When It Pays to be Nice: A Spatial Model of Democratic Diffusion Through International Organizations

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Abstract

I develop and test two competing theories of democratic diffusion through international organizations (IOs): competition and contagion. The competition theory argues that IOs provide *reference* groups. Member-states' performance is often assessed by comparing them to one another, both by member-states themselves, outside evaluators—perhaps the most importantly—by international firms and investors who use this information in making investment decisions, such as selecting business venues. In an attempt to compete for international business with other states with the same IO memberships, member-states will converge on factors, related to lowering investment risks, such as level of democracy. The contagion theory posits that IOs spread democracy by either serving as pro-democracy *norm entrepreneurs* themselves or by providing access for such entrepreneurs through maintaining permanent headquarters or hosting regular meetings among members. However, IOs' ability to achieve these effects varies by their institutional capacity (e.g., budget, personnel). I evaluate the alternative explanations using a multi-parametric spatio-temporal autoregressive model (m-STAR) on a dataset that combines regime data with that on state IGO membership and IO institutional capacity. Consistent with the competition theory, I find that membership in high capacity IOs leads to positive changes in democracy among less democratic members. Specifically, the long-term effect of including a non-democratic state in just one additional IO of this kind is approximately 2 points on the Polity scale. This result supports the general view of democratization as a long-term and gradual, rather than a quick and easy, outcome.

Introduction

In the mid and late 1990s, Ukraine put itself among the post-Soviet front-runners on minority rights protection by adopting a progressive civic definition of citizenship in adherence with the Council of Europe's (CE) Convention on Human Rights.[1] Such puzzling liberal reforms in otherwise politically and economically undeveloped states have long been the center of scholarly debate.[2] Some credit them to elite-led normative socialization. Checkel (1997), for example, conducts a series of interviews tracing the normative learning process taking place between the CE and policy-makers in Kiev. Other scholars have emphasized the more tangible benefits of compliance with CE requirements, such as the positive signals it sends to international investors.[3]

I build on the existing literature to isolate two competing theoretical mechanisms of democratic diffusion among international organizations (IOs) members: social contagion and competition. I then construct an empirical test that allows for discriminating between these two mechanisms by taking advantage of their divergent predictions regarding the effects of IOs with different institutional capacities. Namely, I argue that contagion theory expects that IOs, irrespective of their institutional capacity, spread democracy by either serving as pro-democracy *norm entrepreneurs* or by providing access for such entrepreneurs through maintaining headquarters or hosting regular meetings among members. The World Economic Forum in Davos, Switzerland, for example, hosts pro-democracy and institution-building forums among global political, business elites, and social activists. In contrast, competition theory maintains that IOs promote democracy by creating *reference groups* that are used by international businesses in assessing member-states' performance for the purpose of making investment decisions. International observers, for example, often compare economic performance among the Organization of Economic Cooperation and Development (OECD)

[1] Checkel 1997, p. 482.
[2] For example, see Checkel 1997; Kelley 2004; Lebovic and Voeten 2009; Pevehouse 2005.
[3] Kelley 2004.

states or political indicators among the members of the North Atlantic Treaty Organization (NATO). States recognize the role of IOs in creating such references and the resulting need to compete with the other states in the same reference group. This competition within reference groups, in turn, results in IO members exhibiting a certain degree of policy convergence among on factors related to lowering investment risks, such as level of democracy. Moreover, since more institutionalized IOs create the most salient reference groups, competition theory expects that such convergence will be the most likely for IOs with high institutional capacity.

Much of the current literature on democratic diffusion through IOs focuses on a few of the most prominent high capacity IOs, such as the European Union (EU), the CE, or the World Bank (WB).[4] While these IOs certainly have an important role in promoting democratic norms, focusing on these IOs may not allow us to uncover the full picture. First, high capacity IOs with large budgets and personnel comprise only a small number of IOs. Most IOs, in the meantime, are not comparable to the EU or the WB, as they have more limited resources and, hence, less leverage at their disposal. In contrast to the studies that focus on a particular high capacity IO, like the EU, I am interested in exploring the effects of IOs more broadly and more generally. Second, most IOs do not have promotion of democracy as one of their implicit or explicit goals. In other words, IOs vary greatly on a host of characteristics.[5] Few studies, however, have explored or accounted for the effects of IO variation, or the effects of states' over-lapping memberships in multiple IOs, effectively treating IOs with little institutional capacity, such as the African and Malagasy Council for Higher Education, the same as the highly institutionalized IOs, such as NATO or the EU.[6] This paper explores the effects of variation in IO capacity and separates the effects of states' over-lapping memberships in different types of IOs. I show that accounting for IO variation is more than just a matter of measurement precision, but also theoretically important, as it

[4]For example, Lebovic and Voeten 2009; Pevehouse 2005.

[5]Boehmer, Gartzke, and Nordstrom 2004; Koremenos, Lipson, and Snidal 2001; Mansfield, Milner, and Rosendorff 2008.

[6]Cao (2009, p. 10). For exceptions, see Cao (2010) and Ingram, Robinson, and Busch (2005).

allows for a separation between competing causal mechanisms.

This paper also improves upon the previous studies in its methodological approach by measuring states' overlapping memberships in multiple IOs using spatial lags. The use of spatial lags allows for separating the differences in effects, such as those of a shared IO membership with a democracy and three autocracies from the same IO membership with two democracies and two autocracies. Separating effects becomes even more complicated when states have multiple membership in multiple IOs of different types and make-up. The spatially weighted autoregressive approach adopted in this paper allows for an appropriate modeling and capturing of these effects through weighting states' over-lapping IO memberships by the democratic make-up of IO members.[7]

This paper proceeds in the following way. I start by developing two competing causal models of democracy diffusion: competition for economic benefits and social contagion. I extend these models to the context of diffusion through IOs, identifying and describing how IOs interact with each of the causal mechanisms. I proceed to show that, while both the competition and contagion theories agree that democracy diffuses through shared IO memberships, they disagree on how this relationship varies with IO capacity. I test the competing predictions of these theories using a multi-parametric spatio-temporal autoregressive model (m-STAR) on a dataset that combines regime data with that on state IO membership and IO institutional capacity. Consistent with the competition theory, I find that shared memberships in high capacity IOs lead to democratic diffusion, while shared memberships in medium or low capacity IOs have no such effect. Moreover, I demonstrate that the substantive effects of high capacity IOs grow over time. I conclude by discussing the implications of these results.

[7]Beck, Gleditsch, and Beardsley 2006; Franzese and Hays 2007; Franzese and Hays 2008; Hays, Kachi, and Franzese 2010.

The Causes of Democratization

Much of the literature views democratization as a domestic-level phenomenon, and therefore, looks for its causes within the state. Cultural theories, for example, explain democratization as the culmination of certain social processes, such as development of particular social norms or orientations (e.g., participatory culture, sense of civic duty, social trust).[8] Economic theories, on the other hand, attribute democratization to economic processes, arguing that increasing economic development creates a growing discrepancy between economic and political power of certain domestic groups.[9] As these groups continue to become more affluent and grow in size, democratization becomes the logical and almost inevitable response to their demand for more political power. Such internal explanations, however, treat domestic variables as exogenous, ignoring or assuming away their possible change in response to international-level factors.

Domestic economic growth is inseparable from international factors at both the systemic (e.g., oil prices) and dyadic (e.g., international trade, levels of foreign direct investment (FDI), foreign aid, international economic sanctions) levels. Economic theories of democratization, therefore, may need to account for such international dynamics.[10] The cultural explanation of democratization may also be incomplete, as domestic culture is often shaped by international factors. Finnemore (1993), for example, describes the process of development of domestic cultural norms as a result of activities of international norm entrepreneurs.[11] More specifically, Finnemore (1993) explores the role of IOs as "teachers" of international norms in the context of states' recognizing the value of and establishing an internationally unified science policy bureaucracy.

The need to explore the external causes of democratization is also grounded in empiri-

[8] Almond and Verba 1965; Putnam 1993.

[9] Acemoglu and Robinson 2000; Boix and Stokes 2003; Epstein et al. 2006; Hirschman 1970; Kennedy 2010; Przeworski and Limongi 1997.

[10] Gleditsch and Ward 2006; Pevehouse 2005.

[11] Finnemore and Sikkink 1998.

cal observation: the temporal and spatial clustering of democracies and transitions suggest (1) *diffusion*—a process of spreading of particular characteristics from one unit to others as a result of interaction, (2) *common exposure*—similar unit-level responses to similar external factors, or (3) *self-selection*—similar units gravitating towards similar treatment conditions.[12]

More recently, scholars have begun to emphasize the role of external causes of democratization. Pevehouse (2002a) provides a "democracy-from-above" explanation, arguing that democracy is promoted by membership in densely democratic IOs, showing that membership in an IO with the mean level of "average member democracy score" increases the odds of a democratic transition over a state with no IO memberships by more than 100 percent.[13] This substantive effect is second only to the effect of previous experience with democracy.

Despite the extant research, the literature has so far remained inconclusive on the exact causal mechanisms driving democratic diffusion. Drawing more broadly on the policy diffusion research in the study of American politics[14], democratization scholars posit three competing theoretical models: coercion, competition, and social contagion.[15] Coercion theories point out the role of major international players (US, Britain, or IOs) in promoting democratization, with tools ranging from conditionality (specific conditions that states have to meet in order to join the IO) to military interventions.[16] EU membership conditionality as it related to minority treatment in Slovakia and Romania is an example of the former effect.[17] An example of a coercive democratization attempt is the establishment of the United Nations Assistance Mission for Iraq (UNAMI) following the US intervention in 2003.

Testing coercion theories, however, is beyond the scope of this paper, as such theories

[12]Cederman and Gleditsch 2004; Franzese and Hays 2007; Franzese and Hays 2008; Gleditsch and Ward 2006; Kadera, Crescenzi, and Shannon 2003.

[13]"Densely democratic" IO membership for state i is defined as i's membership in any IO that has a higher average member democratic score compared to democracy level of state i.

[14]Berry and Berry 1990; Boehmke and Witmer 2004; Pacheco 2012; Volden 2006; Walker 1969.

[15]Elkins and Simmons 2004; Simmons, Dobbin, and Garrett 2006; Simmons, Dobbin, and Garrett 2007.

[16]Levitsky and Way 2005; Pevehouse 2002a; Pevehouse 2002b; Pevehouse 2005.

[17]Kelley 2004.

posit conditional relationships that promise IO membership in exchange for democratization. While such relationships are certainly possible, testing them is complicated by the need to identify the relevant sample of states—states that are interested in adjusting their current behavior in order to join an IO.[18] In the absence of this type of data for a large-N study, this paper focuses instead on evaluating the other two diffusion theories: competition for benefits and social contagion.

Competition Mechanism

Competition is one of the key causal mechanisms behind diffusion of norms, rules, behaviors, and practices.[19] The general argument is that firms and investors have a choice of where to take their business and, all else equal, prefer low risk markets.[20] Aware of this preference, states compete for the benefits associated with attracting international business by adopting one of two strategies: (1) enacting policies that mediate economic risks, such as stronger property rights protections or improvement in democratic practices[21] or (2) providing additional business incentives that would "make up" for the losses associated with higher investment risks, such as lower capital taxation rates.[22] Both strategies suggest a certain degree of policy convergence among competing states. Importantly, however, in this competition for international business and investment, not every state is or views itself in direct competition with every other state. Operating in very different domestic and international environments, states are unwilling and often unable to emulate certain policy outcomes. Different policies work for different states: in the research on policy adoption in American states, scholars have found that rather than comparing their state to the states that are leaders in policy innovation, such as New York and California, or even to the national aver-

[18] For process tracing of such relationships, see Pevehouse 2005.

[19] Cao 2010; Simmons 2000; Simmons, Dobbin, and Garrett 2006; Simmons, Dobbin, and Garrett 2007; Swank 2006.

[20] Li 2006; Porta et al. 1997; Ramcharran 1999; Simmons 2000; Sobel 2002; Wei 2000.

[21] Simmons 2000; Jensen 2003.

[22] Cao 2010; Li 2006.

age, legislators tend to look for cues in similar states—within the same geographical region, similar socio-demographic characteristics, or even similar budgets.[23] California, for example, is more likely to compare itself to New York or other large and diverse East coast states than more geographically proximate Oregon or Nevada.

IR scholars identify similar patterns in behavior of international states: a policy that may be the best solution for a liberal market democracy such as the United Kingdom may be detrimental for a social welfare democracy such as Sweden.[24] Similarly, Simmons (2000) shows that developing states look to the states within the same region for cues on whether to sign the International Monetary Fund's Articles of Agreement. In other words, in making policy decisions, states tend to identify and compare themselves to a *reference group* or a group of international states that are most similar to them in certain characteristics. Identifying the most relevant reference groups will then allow for predicting the likely patterns of policy convergence among states, which for the purposes of this paper is assessed as convergence in the level of democracy.

While regional geographic membership presents the most obvious reference group for states to look to for policy cues, observation suggest that states with shared IO memberships may constitute an equally important reference. States are frequently compared to those with the same IO memberships in the speeches of government officials, daily news, as well as in reports by various inter- and non-governmental organizations. Ukraine's economic or democratic performance, for example, is often assessed in the context of comparing it to Georgia, Kazakhstan, or other members of the Commonwealth of Independent States (CIS),[25] while Bolivia is generally compared to other nations of the Andean Community.[26]

By creating such reference groups for outside evaluators and, more importantly, for international businesses and domestic political leaders, IOs bring what may otherwise be

[23] Volden 2006.
[24] Hays 2009.
[25] See, for example, Business Monitor International 2012; Caucasus Business Forecast Report 2012; Irkliyenko 2012.
[26] E. g., Chauvin 2012.

geographically distant states into "closer" interaction and competition with one another. Member-states, however, do not start on an even playing field when competing for the benefits associated with attracting international business. In other words, states that end up within the same reference group due to their shared IO membership may vary greatly in their attractiveness as trade partners or investment opportunities. Since firms and investors are free to choose their business partners, less competitive member-states (e.g., those with weaker property rights protection) run the risk of being passed up in favor of the more attractive business opportunities.

Moreover, this competition within reference groups is not just implicit. Instead, the causal process is well known to policy-entrepreneurs, who, in turn, explain the incentive structures to legislators. Interviews with US lobbyists, for example, show evidence of frequent referencing of policies within comparable states as an important strategy of policy-promotion.[27] Similar processes can be traced within international state policy-making. Russia's Prime Minister Dmitriy Medvedev, for example, used the reference mechanism by comparing Russia to other CIS states, when justifying the decision to raise the limit for the cover for deposits insured by the Russia's Deposit Insurance Agency :

> [...B]earing in mind the criterion for the correlation between per capita gross domestic product and the volume of insurance cover for deposits, in our country indicators have been *lower than in many CIS states*, including Kazakhstan and Ukraine, for instance.[28]

Similarly, in an address to domestic investors, Romanian Prime Minister Mihai-Razvan Ungureanu invoked two of such reference groups, by encouraging them to invest not just in the EU, but also the CIS:

> There is need for Romanian economic presence, for direct Romanian investment in other states, which are *not necessarily EU members*, starting with the Republic of Moldova, Ukraine, the Russian Federation - in fact *the overall CIS* [...][29]

[27] Volden 2006, p. 298.
[28] Butrin, Mikhaylin, and Cherkasov 2012, p. 9, emphasis added.
[29] BBC Monitoring Europe 2012, emphasis added.

In sum, by grouping states in accordance with their IO memberships in this way, governments, investors, and observers create reference groups. States within these reference groups view themselves in direct competition for investment or other economic benefits, which leads to them mimicking one another's political and economic reforms. As a result of this process, after some time states with shared IO memberships start to look very much alike, both politically (e.g., on their level of democracy) and economically (e.g., capital tax rates).[30]

Social Contagion Mechanism

Social contagion theory posits a competing causal mechanism for spatial diffusion of democratic norms—a mechanism that emphasizes the process of social learning.[31] The key distinct feature of social contagion—defined as "a change in beliefs" as a result of "exposure to new evidence, theories, or behavior repertoires"[32]—is that, in contrast to the competition mechanism, actors' behavior is affected by others' not because it alters their payoffs structure, but because it provides information about available policy options.[33] While these policy options may or may not yield higher expected utility, what is important is that these options become available either through passive interaction with others or as a result of active effort of norm entrepreneurs.

Scholars sometimes distinguish between the processes of *passive* learning and *active* or *channeled* learning.[34] Passive learning implies the process in which governments adopt new policies as new policy options become available, e.g., as they are made aware of new policy options as a result of observing policy processes in similar states.[35] Within the democratization literature, the causal process associated with passive learning is sometimes referred to as

[30]For a similar argument regarding diffusion of economic policies, see Cao (2009), Franzese and Hays (2008), Park (2010), and Plümper, Troeger, and Winner (2009).
[31]Elkins and Simmons 2004; Finnemore 1993; Simmons, Dobbin, and Garrett 2006.
[32]Simmons, Dobbin, and Garrett 2006, p. 795.
[33]Simmons, Dobbin, and Garrett 2006.
[34]Elkins and Simmons 2004.
[35]Elkins and Simmons 2004, pp. 175-176.

"demonstration effects." The argument is that regimes become more likely to democratize as their citizens get exposed to the images of "the good life" in democratic states[36] or inspired by revolutionary experiences in other states.[37] Practically, separating the causal effects of passive social contagion from those of rival theories, such as competition or channeled social diffusion is virtually impossible short of engaging in case specific process tracing.[38] As a result, while recognizing the possibility of passive learning, this paper focuses on separating between the two more tangibly observable causal diffusion processes: diffusion through competition discussed above and diffusion through channeled learning discussed below.

Channeled learning refers to policy learning in response to the efforts of *norm entrepreneurs* or individuals or groups who actively promote the norm by providing training, information, and resources.[39] According to this argument, democratic diffusion occurs when pro-democracy activists within autocracies are able to form and maintain strong links to sympathetic groups within democratic states (e.g., exile clusters, churches, human rights organizations).[40] These outside supporters promote democracy by lobbying their own governments to pressure the autocratic regimes, as well as by providing the pro-democracy movements with economic resources, information, training, and other types of support.[41]

A necessary feature of social contagion is that this process requires that the targets of diffusion be embedded in social networks which would transmit the relevant information among them. In other words, the ability of international actors to assist democratic transitions is constrained by the degree to which these actors are able to get access to the pro-democracy groups within authoritarian regimes. For obvious logistical reasons, for example, external actors have the greatest impact when they are located in a democratic state that borders the targeted autocracy.[42]

[36]Beissinger 2007; Mitchell 2002; Rawls 1999.
[37]Mitchell and Harrison 2012.
[38]Kelley 2004.
[39]Finnemore and Sikkink 1998.
[40]Bell, Clay, and Murdie 2012; Checkel 1997; Greenhill 2010; Rosenau 2003.
[41]Whitehead 1991; Whitehead 1996.
[42]Bell, Clay, and Murdie 2012; Gleditsch and Ward 2006; Levitsky and Way 2005.

Shared IO membership can also facilitate such access. By maintaining permanent headquarters staffed with member representatives, or hosting regular international meetings among their members, IOs provide one of the easiest and safest channels through which democracy promoters can access their target audiences—elites from authoritarian states. US criticism of Russia's presidential elections at the 2011 summit of the Organization of European Cooperation and Development, for example, has been credited with triggering major anti-government protests in Russia.[43] Similarly, the Arab League took the lead in the negotiating with the Al-Asad regime to allow international human rights observers into the protest-engulfed Syria.[44]

Pro-democracy protests are also commonplace outside of major IO headquarters, such the New York office of the United Nations,[45] and there is little doubt about other less vocal and perhaps more effective interactions between pro-democracy entrepreneurs and member representatives. The World Economic Forum in Davos, for example, explicitly facilitates such interactions between government representatives from around the globe and social activists and business leaders. Finally, IOs certainly play a passive role in spreading democratic norms by simply providing avenues for member interaction, exchange of information and ideas.

In addition, IOs themselves may take on the role of norm entrepreneurs with the goal of promoting democracy.[46] More specifically, IO officials often view the role of spreading norms as part of their mission. Many IOs, such as the World Bank and the IMF, are rather explicit about this perceived role, especially as it comes to transmitting the norms associated with the behavior of advanced market economies,[47] although diffusion of political norms and principles became more explicitly emphasized with the end of the Cold War.[48] William Perry, a former US Secretary of Defense, form example, highlights the importance of NATO's role

[43]McLaughlin 2012.
[44]BBC Monitoring Middle East 2011.
[45]Spencer and Miles 2008.
[46]Barnett and Finnemore 1999.
[47]Wade 1996.
[48]Barnett and Finnemore 1999; Perry 1996.

in "building democracy, trust, and understanding in and among nations."[49]

IOs have several tools that can be used to further the goal of democracy promotion, such as creating and/or sponsoring foreign exchange programs that educate elite students from authoritarian countries at educational institutions in democratic countries.[50] In addition to providing the participants with rigorous education which enhances their chance at obtaining important leadership positions in their country's government, such programs expose these future elites to the central principles of democratic government, such as "how to operate a military in a democratic society under civilian control and with legislative oversight."[51] Hosting international conferences, workshops, sponsoring teacher exchanges, and other forms of joint training between democratic and authoritarian countries constitute similar mechanisms for diffusing democratic norms and values available to IOs.

The literature identifies a set of other tools that may be used by IOs to promote democratization, such as shaming, providing material incentives, including suspending membership.[52] While very powerful, tools associated with providing material incentives are only available to very few high capacity IOs, such as the EU. For the purposes of this paper, it is important not to over-estimated the importance of these causal effects, as the paper's scope goes beyond the few powerful IOs that can rely on these tools to evaluating the effects of IO membrships more broadly.

IO Institutional Capacity and Diffusion: Diverging Predictions

Both the competition and social contagion theories therefore agree that state i's level of democracy is positively affected by the levels of democracy in its fellow IO members. Separating these rival theories has been made possible by recent research showing a large variation

[49]Perry 1996, p. 66.
[50]Perry 1996; Pevehouse 2005.
[51]Perry 1996, p. 69.
[52]Donno 2010; Donno 2012; Hathaway and Shapiro 2011; Kelley 2004; Pevehouse 2005.

in IO types.[53] This research shows that although states generally share multiple over-lapping memberships in numerous IOs, not all IOs are created equal. IOs vary greatly in their purpose, design, decision-making, and most importantly for the purposes of this paper, institutional capacity or the amount of resources (e.g., budget, number and quality of personnel) available to IOs for pursuit of their goals. Specifically, Boehmer, Gartzke, and Nordstrom (2004) distinguish three types of IOs, based on their level of institutional capacity: *Low*, *Medium*, and *High*. *Low Capacity* or *Minimal* IOs are characterized by "plenary meetings, committees, and possibly a secretariat without an extensive bureaucracy beyond research, planning, and information gathering."[54] *Medium Capacity* or *Structured* IOs have "structures of assembly, executive (nonceremonial), and/or bureaucracy to implement policy, as well as formal procedures and rules."[55] Finally, *High Capacity* or *Interventionist* IOs are characterized by additional features such as "mechanisms for mediation, arbitration and adjudication, and/or other means to coerce state decisions (such as withholding loans or aid), as well as means to enforce organizational decisions and norms."[56]

This IO variation is important, because the two rival theories developed here make diverging predictions regarding the interaction between diffusion and IO institutional capacity. While the competition theory posits that IOs diffuse democratic norms by serving as reference groups that are used by international businesses in making economic decisions regarding particular countries, not all IOs create equally salient references for such comparisons. While international observers often compare NATO countries or the Andean community, they rarely invoke the reference groups of, for example, the Community of Portuguese-Speaking Countries. IO salience as reference groups depends on their institutional capacity.

The logic is that IOs are just a type of bureaucracies[57], one of whose principal features is

[53]Boehmer, Gartzke, and Nordstrom 2004; Koremenos, Lipson, and Snidal 2001; Mansfield, Milner, and Rosendorff 2008.

[54]Boehmer, Gartzke, and Nordstrom 2004, p. 18.

[55]Boehmer, Gartzke, and Nordstrom 2004, p. 18.

[56]Boehmer, Gartzke, and Nordstrom 2004, p. 18.

[57]Barnett and Finnemore 1999.

increasing their own power.[58] More specifically, the power-maximizing model of bureaucracies posits absolute or relative budget maximization as one of important goals of a typical bureaucratic organization, a goal that is pursued alongside or even prior to the stated organizational mission.[59] Since the perceived importance of organization's mission—its salience—is a key determinant of its next year's budget, it is in organizations' interest to direct a significant portion of its current year resources to activities that increase their salience, such as inviting prominent speakers, sending missions to troubled areas, or providing foreign aid. As IOs with greater capacity can afford to allocate more resources to such activities, *High Capacity* IOs are more likely to become salient reference groups than IOs with lower institutional capacity.

Since comparison and competition within one's own reference group constitutes competition's theory main causal mechanism, this theory expects that most of democracy diffusion will take place within *High Capacity* IOs. *Medium* and *Low Capacity* IOs, on the other hand, are unlikely to serve as salient enough reference groups for member competition.

Competition Hypothesis 1. *There is positive relationship between i's level of democracy and that of its fellow high capacity IO members.*

Competition Hypothesis 2. *There is no relationship between i's level of democracy and that of its fellow medium or low capacity IO members.*

In contrast, the social contagion theory expects less difference in effects, since social contagion's main causal mechanism hinges on IOs serving as channels through which norms entrepreneurs work to spread democracy. High capacity IOs may be more effective at this task: more resources may allow them to host more frequent meetings or maintain larger headquarters. IOs of lower capacity, however, will also host meetings and otherwise encourage interactions among their members. In other words, the opportunities for pro-democracy

[58] Conybeare 1984; Niskanen 1968.

[59] Conybeare (1984); Niskanen (1968). Such a goal, however, need not be regarded as some kind of pathology, as the promotion of the stated organizational mission hinges in large degree on the overall survival and growth of the organization itself.

activists to access authoritarian elites are there, regardless of IO capacity.[60] If anything, less salient IOs may provide greater opportunities for such efforts, as their meetings are less likely to raise suspicion on the part of authoritarian rulers wary of foreign influences. As a result, contagion theory leads to the following hypotheses:

Contagion Hypothesis 1. *There is positive relationship between i's level of democracy and that of its fellow IO members, for all IO types.*

Contagion Hypothesis 2. *The effect of IOs on democracy diffusion among members will increase with IO institutional capacity.*

Research Design

I evaluate these hypotheses using a multi-parametric spatio-temporal least squares regression (m-STAR) that treats overlapping types of IO memberships, as well as geographic contiguity, trade, and policy similarity, as spatial lags.[61] M-STAR provides for an adequate testing of diffusion hypotheses, from both a methodological and a theoretical perspective. In contrast to other methodological techniques that treat spatial and temporal dependence as a nuisance (e.g. fixed effects), m-STAR permits explicit modeling and estimation of contemporaneous spatial effects, while also accounting for the traditional unit-level effects (e.g., GDP per capita). The equation for the democracy diffusion through IOs model posited in this paper can be written out as:

$$y_i = \rho_1 \sum_j w_{ij}^1 y_j + \rho_2 \sum_j w_{ij}^2 y_j + \ldots + \rho_R \sum_j w_{ij}^R y_j + \phi y_{i,t-1} + \sum_k x_k^i \beta_k + \epsilon_i, \qquad (1)$$

where y_i is the dependent variable, and w_{ij} are spatial-level covariates, such as different types of shared IO membership or contiguity, and ρ are the corresponding spatial weight coefficient

[60] Cao 2009; Cao 2010; Torfason and Ingram 2010.
[61] Franzese and Hays 2007; Franzese and Hays 2008; Hays, Kachi, and Franzese 2010.

to estimate.[62] Note that for each observation, y_i, a spatial lag $w_{ij}y_i$ is simply a weighted sum of the dependent variable's values in all units y_j other than i—a straightforward way to capture state i's dependence on outcomes in other states. The temporal dependence is captured by including a standard temporal lag $y_{i,t-1}$, with ϕ as its coefficient. Finally, the model includes a set of traditional unit-level covariates x with coefficients β, that enter as control variables, and the error term ϵ_i.

Dependent Variable

The dependent variable—state i's domestic level of democracy—is measured using the *Polity2* variable of the Polity IV Project, which codes democracy on a 21-point ordinal scale ranging from -10 to 10, with higher values representing more democratic polities.[63] The scope of this study is limited to the time period between 1820 and 2000 due to data availability on the central independent variables. The dataset includes 191 states that make up a total of 5080 non-missing state-years.[64]

Independent Variables

This paper posits a spatial effect between the characteristics of state i's IO memberships (IO type and regime make-up) and i's own domestic level of democracy. To appropriately model this effect, the central independent variables of interest are measured as spatial lags rather

[62] That is, if w^1_{ij} represents the spatial weight for *High Capacity IOs*, then w^1_{ij} is an NxN matrix whose ij^{th} cell entry is the number of shared high capacity IO memberships between i and j, and ρ_1 is the spatial effect coefficient to estimate.

[63] Marshall and Jaggers 2008.

[64] COW IGO data is available for every fifth year between 1820 and 1965 and annually for 1966-2000. This study's data is therefore limited to these years, and for congruency, all other variables are coded as five year averages for the time period between 1820 and 1965. Note that such a data structure represents a case of a selection on an independent variable, which poses no concern for the validity of the empirical results. (King, Keohane, and Verba 1994, p. 137) The results are robust to the measurement of the temporal lag variable, whether as the level of the dependent variable in the previous year or as that in the previous available observation (5-year lag for observations between 1820 and 2000). The results are also robust to limiting the data to the 1966-2000 time period.

than as state-level covariates.[65]

The existing literature offers several alternative ways to construct spatial lags Plumper and Neumayer (2010). The most common, yet not always the most appropriate approach is to standardize spatial matrices by the total number of row entries. For example, suppose state A that shares is a member of two IOs: IO_1 made up of states A, B, C, and D; and IO_2 made up of states A, B, and E (see Figure 1).

<Figure 1 here>

The spatial matrix of joint IO memberships in this example can be summarized in the following way:

	A	B	C	D	E
A	0	2	1	1	1
B	2	0	1	1	1
C	1	1	0	1	0
D	1	1	0	1	0
E	1	1	0	0	0

To standardize by rows, we simply divide each cell by the row total, obtaining the following weights matrix:

	A	B	C	D	E
A	0	0.4	0.2	0.2	0.2
B	0.4	0	0.2	0.2	0.2
C	0.33	0.33	0	0.33	0
D	0.33	0.33	0	0.33	0
E	0.5	0.5	0	0	0

[65]Beck, Gleditsch, and Beardsley 2006; Franzese and Hays 2008; Hays, Kachi, and Franzese 2010.

In accordance to this standardization approach, the spatial lag for state A is:

$$w_A y_j = 0.4\text{Polity}_B + 0.2\text{Polity}_C + 0.2\text{Polity}_D + 0.2\text{Polity}_E. \tag{2}$$

Note that this construction of spatial lags gives greater weights to states with which i has more overlapping memberships: state B's polity is assigned double the weight as it shares two IOs with state A. This construction, however, does not take into account that IO_1 is much larger in membership than IO_2, which means that the effect of any single member of IO_1 will be much smaller that that of any single member of IO_2. State E, for example, has greater access to A, since it makes up a third of membership in IO_2, whereas states C and D may have less of a relative impact on A, as they each make up only a fourth of memberships. These relative effects will be even more pronounced for IOs with dozens of members such as the EU. To account for relative weight of memberships in IOs with different size, I adopt an alternative weighting technique—weighting by IO size. In accordance with this weighting techniques, shared memberships in smaller IOs are weighted more heavily than those in larger IOs, while still accounting for the total number of shared memberships. The spatial lag for state A is then constructed in the following way:

$$w_A y_j = \frac{\text{Polity}_B + \text{Polity}_C + \text{Polity}_D}{3} + \frac{\text{Polity}_B + \text{Polity}_E}{2}. \tag{3}$$

And the corresponding weighting matrix looks in the following way:

These spatial lags are best thought of as the sums of the average democracy scores of i's fellow IO members of a particular type (or state i's IO space), weighted by IO size. Corresponding to the hypotheses developed above, the model will then include a total of

	A	B	C	D	E
A	0	$\frac{1}{4}+\frac{1}{3}$	$\frac{1}{4}$	$\frac{1}{4}$	$\frac{1}{3}$
B	$\frac{1}{4}+\frac{1}{3}$	0	$\frac{1}{4}$	$\frac{1}{4}$	$\frac{1}{3}$
C	$\frac{1}{4}$	$\frac{1}{4}$	0	$\frac{1}{4}$	0
D	$\frac{1}{4}$	$\frac{1}{4}$	0	$\frac{1}{4}$	0
E	$\frac{1}{3}$	$\frac{1}{3}$	0	0	0

three spatial lags related to state i's IO membership—for *High, Medium* and *Low Capacity IOs*.

IO Capacity

IO capacity is measured using Boehmer, Gartzke, and Nordstrom (2004) data on IO institutional capacity. This variable can take on one of the three values: (1) *Low* for minimal organizations that contain plenary meetings, committees, and possibly a secretariat without an extensive bureaucracy beyond research, planning, and information gathering; (2) *Medium* for organizations that contain an assembly, executive (nonceremonial), and/or bureaucracy to implement policy, as well as formal procedures and rules; and (3) *High* for organizations that contain mechanisms for mediation, arbitration and adjudication, and/or other means to coerce state decisions (such as withholding loans or aid), as well as means to enforce organizational decisions and norms. The dataset includes information on a total of 383 IOs, 39 of which are coded as *High Capacity*, 117 as *Medium Capacity*, and 227 as *Low Capacity*.

I construct the appropriate spatial lags by transforming the IO Institutional Capacity variable into an NxN adjacency matrix whose cells represent i and j's total number of shared IO memberships of each type (Low , Medium, or High Capacity). IO membership data is obtained from the Correlates of War (COW) Data on IGO Memberships.[66]

[66]Pevehouse, Nordstrom, and Warnke 2004.

Control Variables

To account for the well-established causal factors associated with the level of democracy, I closely follow model specifications common to previous studies, such as Boix and Stokes (2003), Epstein et al. (2006), Houle (2009), and Przeworski et al. (2000). The literature has long demonstrated a strong link between democracy and domestic economic development.[67] Proponents of the modernization theory argue, for example, that the level of democracy is greater for developed rather than developing countries, as domestic groups are more likely to demand political rights once their basic economic needs have been met.[68] Other studies suggest that the level of domestic democracy is linked to economic performance through domestic stability: authoritarian leaders may pass liberal reform in attempts to stave off political turmoil caused by adverse economic conditions.[69] I account for these explanations by including a measure of annual GDP per capita between 1820 and 2001, collected by the Organization of the Economic Cooperation and Development (OECD).[70] Democracy is also affected by the structure of the domestic economy. The level of democracy may be lower, for example, in states with a heavy reliance on natural resources, such as oil and gas. Elites with access to these resources are more vulnerable to the threat of taxation and may use their revenues to impede political change.[71] To capture these effects, I control for oil and gas production, using an indicator variable from Ross (2001).

Democracy may also depend on historical, cultural, and social characteristics. The level of democracy may be lower in ethnically divided societies.[72] When the ethnic make-up of the political elite is not representative of the general population, such elites might be unwilling to pass democratic reform out of fear of retaliation on the part of the under-represented groups. I therefore control for ethnic fractionalization, measured as the probability that

[67]Lipset 1959; Dahl 2000; Przeworski et al. 2000.
[68]Lipset 1959.
[69]Gasiorowski 1995; Haggard and Kaufman 1995.
[70]Maddison 2003.
[71]Boix 2003; Ross 2001.
[72]Dahl 2000.

two randomly selected individuals in the country belong to different ethnic groups.[73] The literature has also identified a number of political variables affecting the level of democracy. I control for states that are former British colonies, as some argue that such states tend to have higher levels of democracy, due to their inherited institutions structures.[74] I control for the number of previous democratic transitions and the rate of executive turnover, measured as the average number of years between changes in chief executive. The literature shows that countries with previous experience of democracy or with more frequent change in the executive are more likely to democratize again in the future.[75]

Moreover, democracy may be affected by the international political context. States may be more likely to introduce democratic reform in more democracy-friendly international political climates; for example, when the percent of democracies in the world reaches a certain threshold.[76]. I capture this by controlling for the percent of world democracies. Finally, geographical clustering of democracy has been explained in terms of common exposure: states in the same geographical regions may have similar levels of democracy as their regions as a result of the regional level of conflict (e.g., territorial disputes may get settled at approximately the same time within the same regions).[77] To account for this and other competing stories of geographical democracy diffusion discussed above, I include a contiguity spatial weight, which captures the weighted democracy average of i's geographical neighbors.

I control for the effects of international trade by including a spatially lagged value of i's international trade with each of its trade partners. This accounts for two possible effects. First, it controls for diffusion through trade interactions similar to that posited by the main hypotheses, by weighting each partners' level of democracy by the amount of trade with this particular partner. Second, the spatial lag of trade accounts for the argument that international trade is always conducive to democracy, irrespective of the trade-partner's

[73]Fearon 2003.
[74]Lipset, Seong, and Torres 1993; Porta et al. 1997.
[75]Przeworski et al. 2000; Epstein et al. 2006.
[76]Gleditsch and Ward 2006; Kadera, Crescenzi, and Shannon 2003.
[77]Rasler and Thompson 2004; Vasquez 2009.

regime type. By economically empowering the middle class, trade increases demands for democratic reform.[78] Note that the latter argument motivates measuring the spatial effect of trade in absolute terms, rather than as a weighted average. The trade data is obtained from the COW project.[79]

Finally, it is necessary to rule out the explanation that, contrary to the argument developed here, the relationship between the regime make-up of IOs and members' democracy is reversed. States with similar regime types might simply choose to join the same IOs, hence the seeming "diffusion" of democracy. To separate the effect of IOs from that of this competing explanation, I follow the recommendations of Hays, Kachi, and Franzese (2010) and include a spatial lag of democracy weighted by foreign policy similarity, using adjusted foreign similarity scores.[80] The inclusion of this control variable allows to parse out the portion of regime similarity within IOs attributed to states' gravitation towards IOs made up of "like-minded" states. Once I control for policy similarity, the left-over variation in democracy scores among IO members is then left to be explained by other processes, such as the causal mechanisms posited here.

Empirical Analysis

The results of the empirical analysis are presented in Table 1. First, it is worth noting that the results replicate most of the previous findings related to democracy levels. Namely, state i's level of democracy is positively affected by its GDP per capita, rate of executive turnover, percent of world democracies, as well as the weighted average of neighbors' democracy level.

<Table 1 here>

In order to evaluate the support for the paper's main argument—democratic diffusion through IOs—we need to look at the bottom part of the table that presents the coefficients

[78] Schumpeter 1942.
[79] Barbieri, Keshk, and Pollins 2009.
[80] Hăge 2011.

on the spatial lags. Just like in traditional regression analysis, we interpret the direction of spatial effects by looking at the signs on the coefficients. The coefficient on *High Capacity IO* is positive and statistically significant, which suggests that i's democracy level is positively affected by the democracy level of states in its high capacity IO space. Neither *Medium* nor *Low Capacity* IO spaces have similar effects: the coefficients on these spatial lags are not statistically significant. While these results suggest general support for the democratic diffusion theory, the lack of statistical significance on *Medium* nor *Low Capacity IOs* indicates that the results favor the competition hypotheses over those of social contagion. High Capacity IOs are the only type of IOs that have a statistically significant positive effect on democracy diffusion among their members. The test does not provide conclusive evidence as to whether this effect is achieved by creating a salient reference group for states to compete within, as suggested by the competition theory, or by ensuring more frequent interaction opportunities, as would be argued by the proponents of social contagion. The lack of significant effect on the part of *Medium* and *Low Capacity* IOs, however, provides some tentative evidence against the social contagion theory (*Social Contagion Hypotheses 2* and *3*), while supporting the competition theory (*Competition Hypothesis 2*). Apparently, pro-democracy entrepreneurs either fail to take full advantage of the access to authoritarian elites provided by *Medium* and *Low Capacity* IOs, or such access is not sufficient for effective spread of democratic norms.

This is further substantiated by comparing the spatial coefficients for different IO types among one another using a series of post-estimation F-tests (Table 2). Consistent with the *Competition Hypotheses 1* and *2* and contrary to the *Social Contagion* one, there is a statistically significant difference between the effects of *High* and *Low Capacity IOs* ($p < 0.05$), as well as between *Medium* and *Low Capacity IOs* ($p < 0.1$). Lastly, the effects of *High* and *Medium Capacity IOs* are statistically indistinguishable.

<Table 2 here>

When interpreting spatial effects, one must also keep in mind that the coefficients represent only the initial pre-dynamic effects or the effect of covariates in the absence of spatial feedback.[81] As is the case with any lagged dependent variable, effects of spatial variables are nonlinear; they enter the model as multipliers on the neighbors' values of the dependent variable. As a result, these variables have non-constant marginal effects that change (1) with the changes in neighbors' dependent variables, (2) with i's own changes on the dependent variable in the previous time period, (3) and over time. Therefore, interpreting the marginal effects of the spatial coefficients requires calculating their substantive effects.[82] For illustration purposes, an example of the effect of a *High Capacity IO*'s spatial lag is presented in Figure 2.

<Figure 2 here>

Figure 2 shows the hypothetical effect of including an average size and income European country, like Ukraine, into a high capacity IO with predominantly democratic members, such as NATO, while holding constant all other variables. We see that although the initial effect of this additional membership is small—approximately 0.1 points on the Polity scale—it grows substantially stronger over time, reaching 1 points—a tenfold increase—after seven time periods, and full 2 points—a very strong effect—after ten time periods. This result has some face validity, as it supports the more general view of democratic diffusion as a slow and gradual process, rather than a fast and easy outcome.

Note that this is an isolated effect of joining a *single* high capacity IO. In practice, this effect would likely be much stronger, as joining one IO usually leads to joining a set of other IOs with similar memberships. For example, recent joiners of NATO also frequently join the CE, the OECD, and the EU, either concurrently or within close temporal proximity.[83] Each such additional IO membership makes an independent contribution to the spatial effect's

[81] Franzese and Hays 2007.
[82] Franzese and Hays 2008; Hays, Kachi, and Franzese 2010.
[83] Pevehouse 2005.

substantive strength.

Finally, it is notable that the diffusion effect of high capacity IOs remains after accounting for the selection effects of trade and foreign policy similarity that may act as the driving forces behind IO formation. The coefficient on *Policy Similarity* is positive and statistically significant, suggesting that states with similar foreign policies might co-evolve towards having similar domestic regime types.[84]

Conclusion

International actors do not exist in a political vacuum. By engaging in trade, forming alliances or joining IOs, states come into contact with one another, and this contact is not inconsequential for their domestic behavior. Inter-dependence between international interactions and domestic outcomes has been recognized by scholars for quite some time. Yet, until recently, it has been rarely explicitly modeled or accounted for in empirical analyses, primarily due to the lack of appropriate methodological tools.[85] This paper accomplishes this task by exploring the process of democratic diffusion through IOs using a spatial econometrics approach.

Theoretically, this paper develops two competing causal models of democratic diffusion: competition and social contagion. While both theoretical approaches posit a democracy diffusion process among states with shared IO membership, they differ on the central causal mechanisms behind the process. According to the competition theory, shared IO memberships, especially those in high capacity influential IOs, helps create reference groups that are used to evaluate state's economic performance. International investors and firms use such reference groups in making important business decisions, such as how and where to allocate their funds. This creates incentives for states with shared IO memberships to compete against one another for these lucrative economic opportunities. As a result, IO members

[84] Franzese, Hays, and Kachi 2012; Hays, Kachi, and Franzese 2010.
[85] For exceptions, see Crescenzi (2007), and Lee, Muncaster, and Zinnes (1994).

converge on many political and economic outcomes related to attracting investment, such as lowering the risks by improving domestic democratic practices. Hence the process of democracy diffusion through IOs.

Social contagion theory, on the other hand, posits a completely different causal process, arguing that democratic norms diffuse through social interaction between groups within authoritarian and democratic regimes. IOs provide democratic elements within autocracies with much needed access to pro-democracy groups abroad (e.g., diasporas, human rights movements) who may fund, train, motivate, or otherwise support their cause. Additionally, IOs are a great mechanism for democracy "demonstration effects," as they often sponsor foreign visits and elite exchanges among their members.

Competition and social contagion theories, however, have differing predictions on how diffusion of democracy is affected by IO capacity. According to competition theory, democracy is most likely to diffuse through *High Capacity* IOs, because such IOs have the resources to make themselves salient within the international community. In contrast, lacking such resources, *Medium* and *Low Capacity* IOs are unlikely to become salient reference groups, and hence have no effect on democracy diffusion. The social contagion theory, on the other hand, expects less difference in such effects, as its central causal mechanism—interaction among member-states' elites—can be achieved within any type of IO. This paper takes advantage of this theoretical divergence to evaluate each theory's relative explanatory power.

The empirical results provide stronger support for the competition theory. Namely, IOs with high institutional capacity are the only IO type found to have a statistically significant effect on diffusion. For a substantive illustration, I calculate the effects of including a medium sized and income country in an additional high capacity IO with high democratic make-up. The results show that the democratizing effect of IO membership grows consistently and substantially over-time. The findings fit with the more general view of democratic diffusion as a gradual process, rather than an instantaneous outcome.

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Tables and Figures

Figure 1: Conceptualizing Spatial Lags. An Illustration

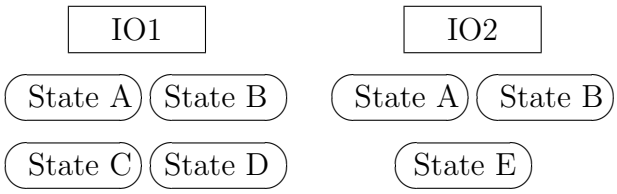


Table 1: The Effect of IO Memberships on Democracy Score

Main Effects		
Temporal Lag	0.920**	(0.005)
Gdp per capita	0.001**	(0.001)
Rate of Executive Turnover	1.258**	(0.103)
Prev Democratic Breakdown	-0.002	(0.003)
Percent of World Democracies	3.221**	(0.587)
Ethnic Fractionalization	-0.129	(0.122)
Former British Colony	0.075	(0.071)
Constant	-1.052**	(0.176)
Spatial Lags		
Contiguity	0.024**	(0.009)
Policy Similarity	0.005**	(0.001)
Trade	-0.001	(0.001)
High Capacity IOs	0.014*	(0.006)
Medium Capacity IOs	0.005	(0.004)
Low Capacity IOs	-0.006	(0.003)
σ	2.015**	(0.020)
N	5080	
Log Likelihood	-10768.300	
χ^2	41080.745	

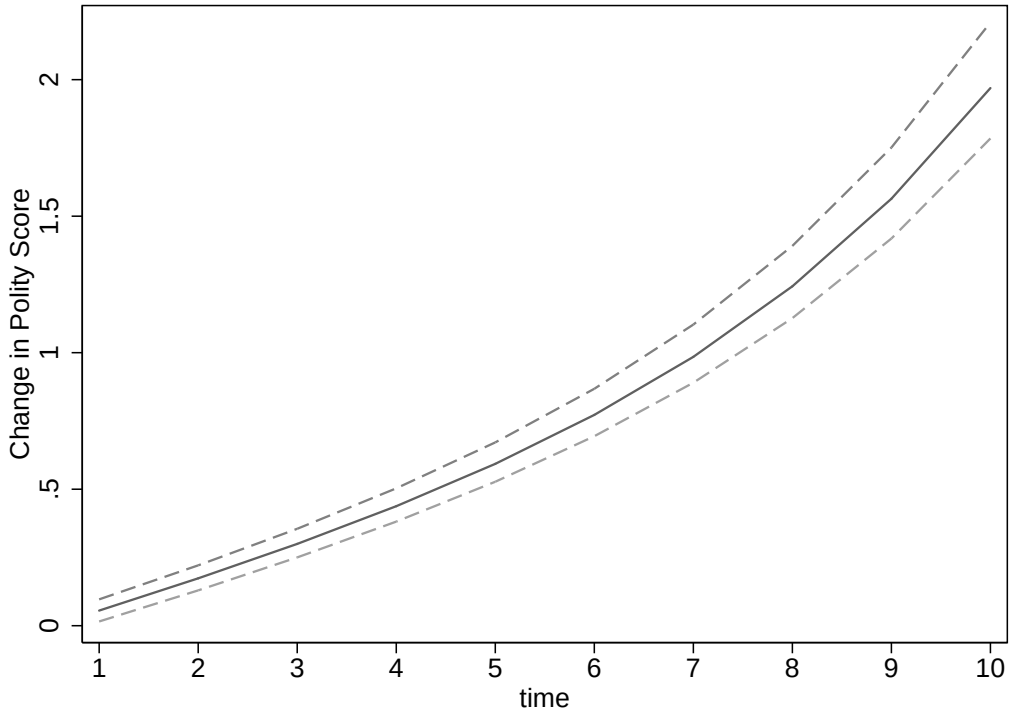
$*p < 0.05, **p < 0.01$

Table 2: Comparing the Effects of IOs with Different Institutional Capacity

	Medium Capacity	Low Capacity
High Capacity	1.50	6.18**
Low Capacity	3.50	—

Cells represent χ^2 statistics of the corresponding tests of equivalence.
$**p < 0.01$

Figure 2: The Over-Time Effect of Including Ukraine in NATO



Note: This effect was estimated using a Monte Carlo approach in Stata 11.1. The spatial weights matrix of shared high capacity IO membership has been modified as if Ukraine was included in NATO. All other variables were kept at their mean or modal values for the post-1950 time period.