For simplicity, the weighting introduced by Euromoney is not changed which means that countries can maximally score 40 (=25+10+5) points. Some of the other categories (such as income per capita) also contained in the Euromoney data will be used as control variables to be discussed below. For this study, the country risk data for March 2003 were used.

Country risk ratings typically reflect the views of outsiders to a country. Yet, if membership in IOs increases the commitment capacity of governments, this should also be reflected in the domestic perception of the security of property rights. This is why the indicator "property rights" as provided in the Index of Economic Freedom is chosen as an alternative endogenous variable to the modified country risk ratings. The indicator can take on values between 1 (best)

and 5 (worst) and is available for more than 150 countries. The data used are for the year 2002.

In order to ascertain whether high values in IO membership lead to high credibility ratings, we estimate the following equation:

$$Y = \beta_0 + \beta_1 M + \beta_2 \text{IOMEMB} + \beta_3 Z + \varepsilon \quad (1)$$

where “Y” can stand for either country risk or property rights as just described. The vector “M” consists of the variables usually used to explain the dependent variable “Y”. In order to ascertain the robustness of various potentially relevant variables for explaining FDI, Chakrabarti (2001) conducted an extreme bounds analysis and found that none of the variables except per capita GDP survived this test. This is why we only include per capita income here, the data used are for the year 2000 per worker in logarithmic form.

“IOMEMB” is (one version of) the indicator of international delegation. In order to make sure that the results are not driven by omitted variables, a number of control variables are included in the vector “Z”, distinguishing between economic and political controls.

With regard to the economic variables, we control for (i) the openness of a country measured as the sum of exports plus imports normalized by GDP, (ii) state consumption to GNP, (iii) total debt to GNP and (iv) the ratio of debt service to exports. The data are either from the Penn World Tables (Heston et al. 2001) or the World Bank’s Development Indicators (2003). Openness is controlled for based on the conjecture that higher degrees of openness could be correlated with better risk ratings (and better scores in the property rights index). Inclusion of the other three variables is based on the conjecture that the higher these ratios, the lower should the creditworthiness of a country be, *c.p.*.

With regard to the political variables, we control for (i) the number of veto players within the country. We are interested in the additional commitment capacity that a country can gain from becoming member in a number of international organizations beyond the commitment capacity that is founded on the separation of powers domestically. The variable is included based on the assumption that a higher number of domestic veto players could confer higher levels of credibility onto the respective governments. The variable is the CHECKS-variable from the Database of Political Institutions (Beck et al. 2000). (ii) the stability of government as captured by the variable “political stability and absence of violence” published as part of the governance indicators by Kaufmann et al.

(2003). The variable is a synthesis of various indicators which measure the perceptions of the likelihood that the government in power will be destabilized or overthrown by possibly unconstitutional and/or violent means. High degrees of (perceived) political instability could lead to low risk ratings which is why we control for them. (iii) The length of time a regime has been into existence. Again, it could be that longevity translates into credibility. This could be completely independent from any international delegation of power and should thus also be controlled for. The variable used here is the number of years that the currently valid constitution has been in place (own calculation). (iv) It is further possible that the stability and/or the longevity of a regime is not crucial but the degree of freedom with regard to political and/or civil action. Freedom House provides two variables that capture (a) the degree of political rights and (b) the degree of civil liberties realized in a country. Alternatively, we use the democracy/autocracy variable as published in Polity IV to control for the possibility that the degree of realized democracy has an impact on the credibility of a regime. (v) OECD membership; in order to make sure that the results are not driven by the wealthy states who enjoy high credibility and are members in many IOs, we control for OECD membership. We also rerun the regressions excluding OECD member states. (vi) Finally, we control for ethnic fractionalization because it might be connected with the potential for political unrest and thus be detrimental to the credibility of a government's promises. We rely on the ethnic fractionalization indicator recently presented by Alesina et al. (2002).<sup>9</sup>

## 5 A Discussion of the Results

Table 1 shows that GDP per worker “explains” some 71 percent of the variation in the modified country risk ratings (here also expressed in logarhythmic form). All three versions of the international delegation indicator are significant on the one percent level. The international delegation indicator I (the number of IOs a country is member of) improves the explanatory fit of the first equation by more than six percentage points (or more than eight percent) the other two delegation

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<sup>9</sup> In section 2.2, two potential endogeneity problems have already been mentioned, the first one consisting in the possibility that high incomes could make it easier to become a member in IOs and the second one that high credibility ratings could make membership easier. These possibilities are controlled for here by putting a lag between the independent and the dependent variable: the second and third indicators of IO membership are based on the year 1998 whereas the credibility ratings are based on the year 2003.

indicators add less explanatory power.<sup>10</sup> Yet, International Delegation III has the highest t-value which is why subsequent regressions draw on this version of our indicator.

- TABLE 1 AROUND HERE -

In column 5, two control variables are added, namely ethnic fractionalization and OECD membership. Both have the expected sign (negative for ethnic fractionalization and positive for OECD membership) and both are statistically significant (ethnic fractionalization on the ten percent level, OECD membership on the one percent level). The international delegation indicator remains, however, significant even if these two additional variables are taken into account. In columns six and seven, we controlled for the political variables checks and age of regime. They all leave the significance level of the international delegation indicator unaffected. Column eight reports the results when civil liberties are controlled for. Although civil liberties are themselves highly significant for explaining differences in the risk ratings, they leave the significance of the delegation indicator unaffected. The same holds true if political rights or the degree of democracy are controlled for (not reported in the table). Both variables are highly significant but leave the significance level of the delegation indicator unaffected. Thus, it can be preliminarily concluded that governments can indeed “buy” additional credibility by becoming members of IOs.

- TABLE 2 AROUND HERE -

Introduction of the OECD membership dummy leads to a substantial drop in the significance level of the IOMEMB variable. The OECD dummy itself is highly significant. In order to be sure that the results are not driven by the rich countries, the entire sample was divided into two sub-samples, containing 61 poor countries and 76 rich countries (table 2). Among the 61 poor countries, the adjusted  $R^2$  is a meager .166 if GDP per capita is used as the only variable for explaining differences in the country risk ratings. If the first delegation indicator is added to the equation (column two), it is highly significant and improves the  $R^2$  to 0.49. In comparison, the delegation indicator among the sub-sample of rich countries (column three) is only significant on the ten percent level. When the weighted

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<sup>10</sup> The huge differences in the coefficients between International Delegation I and International Delegation II and III are due to differences in their coding: International Delegation I is based on the raw number of international organizations a state is member of (France scoring the maximum 88 here), whereas indicators II and III are based on data normalized between 0 and 1.

indicator is used, results turn around in the sense that it is highly significant for explaining the risk ratings of rich countries but only moderately so for explaining them with regard to poor countries. This could be interpreted as an encouraging result for poor countries as they can actively influence the number of IOs that they are member of whereas to see their weighted indicator increases they will just have to wait for time to pass by. It could be the case that some countries have particular difficulties in becoming members of IOs, e.g., if they are very small (and have few diplomats who could negotiate membership) or have a poorly educated population (and have few competent diplomats). The size of the population as well as the average number of years in school are controlled for in columns 4 and 7. Both variables have the expected sign but do not reach conventional significance levels when tested together with International Delegation I whereas the population variable is highly significant when tested in conjunction with International Delegation III.

- TABLE 3 AROUND HERE -

Table 3 reinforces the preliminary insight that membership has its privileges. It contains both economic and political control variables. As expected, higher government consumption is negatively correlated with country risk ratings; the international delegation indicator remains, however, significant on the one percent level. The other two economic variables, namely total debt and the debt-to-export ratio, are not significant. Stability, a political variable, also has the expected sign but does not reduce the significance level of the international delegation indicator. After having controlled for a number of economic as well as political variables, we can thus be fairly confident that membership does indeed have its privileges.

- TABLE 4 AROUND HERE -

It is now interesting to ask whether membership in different IOs has differential impacts on countries' risk ratings. Table 4 contains the answer to this question. Uniformly controlling for GDP per capita, OECD membership and ethnic fractionalization, ratification of the New York Convention and membership in ICSID have the most significant impact on risk ratings. These results are in line with intuition as both institutions seem to enhance the protection of property rights.

- TABLE 5 AROUND HERE -

We now turn to shortly describe the results using property rights instead of country risk ratings as the endogenous variable. Remember that lower scores

mean better results here. All in all, estimation results are quite similar to those with the country risk ratings as endogenous variable. As before, membership seems to be particularly beneficial for the poor countries (column 6 of table 5). Table 6 reveals that the economic controls are generally more significant than before, but the international delegation indicator always remains significant on the one percent level. Table 7 shows that ICSID membership and ratification of the New York Convention are conducive to property rights. These results further reinforce the finding that membership in IOs can be beneficial.

## **6 Conclusion and Outlook**

We have constructed three variables indicating the degree to which countries are members in IOs. Membership is interpreted as a partial delegation of decision-making competence to the international level and an attempt to make policy announcements more credible. Using two alternative endogenous variables – namely country risk ratings and property rights – it was shown that membership in IOs has positive effects on both variables. Since significance levels remain high even when controlling for a number of economic as well as political variables, we conclude that the impact of IO membership is quite robust.

Nevertheless, this paper can only be the first step in estimating the credibility-enhancing effects of IO membership. It would, e.g., be interesting to estimate the costs of exiting IOs explicitly. On a more fundamental level, the sanctioning machinery of IOs deserves more explicit analysis: how does it work, how has the right to use it been applied, who has incentives to do so etc.

Concerning the estimations, time-series analysis is desirable. Is it possible to show that changes in the IOMEMB variable have led to subsequent improvements in the credibility ratings? Euromoney has published its country risk ratings ever since 1982; first on an annual basis and since 1993 bi-annually. One problem is that the number of countries covered in the early years was rather low.

The main goal of this paper has been to lay the foundations for estimating the effects of an international delegation of power for the credibility of national governments. It is important to keep in mind that this is by no means the only function of IOs. If one is interested in their effects on internalizing border-crossing externalities, in encouraging cooperation and the like, other approaches are thus needed.

Other aspects that need to be dealt with in future papers include the endogenization of the delegation decisions. Under what circumstances – one

would ask – are politicians particularly prone to delegate powers internationally? How can we explain that competences in some areas (like monetary policy) are more likely to be delegated than policy competences in other areas?

This leads directly to the next question, namely the normative issue: how much competence should be delegated? Will too much delegation lead to a hollowing out of democracy, will it lead to lower degrees of legitimacy etc. What policy-areas should optimally be delegated to domestic agencies and what areas to international agencies?

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**Table 1:****OLS-Regressions of 2003 Risk Ratings on International Delegation Indicators**

<i>Variables</i>	<i>(1)</i>	<i>(2)</i>	<i>(3)</i>	<i>(4)</i>	<i>(5)</i>	<i>(6)</i>	<i>(7)</i>	<i>(8)</i>
GDP/cap. in 2000 (log. Form)	20.691** (19.09)	17.112** (10.93)	19.854** (17.62)	18.131** (15.05)	13.734** (8.01)	18.206** (10.16)	18.814** (7.96)	15.009** (11.47)
International Delegation I	–	0.292** (3.73)	–	–	–	–	–	–
International Delegation II	–	–	8.113** (2.73)	–	–	–	–	–
International Delegation III	–	–	–	13.010** (4.98)	6.968* (2.47)	10.279** (3.26)	12.348** (4.41)	8.586** (3.55)
OECD Membership	–	–	–	–	9.388** (5.68)	–	–	–
Index for ethnic fractionalization	–	–	–	–	-4.344(*) (1.78)	–	–	–
Checks 1997	–	–	–	–	–	0.349 (1.50)	–	–
Age Regime	–	–	–	–	–	-0.013 (0.55)	–	–
Schooling in log form	–	–	–	–	–	–	-0.520 (0.16)	–
Civil Liberties								-1.888** (4.51)
Constant	-120.22	-111.01	-120.71	-109.22	-76.73	-83.58	-112.90	-79.97
$\bar{R}^2$	0.714	0.771	0.726	0.758	0.799	0.761	0.769	0.784
SER	6.559	5.879	6.423	6.041	5.507	5.738	5.961	5.705
K.-S.	0.037*	0.011*	0.036*	0.002**	>0.200	0.002**	0.001**	>0.200
N	137	137	137	137	136	93	129	137

The table contains  $\beta$  regression coefficients, the numbers in parentheses are the absolute values of the estimated t-stats, based on the White heteroscedasticity-consistent standard errors. '\*\*\*', '\*\*' or (\*) indicates that the parameter is significantly different from zero on the 1, 5 or 10 percent level; SER is the standard error of the regression and K.-S. the two-side P of the Kolmogorov-Smirnov-Test on normality of residuals.

**Table 2:****OLS-Regressions of 2003 Risk Ratings on International Delegation Indicators comparing effects on rich (n=76) and poor countries (n=61)**

<i>Variables</i>	<i>(1)</i>	<i>(2)</i>	<i>(3)</i>	<i>(4)</i>	<i>(5)<sup>1</sup></i>	<i>(6)</i>	<i>(7)</i>
GDP/cap. in 2000 (log. Form)	9.412** (3.75)	6.277** (2.83)	31.683** (14.39)	4.498 (1.33)	8.660** (3.52)	31.862** (15.59)	6.829(*) (1.84)
International Delegation I	–	0.554** (4.21)	0.123* (2.14)	0.520** (2.71)	–	–	–
International Delegation II	–	–	–	–	–	–	–
International Delegation III	–	–	–	–	11.096* (2.46)	6.344** (2.95)	9.571* (2.14)
Population (log)	–	–	–	1.177 (0.78)	–	–	4.125** (5.02)
Schooling	–	–	–	3.934 (1.36)	–	–	3.174 (0.40)
Constant	-49.71	-55.44	-204.66	-53.54	-49.41	-202.60	-68.55
$\bar{R}^2$	0.166	0.488	0.779	0.551	0.266	0.776	0.457
SER	5.509	4.316	5.293	4.078	5.169	5.339	4.488
K.-S.	0.030*	>0.200	0.022*	>0.200	>0.200	0.001**	>0.200
N	61	61	76	57	61	76	57

The table contains  $\beta$  regression coefficients, the numbers in parentheses are the absolute values of the estimated t-stats, based on the White heteroscedasticity-consistent standard errors. '\*\*\*', '\*\*' or (\*) indicates that the parameter is significantly different from zero on the 1, 5 or 10 percent level; SER is the standard error of the regression and K.-S. the two-side P of the Kolmogorov-Smirnov-Test on normality of residuals.

**Table 3:****OLS-Regressions of 2003 Risk Ratings on International Delegation and Controls**

<i>Variables</i>	<i>(1)</i>	<i>(2)</i>	<i>(3)</i>	<i>(4)</i>	<i>(5)</i>	<i>(6)</i>	<i>(7)</i>
GDP/cap. in 2000 (log. form)	20.691** (19.09)	18.131** (15.05)	17.988** (13.33)	16.969** (12.81)	12.350** (7.76)	11.909** (6.58)	8.172** (3.84)
International Delegation III	–	13.010** (4.98)	13.280** (4.64)	10.190** (3.71)	11.141** (4.72)	9.029** (3.03)	8.690** (2.91)
Openness	–	–	0.005 (0.35)	0.012 (0.91)	–	–	–
Government consumption	–	–	–	-0.174** (3.21)	–	–	–
Total debt	–	–	–	–	–	0.237 (1.31)	–
Debt/Exports	–	–	–	–	–	–	0.013 (0.29)
Stability	–	–	–	–	4.372** (5.63)	–	4.260** (4.54)
Constant	-120.22	-109.22	-108.780	-97.449	-70.043	-69.693	-42.677
$\bar{R}^2$	0.714	0.758	0.756	0.774	0.799	0.506	0.549
SER	6.559	6.041	6.060	5.834	5.470	5.484	5.397
K.-S.	0.037*	0.002**	>0.200	>0.200	>0.200	>0.200	>0.200
N	137	137	137	137	130	102	87

The table contains  $\beta$  regression coefficients, the numbers in parentheses are the absolute values of the estimated t-stats, based on the White heteroscedasticity-consistent standard errors. \*\*\*, \*\* or (\*) indicates that the parameter is significantly different from zero on the 1, 5 or 10 percent level; SER is the standard error of the regression and K. – S. the two-side P of the Kolmogorov-Smirnov-Test on normality of residuals. Openness is defined as (imports + exports)/GDP. Openness and government consumption information from the Penn World Tables, Total debt and debt/export-ratio from the World Bank, stability from Kaufmann et al. (2003) and reflects the perceptions of the likelihood that the government in power will be destabilized or overthrown by possibly unconstitutional and/or violent means

**Table 4:****OLS-Regressions of 2003 Risk Ratings on time-weighted Membership (ratification) in Single International Organizations (Conventions etc.)**

<i>Variables</i>	<i>(1)</i>	<i>(2)</i>	<i>(3)</i>	<i>(4)</i>	<i>(5)</i>	<i>(6)</i>	<i>(7)</i>
GDP/cap. in 2000 (log. form)	14.317** (8.37)	14.133** (8.35)	14.008** (7.75)	13.638** (8.16)	13.261** (6.75)	13.950** (8.08)	14.401** (7.60)
OECD Membership	10.346** (6.60)	11.133** (7.44)	11.335** (7.66)	10.717** (7.01)	10.119** (5.36)	10.756** (6.86)	11.738** (6.27)
Index for ethnic fractionalization	-4.711(*) (1.79)	-4.019 (1.59)	-4.149(*) (1.66)	-3.860(*) (1.65)	-4.453(*) (1.75)	-4.407(*) (1.69)	-0.054 (0.02)
ICSID (weighted)	2.511* (2.31)	–	–	–	–	–	–
ICESCR (weighted)	–	1.626 (1.20)	–	–	–	–	–
ICCPR <sup>1</sup> (weighted)	–	–	0.835 (0.60)	–	–	–	–
Folter Conv. <sup>1</sup> (weighted)	–	–	0.284 (0.18)	–	–	–	–
NY Convention (weighted)	–	–	–	4.260** (2.66)	–	–	–
GATT/WTO (weighted)	–	–	–	–	1.136 (0.69)	–	–
GATS (weighted)	–	–	–	–	3.560 (1.26)	–	–
IFC (weighted)	–	–	–	–	–	2.952(*) (1.89)	–
ICJ (unweighted)	–	–	–	–	–	–	3.230* (1.97)
$\bar{R}^2$	0.795	0.791	0.788	0.804	0.793	0.795	0.853
SER	5.555	5.616	5.659	5.440	5.590	5.561	4.963
K.-S.	>0.200	>0.200	>0.200	>0.200	>0.200	0.044*	0.053(*)
N	136	136	136	136	136	136	86

The table contains  $\beta$  regression coefficients, the numbers in parentheses are the absolute values of the estimated t-stats, based on the White heteroscedasticity-consistent standard errors. '\*\*\*', '\*\*' or (\*) indicates that the parameter is significantly different from zero on the 1, 5 or 10 percent level; SER is the standard error of the regression and K.-S. the two-side P of the Kolmogorov-Smirnov-Test on normality of residuals.

1) These two variables are also insignificant when regressed in isolation.

**Table 5:**

**OLS-Regressions of 2002 Property Rights Index on International Delegation Indicators (in column 6 only the poorest 55 countries, in column 7 the 75 wealthy countries)**

<i>Variables</i>	<i>(1)</i>	<i>(2)</i>	<i>(3)</i>	<i>(4)</i>	<i>(5)</i>	<i>(6)<sup>1</sup></i>	<i>(7)</i>
GDP/cap. in 2000 (log. Form)	-1.654** (11.69)	-1.405** (7.82)	-1.494** (9.96)	-1.323** (8.59)	-0.950** (4.30)	-0.212 (0.68)	-3.335** (12.96)
International Delegation I	–	-0.020** (2.68)	–	–	–	–	–
International Delegation II	–	–	-1.474** (3.33)	–	–	–	–
International Delegation III	–	–	–	-1.574** (4.71)	-0.911* (2.39)	-1.761** (4.11)	-0.446 (1.26)
OECD Membership	–	–	–	–	-1.047** (4.33)	–	–
Index for ethnic fractionalization	–	–	–	–	-0.057 (0.19)	–	–
Constant	14.079	13.424	14.115	12.608	10.006	3.063	26.216
$\bar{R}^2$	0.490	0.519	0.538	0.563	0.610	0.216	0.708
SER	0.817	0.793	0.778	0.757	0.716	0.566	0.649
K.-S.	0.094(*)	>0.200	0.042*	>0.200	0.184	>0.200	0.092(*)
N	130	130	130	130	129	55	75

The table contains  $\beta$  regression coefficients, the numbers in parentheses are the absolute values of the estimated t-stats, based on the White heteroscedasticity-consistent standard errors. '\*\*\*', '\*' or (\*) indicates that the parameter is significantly different from zero on the 1, 5 or 10 percent level; SER is the standard error of the regression and K. – S. the two-side P of the Kolmogorov-Smirnov-Test on normality of residuals. The Property Rights Index is taken from the Heritage Foundation.

- 1) The adjusted  $R^2$  of this equation without the variable „International Delegation III“ is nearly 0.

Table 6:

### OLS-Regressions of 2002 Property Rights Index on International Delegation and Controls

<i>Variables</i>	(1)	(2)	(3)	(4)	(5)	(6)	(7)
GDP/cap. in 2000 (log. Form)	-1.654** (11.69)	-1.323** (8.59)	-1.166** (7.52)	-1.130** (7.03)	-0.651** (3.88)	-0.340(*) (1.67)	-0.177 (0.84)
International Delegation III	–	-1.574** (4.71)	-1.858** (5.60)	-1.763** (5.03)	-1.254** (4.01)	-1.389** (3.70)	-1.107** (2.99)
Openness	–	–	-0.005** (3.41)	-0.006** (3.49)	–	–	–
Government consumption	–	–		0.006 (0.85)	–	–	–
Total debt	–	–	–	–	–	-0.043** (2.71)	–
Debt/Exports	–	–	–	–	–	–	-0.005 (0.852)
Stability	–	–	–	–	-0.545** (6.19)	–	-0.437** (4.24)
Constant	14.079	12.608	12.097	11.712	8.028	6.531	5.036
$\bar{R}^2$	0.490	0.563	0.596	0.595	0.640	0.251	0.321
SER	0.817	0.757	0.727	0.728	0.678	0.664	0.623
K.-S.	0.094(*)	>0.200	>0.200	>0.200	>0.200	>0.200	>0.200
N	130	130	130	130	124	96	85

The table contains  $\beta$  regression coefficients, the numbers in parentheses are the absolute values of the estimated t-stats, based on the White heteroscedasticity-consistent standard errors. '\*\*\*', '\*\*' or (\*) indicates that the parameter is significantly different from zero on the 1, 5 or 10 percent level; SER is the standard error of the regression and K. – S. the two-side P of the Kolmogorov-Smirnov-Test on normality of residuals.

Table 7:

**OLS-Regressions of 2002 Property Rights Index on time-weighted Membership (ratification) in Single International Organizations (Conventions etc.)**

<i>Variables</i>	(1)	(2)	(3)	(4)	(5)	(6)	(7)
GDP/cap. in 2000 (log. form)	-1.062** (5.04)	-1.002** (4.44)	-0.995** (4.09)	-0.974** (4.39)	-0.923** (3.71)	-0.991** (4.37)	-0.999** (4.20)
OECD Membership	-1.025** (4.74)	-1.281** (5.65)	-1.294** (5.61)	-1.273** (5.74)	-1.019** (3.74)	-1.332** (5.78)	-1.207** (4.80)
Index for ethnic fraction	0.042 (0.13)	-0.087 (0.27)	-0.070 (0.22)	-0.089 (0.29)	0.040 (0.12)	-0.051 (0.16)	-0.106 (0.29)
ICSID (weighted)	-0.576** (3.80)	–	–	–	–	–	–
ICESCR (weighted)	–	-0.182 (0.95)	–	–	–	–	–
ICCPR <sup>1</sup> (weighted)	–	–	-0.132 (0.66)	–	–	–	–
Folter Conv. <sup>1</sup> (weighted)	–	–	-0.002 (0.01)	–	–	–	–
NY Convention (weighted)	–	–	–	-0.282(*) (1.57)	–	–	–
GATT/WTO (weighted)	–	–	–	–	-0.410(*) (1.75)	–	–
GATS (weighted)	–	–	–	–	-0.336 (1.14)	–	–
IFC (weighted)	–	–	–	–	–	-0.010 (0.05)	–
ICJ (unweighted)	–	–	–	–	–	–	-0.126 (0.52)
$\bar{R}^2$	0.630	0.592	0.587	0.597	0.606	0.589	0.657
SER	0.697	0.731	0.736	0.728	0.719	0.735	0.670
K.-S.	>0.200	>0.200	>0.200	>0.200	>0.200	>0.200	0.200
N	129	129	129	129	129	129	82

The table contains  $\beta$  regression coefficients, the numbers in parentheses are the absolute values of the estimated t-stats, based on the White heteroscedasticity-consistent standard errors. '\*\*\*', '\*\*' or (\*) indicates that the parameter is significantly different from zero on the 1, 5 or 10 percent level; SER is the standard error of the regression and K. – S. the two-side P of the Kolmogorov-Smirnov-Test on normality of residuals.

1) These two variables are also insignificant when regressed in isolation.



## Appendix 1a:

Country	Risk Rating	INTDEL I	INTDEL II	INTDEL III
Albania	4,36	42	0,777778	0,238553
Algeria	13	54	0,777778	0,28053
Angola	3,25	38	0,555556	0,129913
Argentina	5,54	64	0,888889	0,559736
Armenia	6,17	41	0,777778	0,23863
Australia	37,89	57	0,944444	0,719899
Austria	39,4	74	1	0,869825
Azerbaijan	10,17	46	0,777778	0,109393
Bangladesh	11,81	56	0,777778	0,205193
Belarus	4,72	35	0,777778	0,508236
Belgium	38,2	69	1	0,573858
Belize	13,93	37	0,444444	0,207549
Benin	3,93	49	0,888889	0,444748
Bolivia	12,77	45	0,888889	0,414442
Botswana	27,3	37	0,666667	0,264832
Brazil	12,91	57	0,666667	0,406133
Bulgaria	17,68	56	0,888889	0,554353
BurkinaFaso	6,08	48	0,888889	0,281031
Burundi	1,37	34	0,555556	0,270203
Cambodia	4,3	39	0,555556	0,232058
Cameroon	5,71	52	0,888889	0,601212
Canada	39,06	77	0,833333	0,780416
Central African Republic	1,8	40	0,555556	0,450263
Chad	1,88	39	0,666667	0,154907
Chile	28,27	54	0,888889	0,70452
China	22,96	55	0,444444	0,279987
Colombia	16,43	53	0,944444	0,69689
Congo, Democratic Republic of	2,11	47	0,777778	0,585852
Congo, Republic of the	4,26	41	0,777778	0,472961
CostaRica	20,96	44	1	0,578574
Cote d'Ivoire	5,74	46	0,888889	0,41855
Croatia	21,69	45	0,777778	0,252692
Cuba	3,39	36	0,444444	0,363425
Cyprus	31,25	46	0,888889	0,69072
Czech Republic	29,07	61	0,888889	0,262833
Denmark	38,9	71	0,944444	0,924299
Dominican Republic	17,11	45	0,666667	0,598312
Ecuador	6,43	45	0,888889	0,746942
Egypt, Arab Republic of	21,58	65	0,833333	0,680371
El Salvador	19,92	44	0,944444	0,429459
Estonia	28,49	40	0,777778	0,27252
Ethiopia	5,33	40	0,444444	0,199436
Fiji	12,33	45	0,222222	0,060207
Finland	38,42	72	0,944444	0,912654

France	38,73	88	0,888889	0,888444
Gabon	7,22	42	0,666667	0,424415
Gambia, The	6,54	43	0,611111	0,450103
Georgia	5,3	36	0,666667	0,231269
Germany	39,39	72	0,888889	0,833096
Ghana	11,34	56	0,888889	0,412999
Greece	35,47	63	0,888889	0,684224
Guatemala	15,92	49	0,888889	0,343944
Guinea	4,49	44	0,888889	0,500755
Guinea-Bissau	4,78	41	0,333333	0,094827
Guyana	5,56	43	0,666667	0,508803
Haiti	5,01	40	0,444444	0,266849
Honduras	11,72	43	0,833333	0,276079
Hungary	29,45	63	0,888889	0,700004
Iceland	34,28	49	0,888889	0,681332
India	22,31	62	0,611111	0,552582
Indonesia	10,91	54	0,555556	0,423349
Iran, Islamic Republic of	17,69	44	0,444444	0,330749
Ireland	39,19	64	0,888889	0,502492
Israel	26,54	40	0,777778	0,542518
Italy	36,96	75	0,888889	0,871924
Jamaica	11,48	44	0,777778	0,6478
Japan	36,79	66	0,833333	0,695474
Jordan	17,32	55	0,666667	0,628856
Kazakhstan	16,4	43	0,333333	0,021467
Kenya	10,82	49	0,888889	0,558506
Korea, Republic of	27,87	60	0,666667	0,417654
Kyrgyz Republic	3,49	43	0,777778	0,175553
Latvia	25,1	40	0,888889	0,260634
Lebanon	11,49	45	0,666667	0,330749
Lesotho	9,56	38	0,888889	0,340819
Lithuania	22,88	42	0,777778	0,254983
Luxembourg	39,45	50	0,888889	0,784399
Macedonia	5,88	40	0,777778	0,214489
Madagascar	6,46	40	0,777778	0,716597
Malawi	7,75	39	0,777778	0,382924
Malaysia	25,02	53	0,444444	0,41052
Mali	5,82	45	0,888889	0,367225
Mauritania	1,93	44	0,444444	0,273899
Mauritius	23,1	43	0,888889	0,66065
Mexico	25,43	61	0,833333	0,561315
Moldova	6,1	40	0,444444	0,197614
Morocco	22,7	51	0,777778	0,619794
Mozambique	8,29	44	0,666667	0,09821
Namibia	14,54	41	0,666667	0,137073
Nepal	8,42	47	0,777778	0,360149
Netherlands	39,79	68	0,944444	0,92066
New Zealand	36,49	55	0,944444	0,723725
Nicaragua	7,39	44	0,777778	0,53933
Niger	4,71	46	0,666667	0,362635

Nigeria	8,09	57	0,777778	0,444074
Norway	38,99	65	0,944444	0,96424
Pakistan	9,4	59	0,388889	0,369684
Panama	20,86	42	0,833333	0,645534
Papua New Guinea	11,99	42	0,333333	0,16177
Paraguay	10,88	45	0,888889	0,347273
Peru	16,49	52	0,888889	0,693755
Phillipines	21,15	48	0,944444	0,683594
Poland	27,73	68	0,777778	0,593922
Portugal	37,88	65	0,944444	0,677801
Romania	14,71	58	0,777778	0,563065
Russia	15,7	69	0,666667	0,489869
Rwanda	1,11	38	0,444444	0,360995
Senegal	12,47	53	0,888889	0,727983
Sierra Leone	2,14	41	0,777778	0,401708
Singapore	35,88	41	0,444444	0,327671
Slovakia	24,79	56	0,888889	0,254559
Slovenia	28,54	48	0,888889	0,257742
South Africa	21,17	52	0,722222	0,351063
Spain	38,43	64	0,888889	0,724996
Sri Lanka	14,09	46	0,888889	0,679062
Swaziland	11,5	37	0,666667	0,190085
Sweden	38,75	74	0,944444	0,913368
Switzerland	39,97	67	0,833333	0,544307
Syrian Arab Republic	12,01	41	0,444444	0,426357
Taiwan	31,29	9	0,055556	0
Tajikistan	2,79	36	0,555556	0,040639
Tanzania, United Republic of	10,05	45	0,666667	0,515853
Thailand	24,76	54	0,555556	0,331824
Togo	5,91	45	0,777778	0,582677
Trinidad and Tobago	21,89	43	0,777778	0,667567
Tunisia	24,13	54	0,777778	0,631461
Turkey	12	64	0,833333	0,421996
Uganda	10,29	43	0,944444	0,497672
Ukraine	6,81	52	0,777778	0,489869
United Kingdom	39,56	79	0,833333	0,80504
United States	39,48	77	0,722222	0,572976
Uruguay	19,42	52	1	0,698992
Uzbekistan	5,87	38	0,666667	0,094375
Venezuela, Republic of	12,23	54	0,888889	0,567703
Vietnam	16,41	39	0,444444	0,250267
Yemen	6,21	41	0,444444	0,25417
Zambia	6,08	42	0,888889	0,443202
Zimbabwe	3,28	42	0,666667	0,270076

## Appendix 1b: Descriptive Statistics

	Risk Rating	INTDEL I	INTDEL II	INTDEL III
Mean	17,4081159	50,0362319	0,74677941	0,46190154
Median	13,465	46	0,777778	0,443638
Min	1,11	9	0,055556	0
Max	39,97	88	1	0,96424
St.Deviation	12,2678906	11,8194504	0,18383074	0,22418259

## Appendix 1c: Partial correlation coefficients

	Risk Rating	INTDEL I	INTDEL II	INTDEL III
Risk Rating	1			
INTDEL I	0,64831129	1		
INTDEL II	0,35175959	0,47737099	1	
INTDEL III	0,56904294	0,66119302	0,63549178	1

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