Keeping Up With *Which* Joneses: Spatial Diffusion of Rule of Law Through Economic International Organizations

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I develop a theory of spatial diffusion of the rule of law, where "space" is conceptualized as shared memberships in economic international organizations (IOs). I argue that the rule of law diffuses as a result of economic competition and socialization. Outside evaluators, such as international leaders, activists, and most importantly, international firms and investors, often assess states' attractiveness as a business venue by comparing them to similar states. The natural reference group for such comparisons is not just geographical neighbors, but also states with shared memberships in economic IOs. Responding to this evaluation, states identify members of their own reference groups and view them as competition for investment. As a result, states within the same reference groups converge on issues related to lowering domestic economic risks, which are referred to by the umbrella term "domestic rule of law." The resulting process of policy convergence is further aided by socialization. Socialization may involve emulation of policies of similar states or "active" learning through norm entrepreneurs, who use the reference groups for both evaluation and access to their target audiences. I capture the theorized spatial processes using a multiparametric spatiotemporal autoregressive model (m-STAR) and find support for the prediction.

Introduction

Ukraine's pro-Moscow President Yanukovich's abrupt withdrawal from the negotiations for an economic Association Treaty with the European Union in the fall of 2013 set off a chain of the most violent and bloody events in history of the former Soviet country since WWII. In the wake of massive protests culminating in Yanukovich's ouster, Russia undertook several actions—occupying the Crimean peninsula, amassing troops on the border, and orchestrating civil violence—to prevent the strengthening of economic ties between Ukraine and the European Union, and instead push Ukraine toward joining its Eurasian currency union.[1]

[1]The Russian-led Eurasian Economic Union consists of Russia, Belarus, and Kazakhstan, with Armenia, Kyrgyzstan, and Tajikistan as other possible members.

Yet neither the brutal repression of protesters nor Russian aggression could deter the pro-EU protesters and activists, for whom a closer relationship with the European Union meant hope for legal reform, economic opportunities, and an end to rampant corruption.[2] How justified were these hopes? Do memberships in economic international organizations (IOs) have an effect on domestic economic conditions and to what extent? To answer this question, this paper provides a theoretical and empirical evaluation of the relationship between memberships in economic IOs and domestic rule of law.[3]

This paper contributes to the study of policy diffusion by zeroing in on its one particular nongeographical channel—shared membership in economic IOs—and exploring its effects. I argue that shared membership in economic IOs is especially relevant for the diffusion of rule of law, which is defined as the domestic level of property protections, banking and insurance laws, and contractual enforcement (Souva, Smith, and Rowan 2008). Building on the existing spatial diffusion theories, I argue that membership in economic IOs serves as an important channel for policy diffusion, often even more important than geographical proximity. IOs create favorable settings for the operation of the two policy diffusion mechanisms—the primary mechanism of *competition* and the auxiliary mechanism of *socialization*.[4] States with shared IO memberships exhibit convergence in their domestic levels of rule of law as a result of these two processes. First, states work to "keep up" with their fellow IO members to remain competitive for trade, investment, and other international benefits. Second, IOs act as "teachers" of rule of law, either as their main mission or by creating favorable fora and access for policy entrepreneurs.[5]

It is noteworthy that, although all these processes may take place among geographically proximate states, an important distinction between IO-led and geographically driven policy diffusion lies in the intent. Although geographical location is acquired by fiat, IO memberships are carefully and strategically chosen and negotiated. This suggests, although certainly does not guarantee, that states may be more susceptible to IO-led policy diffusion than to that which is merely driven by their position on the map. The opening example of Ukraine provides some anecdotal support of the importance of IO membership for a country's domestic economic climate: Ukraine, a European country with close historical ties to Eastern neighbors, hopes to remedy its poor legal and economic conditions by forging closer ties with the European Union rather than remaining within the Russian sphere by joining the Eurasian Economic Union.

I conduct a systematic test of the research hypothesis on data that combine state memberships in economic IOs (Boehmer, Gartzke, and Nordstrom 2004) and domestic level of rule of law. I measure and isolate the effect of shared memberships in economic IOs from that of geography using a spatial lags model, by taking advantage of recent advances in spatial econometrics (Beck, Gleditsch, and Beardsley 2006; Franzese and Hays 2007, 2008; Hays, Kachi, and Franzese 2010). The dependent variable—a state's domestic level of rule of law enforcement—is

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[2]Corporate raiding, or seizure of foreign and domestic firms (based on technical or fabricated charges) with the intent of subsequently awarding them to plaintiffs or government officials, are endemic within Ukraine and have been called a "cancerous tumor on the economy" by Yanukovich, though such actions often take place with the tacit or even explicit cooperation of regional and national officials (Danilova 2012). Moreover, in 2013, the US Trade Representative labeled Ukraine a "Priority Foreign Country"—the lowest category for US intellectual property rights protections—a distinction that had not been issued in 11 years (BBC News 2013).

[3]Economic IOs are defined as IOs whose purpose is to promote the economic goals of their members, such as deeper regional or global economic integration, economic growth, and so on. Examples of economic IOs include the European Union, the Andean Community, and the IMF.

[4]Coercion may also serve as a mechanism for policy diffusion; however, I argue below that this mechanism is beyond the scope of this study due to the structure of the available data.

[5]Some scholars separate socialization into learning, emulation, and social contagion. Though important, this distinction is not theoretically crucial for the purposes of this paper. As a result, I use the word "socialization" as an umbrella term for the three processes, and when necessary, refer to each of the processes individually.

operationalized and measured in two alternative ways. First, I operationalize the rule of law in terms of judicial independence and employ a measure developed by Linzer and Staton (2012) (L&S). The L&S rule of law measure is produced by applying Bayesian factor analysis to a number of existing measures of rule of law and judicial independence, such as Henisz (2000), CIRI (Cingranelli and Richards 2010), and Tate and Keith (2007). Such an approach allows for addressing the challenges, associated with measuring rule of law, such as temporal dependence, boundedness in the latent quantity, substantial missingness, and measurement error in the observable indicators (Linzer and Staton 2012; Rios-Figueroa and Staton 2014). I also operationalize the rule of law using Standard and Poor (S&P) credit ratings, which is a common measure of a country's creditworthiness used by international investors and economic institutions. Although S&P ratings are only available for a subset of the data, using this measure serves as a robustness check for the main results.

The results corroborate the research hypothesis. Specifically, when evaluated in isolation from each other, both geographical proximity and shared membership in economic IOs have a statistically significant effect on policy diffusion. Evaluating the two mechanisms within a single empirical model, however, reveals that accounting for shared memberships in economic IOs weakens or altogether negates the effect of geographical proximity. I conclude that economic IOs serve as a more salient reference group for policy diffusion than that created by mere geographical proximity. When formulating domestic policies, states do not simply imitate those of their geographical neighbors, but the neighbors with whom they share memberships in economic IOs. Present-day Poland, for example, is more likely to "borrow" policy insights from its fellow members of the European Union, such as Germany or Spain, than from Ukraine or Russia. Despite the shared borders, cultural ties, and significant trade flows with the latter, Poland is much closer to its fellow EU members when it comes to policy goals. The analysis of substantive effects further clarifies the results.

The paper proceeds in the following way. I summarize the existing literature on the mechanisms for policy diffusion (competition, socialization, and coercion) as they relate to diffusion of rule of law. Although these mechanisms are most frequently discussed in the context of geographical diffusion, I demonstrate that economic IOs provide a more pertinent channel for diffusion of rule of law. Next, I describe the research design and test the research hypothesis using a multiparametric spatiotemporal autoregressive model (m-STAR). Consistent with the theory, I find that both shared memberships in economic IOs and geographical proximity stimulate policy diffusion, albeit the former's effect is stronger and more robust to empirical specifications. I supplement the primary analyses with graphs of substantive effects. Finally, I conclude by discussing the implications of these results.

Rule of Law and Diffusion

The rule of law is the concept of equality before the law of all citizens and firms. Legal equality implies that no group, not even a majority, can suppress the rights of the individual. In the economic sphere, this means that domestic property rights and contract enforcement are protected and this protection is transparent and applied equally, regardless of class or political connections. A necessary condition for the rule of law, therefore, is a belief in judicial independence from the government (North and Weingast 1989; Li and Resnick 2003; Staton 2010).

Although some argue that the rule of law and private property rights are nested within democratic institutions (e.g., Jensen 2003), both the theoretical concepts and empirical measures are distinct. Gibler and Randazzo (2011) note that there is substantial variation in the presence of independent judiciaries within

democratic states, with approximately 40 percent of democracies lacking judicial independence, and that some nondemocracies have a strong rule of law (e.g., Singapore). Moreover, firms may find democratic states without a strong rule of law especially concerning, as politicians may find it politically expedient to expropriate assets or renege on previously negotiated legal terms, in effort to attract a political majority (Simmons 2000).

Defining the domestic rule of law as the domestic level of property protections, banking and insurance laws, and contractual enforcement (Souva, Smith, and Rowan 2008), I argue that the rule of law is one of the primary considerations in decisions related to allocation of international trade and investment. International business and investment are a coveted prize for many international states. International firms and investors have a choice of where to take their business and, all else equal, prefer low-risk markets (Porta et al. 1997; Ramcharran 1999; Simmons 2000; Wei 2000; Sobel 2002; Li 2006). 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 (Simmons 2000; Jensen 2003) or (2) providing additional business incentives that would "make up" for the losses associated with higher investment risks, such as lower capital taxation rates (Li 2006; Cao 2010). 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. Investors are well known to diversify their investment portfolios based on risks and returns from various investment markets (e.g., Aizenman 2003; Jensen 2008). Some choose to diversify their investment portfolios, whereas others specialize in particular types of investments. For instance, multinational corporations (MNCs), operating within high production costs industries, tend to forgo potentially higher returns for greater market stability, whereas lower production costs may draw MNCs into more risky environments (Aizenman 2003). States with low risks/low returns are not in direct competition for investment with states of high risk/return.

Economic IOs as Reference Groups

A quick and easy way to group international states in terms of expected risks and returns is based on geographical proximity or regional memberships (Simmons 2000). As a rule, regional memberships stand as a great proxy for similar economic, political, and cultural development, as well as factor endowments—all known determinants of investment risks and returns. A closer look, however, reveals that, just like any proxy measure, geographical proximity performs relatively well in clear-cut cases, yet fails in a large number of theoretically interesting borderline cases. The geographical approach alone struggles, for example, with separating the medium- and low-risk Central and Eastern European markets, such as Poland, Hungary, Latvia, Lithuania, and Estonia, from high-risk countries, such as Belarus, Moldova, and Ukraine. Moreover, a failure to consider factors beyond geography would miss crucial changes in investment climates, such as the fall of the Soviet Union, or accession to the European Union, NAFTA, or other economic organizations. At the time of the fall of the Soviet Union in the 1990s, for example, investment opportunities in Poland compared to Ukraine looked much different than those in the early 2000s. Poland, whose economy was crumbling compared to that of Ukraine during the late years of the Soviet Union, had experienced fast-paced economic growth, transforming into a low-risk investment state, a status further solidified by its accession to the European Union.

Although regional geographic membership presents the most obvious reference group for states to look to for policy cues, observations suggest that states

with shared economic IO memberships may constitute an equally, if not more important, reference. The arguments on IO-channeled diffusion are found in the literature on democratization (Pevehouse 2005; Torfason and Ingram 2010), domestic economic policy (Cao 2009), human rights (Greenhill 2010), and tax rates and extraction efforts (Franzese and Hays 2008; Plümper, Troeger, and Winner 2009; Thies, Chyzh, and Nieman 2016). I build on the theoretical insights of these studies and extend them to explain IO-channeled diffusion of the rule of law.

The evidence that economic IOs serve as commonly used reference categories also comes from the frequent comparisons among economic IO members by government officials, daily news, and reports by various inter- and nongovernmental 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) (Business Monitor International 2012; Caucasus Business Forecast Report 2012; Irkliyenko 2012). Likewise, prospective investors and business partners often compare Venezuela to other Oil Producing and Exporting Countries (OPEC) states, such as Kuwait and Nigeria, rather than to its contiguous neighbors (Montinola and Jackman 2002; The Calgary Herald 2008).

Economic IOs are well known to investors and firms, as many such organizations include specific provisions for capital regulation (although these regulations are less common than trade regulations). The Southern African Customs Union (SACU), for example, establishes a common monetary area and prohibits capital control among members (except Botswana). Likewise, the Carribean Community (CARICOM) extends regional trade liberalization to banking and includes other provisions for establishing a regional investment regime.[6]

In addition, trade regulations within customs unions and free trade zones have significant effects on investment, even in the absence of direct provisions for capital regulation. As, broadly speaking, the goal of investment is to supply the otherwise under-supplied goods/services to a host country's market, it is effectively a substitute for exports (i.e., setting up a local office is a way to avoid tariffs or other trade barriers). As trade barriers go down, for example, investors may see exports as a more attractive market supply strategy. In other words, by increasing exports' efficiency, trade blocs may entice investors to concentrate in just one interbloc country and ship the goods to the rest. By increasing trade efficiency, lower trade barriers may also attract additional investment to bloc members, and even divert some investment from nonbloc members both within the same and other regions. Finally, trade blocs that simultaneously decrease intra-members trade barriers, while increasing the barriers vis-á-vis the rest of the world, may attract investors who wish to take advantage of getting behind the tariff barriers that protect their investment from competing with exports from the outside of the bloc (Page 2000, 186–7).

In sum, the direct and indirect effects of economic IOs' regulations on trade and investment create a powerful incentive for investors and trading firms to spend time and resources into researching these regulations. Always seeking to increase their profit margins, businesses hire research and analytics teams, area experts, and forecasting agencies (e.g., Political Risk Services (PRS) Group, Stratfor) that help them make sense of volumes of legal texts, in order to keep up with the slightest changes in market dynamics, promptly respond to favorable opportunities, or withdraw their capital in anticipation of risk.

By creating such reference groups for outside evaluators and, more importantly, for international businesses and domestic political leaders, economic IOs

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[6]SACU includes Botswana, Lesotho, Namibia, South Africa, and Swaziland, CARICOM extends membership to Antigua and Barbuda, Bahamas, Barbados, Belize, San Cristobal, Dominica, Grenada, Guyana, Jamaica, Montserrat, St Kitts and Nevis, St Lucia, St Vincent and the Grenadines, and Trinidad and Tobago.

bring what may otherwise be geographically distant states into closer interaction and competition with one another, while at the same time increasing the distance between the members and nonmembers. 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. As firms and investors are free to choose their business partners, less competitive member states (e.g., those with weaker rule of law) run the risk of being passed up in favor of 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 (Volden 2006, 298). 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 (Butrin, Mikhaylin, and Cherkasov 2012, emphasis added).

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 European Union, but also in 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* [...]. (BBC Monitoring Europe 2012, emphasis added)

In summary, by grouping states in accordance with their economic 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 and respond by adopting similar political and economic reforms that are likely to attract investment. Firms' and investors' preference for strong contractual enforcement, property protections, independent judiciaries (i.e., strong rule of law), and competition for investment is likely to result in convergence in the levels of rule of law enforcement among members of the same economic IOs.

An alternative and auxiliary causal mechanism for policy diffusion is socialization—a mechanism that emphasizes the process of social learning (Finnemore 1993; Elkins and Simmons 2004; Simmons, Dobbin, and Garrett 2006). The key distinct feature of socialization—defined as "a change in beliefs" as a result of "exposure to new evidence, theories, or behavior repertoires" (Simmons, Dobbin, and Garrett 2006, 795)—is that, in contrast to the competition mechanism, actors' behaviors are affected by others' not because it alters their payoffs' structure, but because it provides information about available policy options (Simmons, Dobbin, and Garrett 2006). Although 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 (Elkins and Simmons 2004). Passive learning implies that governments adopt new policies as they are made aware of new policy options through observing policy processes in similar states (Elkins and Simmons 2004, 175–76). Also known as "emulation," passive learning involves actors' self-comparison to similar others and imitation of policies adopted by one's "in-group" (Cao 2009; Thies, Chyzh, and Nieman 2016). Unlike the mechanism of economic competition described above, emulation is linked to the in-group members' interactions beyond the economic realm, such as social, cultural, and linguistic dimensions "that might create a sense of affinity among countries" (Cao 2009, 1109). While competition is a strategy for maintaining one's well-being and growth, emulation implies "liking" or affinity (Johnston 2001; Cao 2009). Operating in very different domestic and international environments, states are unwilling and often unable to adopt certain policies. 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 average, legislators tend to look for cues in similar states—within the same geographical region, similar socio-demographic characteristics, or even similar budgets (Volden 2006). 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.

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 (Finnemore and Sikkink 1998). Channeled learning requires that the targets of diffusion be embedded in social networks, which would transmit the relevant information among them. In other words, the effectiveness of international policy entrepreneurs is constrained by their ability to access the pro-liberalization 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 (Levitsky and Way 2005; Gleditsch and Ward 2006; Bell, Clay, and Murdie 2012).

Shared IO memberships 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 policy entrepreneurs can access their target audiences—elites from corrupt 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 antigovernment protests in Russia (McLaughlin 2012). Similarly, the Arab League took the lead in negotiating with the Al-Assad regime to allow international human rights observers into the protest-engulfed Syria (BBC Monitoring Middle East 2011).

When it comes to the rule of law promotion, it is the *economic* IOs, in particular, that present both a natural channel and access point for the activities of anticorruption groups.[7] Economic IOs themselves may take on the role of norm entrepreneurs with the goal of promoting legal reform (Barnett and Finnemore 1999). More specifically, officials of economic IOs often view the role of spreading norms as part of their mission. Many economic IOs, such as the World Bank and the International Monetary Fund (IMF), are rather explicit about this perceived role,

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[7]Security or cultural IOs are less likely to focus on furthering rule of law among their members, whether due to prioritizing other goals (e.g., security), and/or the lack in policy expertise and resources designated to such goals. From a more empirical point of view, there is a significant overlap in states' memberships in economic and noneconomic IOs ($r = 0.75$), as states frequently negotiate and form several IOs related to different issues concurrently (e.g., NATO and the European Union). A definitive empirical test of the effects of noneconomic IOs on the rule of law diffusion, however, requires more data collection and is best left for future research.

especially when it comes to transmitting the norms associated with the behavior of advanced market economies (Wade 1996), although diffusion of political norms and principles became more explicitly emphasized with the end of the Cold War (Perry 1996; Barnett and Finnemore 1999).

Economic IOs have several tools that can be used to further the goal of policy promotion, such as creating and/or sponsoring foreign exchange programs that educate elite students from corrupt authoritarian countries at educational institutions in countries with a strong rule of law (Perry 1996; Pevehouse 2005). 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 functioning market economies and democratic governance. Hosting international conferences, workshops, sponsoring teacher exchanges, and other forms of joint training among member countries constitute similar mechanisms for diffusing legal norms and values available to economic IOs. Finally, economic IOs certainly play a passive role in spreading the rule of law by simply providing avenues for member interaction, exchange of information and ideas—a process also known as "social contagion" (Wendt 1999).

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 (Kelley 2004). This is not problematic for the purposes of this paper, however, as both types of socialization act as complements to competition.[8] Both theoretical frameworks lead to the following research hypothesis:

> *A state's level of rule of law is positively affected by the average rule of law of its fellow members in economic IOs.*

Finally, policy diffusion may also occur from coercion—the purposive efforts of major international players (such as major powers, IOs, or nongovernmental actors), who typically rely on such tools as economic conditionality (e.g., specific conditions that states have to meet in order to join the IO) or even military interventions (Pevehouse 2002a, 2002b, 2005; Levitsky and Way 2005). EU membership conditionality, as it related to minority treatment in Slovakia and Romania, is an example of the former effect (Kelley 2004), whereas the establishment of the United Nations Assistance Mission for Iraq (UNAMI) following the US intervention in 2003 is an example of the latter.

Testing coercion theories, however, is beyond the scope of this paper, as such theories posit conditional relationships that (1) either promise IO membership in exchange for policy change (2) or threaten expulsion as punishment for failing to meet the organization's standards. Although such relationships are certainly

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[8]Although Ingram, Robinson, and Busch (2005) are able to distinguish competition and socialization in their study of democracy diffusion, by arguing that competition would operate through economic and structured IOs, while socialization would be channeled through cultural and minimal IOs, this framework is less applicable to the study of rule of law. Unlike democratic norms and values which may diffuse through cultural interactions, the rule of law and its enforcement has less to do with culture and more to do with government's ability and willingness for its enforcement. Incentives for enforcing rule of law stem from states' competition for investment and have little relation to the operation of noneconomic IOs. Promoting the rule of law is hardly a goal of organizations, focused on exploring common linguistic or cultural ties of its members (e.g., the Community of Portuguese Language Countries).

The empirical analysis, however, makes several non-IO-related attempts to distinguish between competition and socialization. For example, the models estimate the effect of colonial heritage, which would capture policy emulation among former colonies. Given their cultural affinity and historical similarities, such states would be expected to identify one another as peer groups and emulate one another's policies, including the rule of law. An additional test of socialization is conducted through the inclusion of the *Contiguity* spatial lag. In addition to accounting for crossborder *social interactions*, geographical proximity may also capture clustering of unobservable factors, such as *cultural similarity*.

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 (Pevehouse 2005), as well as—and most importantly—the probability of the actual accession and the probability of membership suspension as punishment for noncompliance.

More theoretically, there is little evidence that IOs can effectively use coercion to alter members' behavior. Despite the disproportionate attention to a handful of cases of membership suspension (e.g., Slovakia) by the European Union, instances of such coercive punishments are relatively infrequent, especially compared to the number of instances of members' noncompliance with an IO's standards and regulations. Rather than resulting in expulsion from the European Union, recent financial defaults by Greece, Cypress, and Spain resulted in only moderate policy concessions in exchange for substantial bailouts from the organization. More systematic evidence against the institutional inability to coerce comes from Stone's (2002) work on the IMF. Despite its rather strong institutional and economic leverage, the IMF often shortens the initially imposed periods of loan withholding, especially for countries with close policy affinity to the United States (Stone 2002). In particular, the coercive powers of economic IOs, such as the IMF and the European Union, are limited by the time-inconsistent nature of benefit provisions vis-à-vis the threat of punishment: that is, members obtain the benefit (e.g., loan) in exchange of a *promise* of policy change. After the loan is disbursed, there is little the organization can do to enforce compliance: in fact, motivated by the broader concerns for the global economic well-being, such organizations are often forced to forgive noncompliers and provide further loans. Finally, IOs' ability to coerce is frequently impaired by either the vote share or even the veto power of the violator itself or "interested" third-party members.

Research Design

I evaluate the research hypothesis, using an m-STAR. M-STAR treats state's overlapping memberships in economic IOs, as well as geographic contiguity—the main competing hypothesis—as spatial lags (Franzese and Hays 2007, 2008; Hays, Kachi, and Franzese 2010). This model 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 dependencies 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 rule of law diffusion through IOs model posited in this paper can be written out as

$$y_i = \rho_1 \sum_j w_{ij}^1 y_j + \rho_2 \sum_j w_{ij}^2 y_j + \cdots + \rho_R \sum_j w_{ij}^R y_j + \phi y_{i,t-1} + \sum_k x_k^i \beta_k + \varepsilon_i, \tag{1}$$

where y_i is the dependent variable, w_{ij} are spatial-level covariates, such as shared membership in economic IOs or contiguity, and ρ are the corresponding spatial weight coefficients to estimate.[9] Note that for each observation, y_i, a spatial lag $w_{ij}y_j$ is simply a weighted sum of the dependent variable's values in all units y_j other than i—a straightforward way to capture a state i's dependence on

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[9]That is, if w_{ij}^1 represents the spatial weight for *Economic IOs*, then w_{ij}^1 is an N × N matrix whose ij^{th} cell entry is the number of shared economic IO memberships between i and j, and ρ_1 is the spatial effect coefficient to estimate.

outcomes in other states. 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.

<div style="text-align:center">*Dependent Variable*</div>

The dependent variable—a state i's domestic level of rule of law—is measured in two alternative ways: (1) using the L&S measure of rule of law and (2) S&P ratings of countries' international creditworthiness. L&S use a Bayesian factor analysis model to construct a latent rule of law measure that synthesizes information from several existing datasets, such as Henisz (2000), CIRI by Cingranelli and Richards (2010), and Tate and Keith (2007). This measurement approach remedies several known problems associated with measuring rule of law, such as temporal dependence, boundedness, substantial missingness, and measurement error (Linzer and Staton 2012; Rios-Figueroa, and Staton 2014). The intuition behind such a measurement strategy is to "average out" the differences among the existing rule of law measures, while also reporting a measure of variance, which captures uncertainty or lack of intercoder reliability. The resulting measure is a ratio ranging from 0 to 1, with higher numbers associated with a stronger rule of law level. The measure spans 200 states between 1960 and 2009 (Linzer and Staton 2012).

I also measure the dependent variable using S&P international credit ratings (Standard and Poor's Ratings Services 2013). S&P Ratings Services is a leading provider of credit ratings, as well as other types of data, research, and risk analysis to international banks, investors, researchers, and policy practitioners. S&P credit ratings measure ranges from 0 to 1, with higher numbers indicating a stronger rule of law, and covers 63 countries between 1986 and 2001. Although limited in coverage, S&P measure provides a robustness check, as well as a "reality check" of the results against the picture seen by real-world practitioners.

Both measures of the dependent variable are first differenced and multiplied by 100, producing scores with a potential range between 0 and 100. Taking a first difference simply involves a subtraction of the previous year's score from the current year. As a result of these transformations, both dependent variables are measures of percentage point *change* in the rule of law. From the theoretical perspective, measuring the dependent variable as a change in the rule of law rather than the raw scores helps (somewhat) alleviate the homophily concern. Although self-selection of states with similar levels of rule of law into the same regional economic IOs is a rather intuitive theoretical story (i.e., states may only want to form economic IOs with states that have similar levels of the rule of law), self-selection of states that are about to undergo a *change* in the level of rule of law, into the same economic IOs is not as theoretically intuitive. Should such a process be at play (e.g., states with similar levels of rule of law may both be more likely to undergo the same change in the rule of law level *and* select into the same economic IOs), it is also modeled by inclusion of the level of the rule of law in the previous year as a statistical control (Pevehouse 2002a; Franzese and Hays 2008; Hays, Kachi, and Franzese 2010).

The main (nonspatial) part of the empirical model also controls for the possible state-level variables that may lead to self-selection into economic IOs, such as change in Polity score, trade, economic growth, interstate/civil war, net FDI, and colonial history. Lastly, self-selection/endogeneity is alleviated by the broader data structure centered around state *membership* in IOs rather than the acts of initial joining. Although there are reasons to expect that joining is endogenous to domestic policies, there are fewer reasons to expect that membership will continue to be endogenous to the same degree. Ample empirical evidence shows a lack of policy continuity between consecutive leaders or regimes (Gartzke and
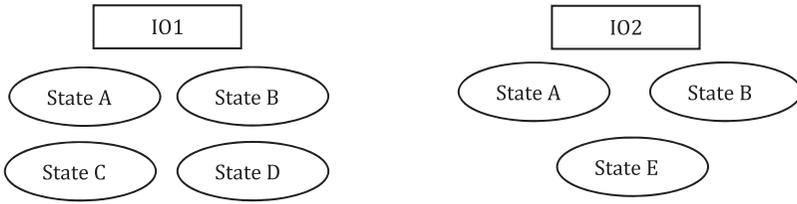
Figure 1 Conceptualizing spatial lags. An illustration

Gleditsch 2004; Leeds, Mattes, and Vogel 2009). As most economic IOs memberships in the data are left-censored (states joined those IOs long before the beginning of the time frame analyzed here), the IO data can be treated as weakly exogenous to the rule of law changes (Engle, Hendry, and Richard 1983).

In addition, first differencing ensures that the statistical results are not driven by the cross-sectional variation in the rule of law, but are instead derived from both temporal and cross-sectional variations. The variation in the dependent variable measured in terms of change comes, in other words, from the panels of countries with over-time variation in the rule of law, whereas panels of countries that did not experience changes in the rule of law during the period under investigation score "0" on the dependent variable. Finally, the lagged rule of law level also helps control for (varying) probability of change at various levels: For example, states with maximum scores cannot experience a positive change as a result of the construction of the measure.

Independent Variables

This paper posits a spatial relationship between a state's level of rule of law and the average rule of law or its fellow economic IO members. To appropriately model this effect, the central independent variable—*Shared Memberships in Economic IOs*—is measured as a spatial lag rather than as a state-level covariate (Beck, Gleditsch, and Beardsley 2006; Franzese and Hays 2008; Hays, Kachi, and Franzese 2010).

The data on states' memberships in economic IOs come from Boehmer, Gartzke, and Nordstrom (2004). Boehmer, Gartzke, and Nordstrom's (2004) data include information on a total of 118 IOs stating an explicit economic purpose. The spatial lag variable, capturing the average rule of law of a state's fellow members in economic IOs, is constructed as a series of $N_t \times N_t$ matrices, in which N represents the number of states for each year of observation t. Each cell ij_t of each matrix represents the number of shared economic IOs between states i and j in year t, divided by i's total shared memberships in that year.[10]

For example, suppose state A is a member of two IOs: IO1 made up of states A, B, C, and D; and IO2 made up of states A, B, and E (see Figure 1). 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

[10]Dividing the cell values by the row total is also referred to as row-standardization. Row-standardization is a standard approach to constructing spatial lags (Franzese and Hays 2008; Hays, Kachi, and Franzese 2010; Plümper and Neumayer 2010).

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

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

$$w_A y_j = 0.4 \times (\text{rule of law})_B + 0.2 \times (\text{rule of law})_C$$
$$+ 0.2 \times (\text{rule of law})_D + 0.2 \times (\text{rule of law})_E. \qquad (2)$$

The diagonal entries of each matrix represent a state's number of shared memberships in economic IOs with itself and are coded as "0." To account for self-contagion, or the temporal dependence in the level of rule of law, the statistical model includes a one-year lagged rule of law measure (the raw value rather than the change in value).[11]

Although the theoretical model posits spatial diffusion of rule of law through *economic* IOs, separating the effect of *just* economic IOs is hindered by the high correlation between state memberships in economic and noneconomic IOs ($r = 0.75$). As a result, although the main analyses and discussion focus on the effects of the economic IOs for theoretical reasons, I also provide the results of the analyses that explore the effects of all IO memberships (Models 1 and 3) and memberships in noneconomic IOs (Models 2 and 4) in Table A1 of the Appendix. The variables *Any shared IOs* and *Noneconomic IOs* are coded analogously to that of *Economic IOs*, using the data obtained from Boehmer, Gartzke, and Nordstrom (2004).

Control Variables

The statistical model accounts for geographical diffusion, which is the main alternative diffusion mechanism, posited by the previous literature on the rule of law (e.g., Simmons 2000). This is done by controlling for the average rule of law of a state's contiguous neighbors, *Contiguity*, constructed according to the process described above. Two states are coded as contiguous if they either share a direct border or are separated by no more than twenty-four miles of water.[12] Data on geographical contiguity are obtained from the Correlates of War (COW) Project (Stinnett et al. 2002).

In order to demonstrate diffusion, it is also necessary to rule out the possible "common exposure" explanations, which attribute convergence in the rule of law to the effect of either a common system-level variable or similar domestic conditions. Scholars have linked the rule of law to the level of democracy, arguing that the rule of law may only persist in states with strong limits on the government

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[11]The temporal lag of the actual value of rule of law rather than the first difference is included to account for the effect of "diminishing returns": that is, states with already strong rule of law have less room for improvement than states with weak rule of law.

[12]The results are robust to limiting contiguity to just direct contiguity or twelve miles of water.

(Weingast 1997). I model this by controlling for *Polity change*, measured as the first difference of the 21-point Polity II variable (Marshall and Jaggers 2008). I expect that changes in Polity score will be positively correlated with the changes in the rule of law.

The rule of law enforcement is costly. It requires training and maintaining adequate police, judicial, and penitentiary systems. Hence, I control for *Economic growth*, measured as a logged first difference in GDP/capita (in constant USD, 2000). I expect a positive relationship between the economic growth and improvements in the rule of law (Rodrik, Subramanian, and Trebbi 2002; Fearon and Laitin 2003). These data come from the World Development Indicators (World Bank 2005).

States whose economies depend on international trade and investment have a stronger incentive to enforce the rule of law, as a state's ability to attract and retain international business hinges on its level of property protection, contract enforcement, as well as banking and insurance laws (Souva, Smith, and Rowan 2008). To model this, I control for changes in trade volumes *Trade*, measured as a logged and first differenced sum of imports and exports in a given year (in millions, constant USD, 2000). I also control for change in *Net FDI inflows*, which is measured as FDI inflows minus FDI outflows in a given year, logged and first differenced (in millions, constant USD, 2000). Data on *Trade* are constructed using COW Trade data (Barbieri, Keshk, and Pollins 2009), whereas FDI data come from the World Development Indicators.

Scholars have demonstrated that British colonies have been more successful at establishing domestic legal institutions, due to the peculiarities of the common law system over other legal systems (Mitchell and McCormick 1988; Mitchell, Ring, and Spellman 2013). I control for this in the main analyses by including an indicator variable of whether a state is a former *British colony*. To further explore the possible socialization effects of shared colonial histories, I conduct additional analyses, in which a shared colonial past is measured as a spatial weights matrix (Table A2 of Appendix). Data on shared colonial ties are obtained from Hensel (2014).

Finally, the rule of law, just like other political institutions, is not impervious to political shocks and upheavals, such as international or civil wars. I model this by controlling for whether a state is involved in an *International* or *Civil war* in a given year. These data are obtained from the COW Project (Sarkees 2000; Ghosn and Bennett 2003).

Empirical Analysis

The results of the empirical analysis are presented in Table 1. The first three models are estimated using the L&S rule of law data, whereas Models 4–6 employ the S&P rating. To isolate the effects of the main theoretical variable—shared economic IO memberships—from geographical diffusion, I first estimate a model, which includes just the control variables and the *Contiguity* variable (Models 1 and 4 of Table 1). I then re-estimate the model with just the *Economic IOs* variable (Models 2 and 5 of Table 1). Finally, I estimate the full model with both of the spatial variables (Models 3 and 6).

The bottom part of the table presents the coefficients on the spatial lags of *Economic IOs* and *Contiguity*. Just like in traditional regression analysis, we interpret the direction of spatial effects by looking at the signs on the coefficients. In Model 1, the coefficient on *Contiguity* is positive and statistically significant, which suggests that a state is likely to strengthen its rule of law in response to positive changes in the average rule of law of its contiguous neighbors. In Model 2, which substitutes *Contiguity* for shared *Economic IOs* memberships, the effect on the spatial lag is also positive and statistically significant. When included in isolation

Table 1 The effect of contiguity and shared economic IO memberships on the rule of law

	Rule of law (Linzer and Staton)			Standard and Poor ratings		
Rule of law ($t-1$)	−0.005 (0.001)***	−0.005 (0.001)***	−0.005 (0.001)***	−0.010 (0.010)	−0.010 (0.010)	−0.01 (0.01)
Polity change	0.432 (0.019)***	0.416 (0.019)***	0.417 (0.019)***	0.089 (0.157)	0.092 (0.157)	0.092 (0.157)
Trade	0.405 (0.220)*	0.199 (0.215)	0.190 (0.215)	1.885 (1.650)	1.233 (1.671)	1.233 (1.672)
GDP growth	0.010 (0.007)	0.015 (0.007)**	0.015 (0.007)**	0.335 (0.051)***	0.339 (0.051)***	0.339 (0.051)***
Interstate war	−0.144 (0.429)	−0.160 (0.416)	−0.143 (0.416)	−8.689 (2.193)***	−8.388 (2.187)***	−8.388 (2.187)***
Civil war	−0.486 (0.119)***	−0.523 (0.116)***	−0.524 (0.116)***	−1.400 (0.564)**	−1.435 (0.561)**	−1.435 (0.561)**
Net FDI	−0.025 (0.146)	0.029 (0.142)	0.032 (0.142)	0.653 (0.356)*	0.642 (0.353)*	0.642 (0.355)*
British colony	−0.079 (0.084)	−0.125 (0.081)	−0.134 (0.081)	0.280 (0.360)	0.290 (0.358)	0.29 (0.358)
Constant	0.655 (0.347)*	0.444 (0.337)	0.452 (0.337)	1.286 (0.973)	1.330 (0.965)	1.33 (0.968)
Spatial effects:						
Contiguity	0.060 (0.029)**		−0.045 (0.030)	0.034 (0.047)		−0.001 (0.050)
Economic IOs		0.069 (0.006)***	0.073 (0.007)***		0.065 (0.030)**	0.065 (0.032)**
σ	1.590 (0.027)***	1.542 (0.026)***	1.541 (0.026)***	3.566 (0.114)***	3.548 (0.114)***	3.548 (0.114)***
N	1,719	1,719	1,719	489	489	489

*$p < .1$, **$p < .05$, ***$p < .01$.

Table 2 Wald's *F*-tests comparing the effects of economic IOs and contiguity spatial lags

L&S: Economic IO ≠ Contiguity	12.30*
S&P: Economic IO ≠ Contiguity	0.92

Note: Cells represent χ^2 statistics of the corresponding tests of equivalence.
*$p < .01$.

from the other, both *Contiguity* and *Economic IOs* have a positive and statistically significant effect. When both of the spatial variables are included in the same model (Model 3), however, the positive effect on *Contiguity* disappears, whereas *Economic IOs* remain positive and statistically significant. The coefficient on *Economic IOs* in Model 2 is also greater in absolute value than the coefficient on *Contiguity* in either Model 1 or 3. This suggests that the statistical significance on *Contiguity* in Model 1 may be simply due to the omitted variable bias: when we omit the real driving factor of rule of law diffusion—*Economic IOs*—its effect is partially picked up by *Contiguity*—a related, yet different concept.[13]

The results presented in Models 4–6, which estimate the effects of the same covariates on the S&P ratings, provide some additional evidence in favor of diffusion through economic IOs. The effect of *Contiguity* is not statistically significant either when modeled by itself (Model 4) or in conjunction with *Economic IOs* (Model 6). The effect of *Economic IOs* is positive and statistically significant, both when included by itself (Model 5), and in conjunction with *Contiguity* (Model 6). This suggests once again that states tend to improve their own credit ratings in reaction to the improvement in the average credit ratings of the states with shared memberships in economic IOs. Models 4–6 serve as a robustness check on the earlier results. It is important to remember, however, that these models are based on a more limited sample of states, and as a result, are associated with lower statistical power—a possible explanation for the lack of significance on several variables, including *Contiguity*.

The difference in the effects of *Economic IOs* and *Contiguity* in Models 3 and 6 is further explored using postestimation *F*-tests (Table 2). For Model 3, the *F*-statistic is statistically significant. This means that the coefficient on *Economic IOs* is statistically different from that of *Contiguity*: states that share economic IO memberships exhibit stronger spatial dependence in their levels of rule of law than geographically contiguous states. There is no evidence, however, of a similar pattern in Model 6, in which rule of law is measured using S&P ratings. The lack of statistical significance, however, may be attributed to the lack of statistical power.

When interpreting spatial effects, one must also keep in mind that the coefficients represent only the initial predynamic effects or the effect of covariates in the absence of spatial feedback (Franzese and Hays 2007). 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 nonconstant marginal effects that change (1) with the changes in neighbors' dependent variables, (2) with unit *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 (Franzese and Hays 2008; Hays, Kachi, and Franzese 2010). An example of the substantive effect of joining an economic IO, all else held constant, is presented in Figure 2.

Figure 2 shows the hypothetical effect of including an average size and income European country (such as Poland in 2000) into an economic IO made up predominantly of states with a strong rule of law (such as the European Union),

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[13]The two matrices, *Contiguity* and *Economic IOs*, are correlated at $r = 0.24$.
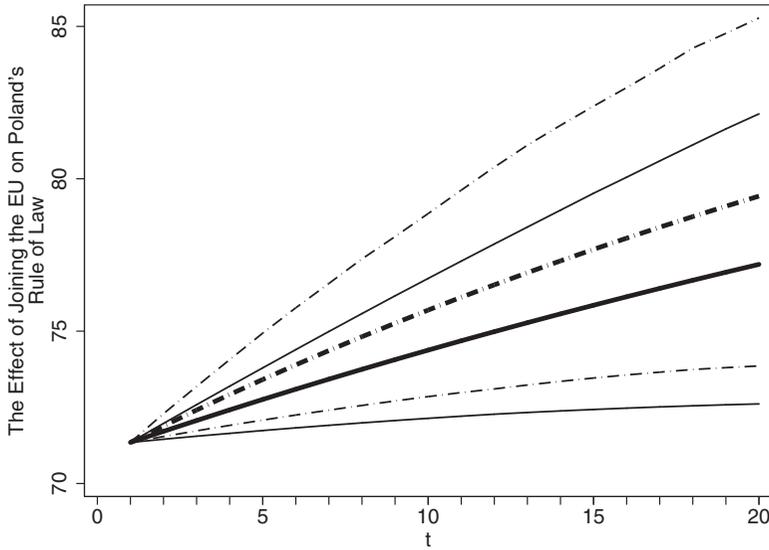
Figure 2 The effect of joining the European Union on Poland's change in the rule of law.
Notes. Predicted effects (90% confidence intervals) are generated using Monte Carlo simulations, based on values for 2000 or the last year, for which the data are available. Dash-dot lines represent predicted change in the rule of law, assuming that Poland joined the European Union at time $t = 1$ (the spatial weights matrix of shared economic IO membership has been modified as if Poland was included in the European Union in year $t = 1$). Solid lines represent predicted rule of law, assuming that Poland did not join the European Union at time $t = 1$ (unmodified spatial weights matrix of shared economic IO memberships as of 2001).

while holding constant all other variables.[14] We see that although the initial effect of this additional membership (i.e., difference between the expected value of joining and not joining) is small—approximately 0.1 points on a 100-point rule of law scale—it grows substantially stronger over time, reaching 1–4 points—more than a tenfold increase—after ten time periods, and about 2–5 points after twenty time periods. This result has some face validity, as it supports the more general view of diffusion as a slow and gradual process, rather than a fast and easy outcome (Berndt and Woods 2013a, 2013b).

Note that this is an isolated effect of joining a *single* economic 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 the European Union also frequently join the Council of Europe and the OECD, either concurrently or within close temporal proximity (Pevehouse 2005). Each such additional IO membership makes an independent contribution to the spatial effect's substantive strength.

Although, as discussed above, this paper does not aim at definitively testing between competition and socialization, the results are nonetheless somewhat informative regarding the two. Thus, the coefficient on *British colony* consistently fails to reach statistical significance, suggesting no evidence of emulation among states with British colonial legacies—likely suspect for self-comparison and policy emulation as posited by socialization theories. As Great Britain was perhaps the most

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[14]The choice of Poland for this demonstration is not accidental, as Poland indeed joined the European Union, albeit in 2004. I construct the demonstration using the data from 2000, as this is the last year for which the data are available on all variables in the empirical model.

influential colonial power with the strongest cultural affinity and intracolony ties, this result also hints at the futility of looking for effects associated with other imperial powers (e.g., French, Portuguese, Dutch, or Belgian colonies) (Lange 2004). The additional analyses, in which a shared colonial past is measured using a spatial connectivity matrix (Table A2 of Appendix), lead to a similar conclusion. An additional test of socialization is conducted through the inclusion of the *Contiguity* spatial lag, as geographical proximity operates as a sort of "catch all" for concepts such as *cultural similarity* and *social interaction*. The lack of statistical significance on the *Contiguity* spatial lag, once *Economic IOs* is included, is, therefore, suggestive of a lack of either type of socialization (emulation or channeled learning) operating as a strong causal factor.

The control variables act as expected, replicating the findings of the previous literature. The coefficient on the lagged value of the rule of law is negative and statistically significant in the first two models: States with higher levels of rule of law in the previous year are less likely to experience positive changes. Such decreasing marginal returns are common to many indicators, such as democracy or economic growth. The coefficient on *Polity change* is positive and statistically significant in the first two models, suggesting that improvements in democracy tend to be associated with improvements in the rule of law. *Trade* is positive and statistically significant in Model 1, suggesting that increases in trade volumes lead to improvements in the rule of law. *GDP growth* is positive and statistically significant in all models, which implies that the rule of law enforcement requires strong economic capabilities. As expected, *Interstate* and *Civil war* have a negative effect on the rule of law, as war undermines domestic institutional capabilities. Finally, when measured as S&P credit ratings, the rule of law is positively affected by increases in *Net FDI*.

Conclusion

This paper makes an important contribution by systematically analyzing the effects of economic IO memberships on the diffusion of rule of law of their members, using two alternative rule of law measures and controlling for the effects of geography. By opening up the concept of political space, this paper demonstrates that states with overlapping memberships in economic IOs exhibit convergence in their levels of rule of law. These findings speak to the broader literature on the intersection between international interactions and domestic outcomes.

Theoretically, this paper develops two complementary causal mechanisms of diffusion: the primary mechanism of competition and the auxiliary mechanism of socialization. Both predict convergence in the rule of law levels among states with shared memberships in economic IOs. According to the competition theory, shared IO memberships provide reference groups that are used to evaluate states' investment climate. 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 converge on the political and economic outcomes related to attracting investment—or the level of the rule of law—an umbrella term used here to refer to such domestic factors as enforcement of contracts, property rights, protections against expropriation, and other violations. Socialization theory posits a complementary causal process, arguing that legal norms diffuse through social interaction among economic and political elites. IOs provide the fora for such interaction, facilitating elite exchanges, or work by policy entrepreneurs.

This paper's theoretical framework is rather intuitive, not only for the scholars of IR, but also for ordinary citizens, such as those who gathered in Ukraine's Independence Square in Fall 2013–Winter 2014 to demand that their government

sign an EU Association treaty, which promised a break from pervasive lawlessness and corruption. The empirical results provide support for the theory. Shared memberships in economic IOs exhibit a positive effect on the rule of law—an effect that crowds out that of geographical contiguity. The regression estimates are supplemented by the analysis of substantive effects, which shows that the effect of IO membership on the rule of law grows consistently and substantially over time. The findings fit with the more general view of diffusion as a gradual process rather than an instantaneous outcome.

Strongly correlated with economic development, political openness, and general accountability, the rule of law is also perhaps the least controversial of the Western normative exports. Unlike that for liberal democracy or economic liberalism, support for promoting the rule of law is nearly universal. Despite this, we have surprisingly little knowledge on how to promote the rule of law, especially from the outside-in (as opposed to from within the state) and, importantly, prevent countries from backsliding. This paper contributes to this knowledge by offering several insights and policy implications regarding the international leverage over domestic policy outcomes. It highlights the important, if sometimes unintended, effects of states' decisions to join IOs. States join economic IOs for a number of reasons, such as liberalizing trade or gaining access to lucrative trade markets, simplifying capital regulations, establishing common currency unions, obtaining international credit, and so on. The consequences of joining, however, may go well beyond these states' organizational goals. According to the theoretical framework developed in this paper, IO memberships help group states into "in-groups" and "out-groups," which, in turn, triggers a number of processes such as within (between-) group competition, policy convergence (divergence), and/or emulation. Understanding these processes provides important tools (e.g., inclusion/exclusion from IOs) for influencing domestic policy outcomes, such as the rule of law.

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Appendix

Table A1 The effect of contiguity and shared IO memberships on rule of law

	Rule of law (Linzer and Staton)		Standard and Poor ratings	
Rule of law ($t-1$)	−0.005 (0.001)**	−0.005 (0.001)**	−0.010 (0.007)	−0.010 (0.007)
Polity change	0.417 (0.019)**	0.417 (0.019)**	0.093 (0.157)	0.093 (0.157)
Trade	0.188 (0.215)	0.187 (0.215)	1.262 (1.670)	1.277 (1.669)
GDP growth	0.015 (0.007)**	0.015 (0.007)**	0.339 (0.051)**	0.339 (0.051)**
Interstate war	−0.162 (0.416)	−0.168 (0.416)	−8.371 (2.188)**	−8.367 (2.189)**
Civil war	−0.523 (0.116)**	−0.522 (0.116)**	−1.439 (0.561)**	−1.441 (0.561)**
Net FDI	0.030 (0.142)	0.029 (0.142)	0.641 (0.355)**	0.641 (0.355)**
British colony	−0.131 (0.081)	−0.130 (0.081)	0.290 (0.358)	0.289 (0.358)
Constant	0.441 (0.337)	0.437 (0.337)	1.326 (0.968)	1.324 (0.968)
Spatial effects:				
Contiguity	−0.043 (0.030)	−0.042 (0.030)	0.002 (0.049)	0.003 (0.049)
Any shared IOs	0.072 (0.007)**		0.066 (0.033)**	
Shared noneconomic IOs		0.072 (0.007)**		0.066 (0.033)**
σ	1.541 (0.026)***	1.541 (0.026)***	3.548 (0.114)***	3.549 (0.114)***
N	1,719	1,719	489	489

*$p<.1$, **$p<.05$, ***$p<.01$.

Table A2 The effect of contiguity and shared economic IO memberships on rule of law, modeling colonial past as a spatial matrix

	Rule of law (Linzer and Staton)		Standard and Poor ratings	
Rule of law ($t-1$)	−0.006 (0.001)***	−0.005 (0.001)***	−0.010 (0.010)	−0.010 (0.010)
Polity change	0.430 (0.019)***	0.418 (0.019)***	0.078 (0.157)	0.083 (0.156)
Trade	0.393 (0.220)*	0.184 (0.215)	1.927 (1.648)	1.177 (1.667)
GDP growth	0.011 (0.007)	0.014 (0.007)**	0.338 (0.051)***	0.335 (0.051)***
Interstate war	−0.049 (0.428)	−0.149 (0.416)	−8.612 (2.194)***	−8.280 (2.182)***
Civil war	−0.495 (0.119)***	−0.537 (0.115)***	−1.349 (0.561)**	−1.377 (0.557)**
Net FDI	−0.015 (0.146)	0.030 (0.142)	0.620 (0.355)*	0.630 (0.354)*
Constant	0.619 (0.345)*	0.426 (0.336)	1.236 (0.967)	1.378 (0.966)
Spatial effects:				
Shared colonial past	0.140 (0.040)***	−0.044 (0.047)	0.137 (0.170)	0.024 (0.180)
Economic IOs		0.108 (0.031)***		0.182 (0.088)**
Contiguity		−0.040 (0.031)		−0.015 (0.050)
σ	1.586 (0.027)***	1.541 (0.026)***	3.567 (0.114)***	3.540 (0.113)***
N	1,719	1,719	489	489

*$p<.1$, **$p<.05$, ***$p<.01$.