

# INTERNATIONAL INSTITUTIONS AND THE RULE OF LAW: THE CASE OF NATIONAL CORRUPTION

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## **I. Introduction**

Studies of the rule of law have become ubiquitous in the past decade in the field of economics, and to a lesser extent, political science. Much of this work focuses on the domestic determinants of the rule of law or the implications of variation in the rule of law on macroeconomic outcomes such as growth or foreign direct investment. The goal of this paper, however, is to explore the links between international and regional organizations and the rule of law.

The rule of law, however, is a particularly broad and encompassing topic (Haggard, MacIntyre, and Tiede 2008). Rather than investigate the linkages among international organizations (IOs) and the various conceptions of the rule of law, we focus our empirical examination on the issue of corruption – a key facet of nearly every definition of the rule of law.

Corruption is typically defined as the use of public office for private gain (Sandholtz and Gray 2003; Triesman 2000; Manion 2004). Existing work points to numerous detrimental implications of corruption including stunted economic growth, political instability and violence, as well as increased crime (Rose-Ackerman 2008). Most research on corruption focuses on the domestic characteristics of states as key causes of corruption, yet here we delineate international linkages that may also influence the phenomenon.

The paper begins by examining the idea of the rule of law, including several possible definitions and approaches. After quickly noting key linkages between IOs and other conceptions of the rule of law, we then explore the current state of research on the causes of corruption paying particular attention to the paucity of international factors discussed in this literature. Next, we outline several possible causal linkages between international institutions and national levels of corruption. We follow with a brief discussion of some of the empirical issues surrounding past research on the international determinants of domestic corruption, then move to our own empirical investigation of the linkages between international institutions and corruption which is conducted in two parts.

First, we conduct a cross-national large-N study of corruption, which finds that the simple counting of memberships in international and regional institutions leads to the conclusion that international integration has little bearing on corruption at the domestic level. Yet, narrowing our statistical test to examine particular causal mechanisms for more careful testing of hypotheses, suggests a more complex relationship: certain types of institutions can mitigate corruption and can serve as powerful forces in doing so.

Second, we examine four case studies to further identify causal relationships that may influence IO membership and corruption. In particular, we examine two European countries (Latvia and Romania), and two Asian countries (Malaysia and Thailand). On one hand, our European cases should be the most likely success stories given both countries' membership in the EU. Yet, we find considerable variation between these two cases, which generates lessons for understanding the later two cases – both of which suggest reasons for guarded optimism regarding certain aspects of the causal story. We conclude with policy implications, especially for expanding regionalism in Asia.

## II. The Rule of Law, National Corruption, and International Institutions

The literature surrounding the “rule of law” has blossomed in the past decade. Numerous scholars have investigated the determinants of, the effects of, and changes in the rule of law. These studies range from single-country studies to large-N cross-national analyses. Rather than review the numerous contributions to this literature, in this section we outline the core groupings of rule of law literature, noting briefly the research linking international institutions to these various conceptions, then move to define our own area of theoretical and empirical investigation: national corruption.

As Haggard, MacIntyre, and Tiede (2008: 205) note, with the expansion in the literature on rule of law has come an expansion of the boundaries of the concept. While the rule of law previously was limited to discussions of property rights and contract security as outlined by new institutional economics (see Williamson 1985), now the term is applied to matters ranging from the competitiveness of elections to the independence of judiciaries to physical security rights. For the purposes of discussing literatures relating to rule of law and international institutions, we group the literature into three main areas: legal systems; physical security; and property rights.<sup>1</sup>

The legal systems literature generally discusses the quality of the judiciary in the developing world and has done so by investigating the nature of judicial independence as well as the origins of legal doctrines in developing countries. In particular, judicial independence has been a key measure used to operationalize judicial quality (Prillaman 2000). The level of *de facto* (versus *de jure*) judicial independence has been shown to influence GDP growth (Feld and Voigt 2003). A second large body of work on the quality of judiciaries focuses on the differences between common and civil law traditions in the developing world – a body of literature commonly referred to as “legal origins” (cf. La Porta et al 1998; Keefer 2007). In these studies, the history of legal development plays an important role in the overall protection of property rights and legal quality in the developing world.

For better or worse, there is no appreciable research linking judicial quality with international institutions. Obviously, the very point of the “judicial origins” literature is to suggest that historically exogenous factors play a key role in shaping growth patterns today, so international forces (outside of colonial patterns) likely play little role in that process. Yet, despite the rise in interest in international legalism (cf. Goldstein et al 2000) there appear to be few literatures linking international institutions with domestic judicial quality, although

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<sup>1</sup> This list is not meant to be exhaustive but does capture the vast majority of the literature which uses the rule of law concept either as cause or effect.

numerous papers have linked international judicial institutions with domestic variables such as human rights (Lutz and Sikkink 2000) or trade law (Abbott 2000). But again, extant research is less on judicial quality or operation than on policy outcomes that are simultaneously determined by domestic judicial processes.

A second major body of rule of law research revolves around the provision of basic law to protect physical security as a key to establishing the rule of law. Obviously in times of major interstate war or civil war, physical safety, let alone property rights, may be significantly threatened. The work of Collier (1999) outlines the threats to basic institutions and law created by civil war. Recently, Krebs (2009) has outlined some of the basic effects of international conflict on rights in liberal democracies noting that periods of conflict can lead to a general contraction of rights.

To this end, a number of scholars have linked international institutions to outcomes related to physical security, both civil and interstate war. A robust literature links peacekeeping to international and domestic conflict. In particular, Fortna (2004, 2008) has shown that peacekeeping is effective (as a general rule) in keeping the peace after international and civil wars, in the later case even controlling for the initial propensity of peacekeepers to be deployed in the first place. Fortna (2008) argues that peacekeepers can be effective at changing the incentives of belligerents, leading to more sustained periods of peace after war (for other empirical tests, see Doyle and Sambanis 2006; Gilligan and Sargenti 2007).

From a *regional* institutional perspective, however, what is less clear is whether regional peacekeeping (contra UN peacekeeping) can secure the peace after civil war. Fortna's (2008) own case studies suggest that in the Sierra Leone war, the Economic Community of West African States (ECOWAS) was relatively less effective than their UN counterparts. Moreover, in Darfur, the performance of African Union (AU) peacekeepers have also been called into question, although political battles limited their effectiveness as much as operational problems (Appiah-Mensah 2005). The key point is to not assume that UN-type efforts can be easily replicated at the regional level.

In addition to peacekeeping operations, Mansfield and Pevehouse (2000) have shown that membership in preferential trade agreements (PTAs) has lessened the propensity of states to engage in violent interstate disputes. They find, however, that this relationship is conditional: where trade levels are high, PTAs depress the probability of outbreaks of disputes, yet where trade is low, trade institutions have little effect. Finally, Pevehouse and Russett (2005) show that membership in international organizations can lead to less involvement in militarized disputes. They also point to an important condition: those IOs made up of primarily democracies can more effectively limit the outbreak of disputes through conflict resolution processes. This helps to square past empirical research that contained a wide variety of findings as to the general IO-peace relationship (see Russett, Oneal, and Davis 1999; Boehmer, Gartzke, Nordstrom 2004). Both of these research programs suggest that involvement in certain types of international institutions (PTAs and highly democratic IOs) can help provide an appropriate physical security environment for the flourishing of the rule of law.

Finally, what many would label the core of rule of law literature focuses on the question of property rights and the sanctity of the contract. This voluminous literature engages the central idea that support for property rights is a key to economic growth. Much of the literature

discusses the issue of corruption, which we return to momentarily. Yet, other strands of the literature reflect more on basic governmental restraint as a measure of property rights. For example, Weingast and others have pointed to general systems of domestic checks and balances as a key determinant of the rule of law, and therefore, economic growth (Weingast 1997; Schultz and Weingast 2003).

It should be noted that there are important arguments linking international institutions and the general promotion of the rule of law, yet these arguments are often in the context of works linking international institutions to democratization. For example, Kelley (2006) shows that various international institutions, such as the European Union (EU), the Council of Europe, and the Organization for Security and Cooperation in Europe (OSCE) all helped to promote greater cooperation between transitional governments and ethnic minorities than would have otherwise been expected. In this account, guarantees of legal protection, citizenship, and property rights were all pressed on central Europe “from above”. Similarly, Pevehouse (2005) shows how credible commitments instilled by regional organization helped move the democratization process forward in Southern Europe and Latin America. Key to that causal story was the guarantee of property rights by key organizations such as the EC/EU that helped lessen the sting of democratization for key economic constituencies who feared nationalization under democratic regimes. Instead, key policy commitments to property rights were supported by membership in (or association agreements with) important regional organization (see also Pevehouse 2002).

Key to the arguments linking regional institutions and outcomes such as protection of property rights is enforcement issues. As discussed more fully in the case studies below, lack of enforcement of property rights (or any other) provisions undermine the regional or international institution’s commitment. This is something that varies within all institutions, regardless of region. As we will soon explore, even the EU’s commitment to anti-corruption and rule of law standards have recently been called into question in at least two cases. It is not enough to promote certain behaviors on paper, practice must follow closely behind or commitments quickly become incredible.

Within this “property rights” group of research, perhaps the most ubiquitous field of inquiry has involved investigations into corruption. For the purposes of this research, we choose to focus on corruption as the key area of inquiry. There are several reasons for this. First, empirical research on corruption is perhaps the largest segment of the rule of law research. Building on this base has obvious theoretical and empirical advantages. Second, there are numerous studies of corruption and its effects generally, and there are numerous studies of how international institutions influence domestic outcomes, but we know far less about how international institution directly influence corruption. Building a bridge off two solid foundations also has clear advantages. Third, high corruption within a nation-state can undermine the other areas of research on the rule of law: corruption can simultaneously undermine judiciaries and property rights commitments. Thus, the ability to understand the linkages between international/regional institutions and corruption could be a powerful tool to promote the rule of law in a very general way.

The purpose of this section has been to suggest that the rule of law has become an important but expansive concept. Growing, but still small, literatures link international institutions with various conceptualizations of the rule of law. And while this paper will focus

specifically on the question of corruption, it is important to note that international factors are held to play an important role in promoting the rule of law in terms of physical security and property rights. The next section discusses the extant literature concerning corruption and the (very) few studies linking international forces to national corruption.

### **III. Existing Studies and Theories of Corruption**

In this review of current research we have privileged the contributions of political science since work in that field is more evenly split between those studies investigating the origins versus the impact of corruption. Nonetheless, we have included economics studies where appropriate.

The first trend to note in the literature is that nearly all factors hypothesized to influence corruption are located at the domestic level. Income and wealth serve as both a cause and a consequence of corruption (Kaufmann 2003); however, Rose-Ackerman (2008) notes that simultaneity is often not handled well in empirical work. The impact of democracy on corruption is also the subject of extensive research. Low levels of corruption appear to be associated both with high levels of economic freedom and with stronger democracies (Sandholtz and Koetzle 2000; Kunicova and Rose-Ackerman 2005), but again the possibility of endogeneity is quite strong.

Numerous other studies have attempted to isolate cultural or social factors that may influence levels of corruption. For example, governments with more female participation in politics are less corrupt, and this is consistent with survey evidence suggesting that women are more disapproving of corruption than men (Swamy, Knack, Lee, and Azfar 2001). Within the universe of democracies, features of government structure, such as presidentialism, closed-list proportional representation, and federalism facilitate corruption. Presidential systems that use proportional representation to elect their legislature are more corrupt than other types of democracy (Sandholtz and Koetzle, 2000; Kunicova and Rose-Ackerman, 2005). From our perspective, the problem with the existing political economy literature on the subject is two-fold.

First, there is not a consistent model of domestic institutions that informs existing work. For example, the findings on presidentialism and corruption suggest that the concentration of power within a small number of institutions creates incentives for powerful individuals to demand bribes or collect rents as a cost of doing business in the country. Yet, this logic potentially flies in the face of the empirical findings concerning federalism – where it is a diffusion of power geographically that creates a greater number of roadblocks to policy change, leading to higher potential for corruption. Of course, both empirical findings could be accurate, but it suggests a better model of domestic institutions is needed.

Second, from a public policy perspective, many of the variables identified as important determinants of corruption are difficult to alter. A country finding itself with a presidentialist, federal system would need tremendous domestic reform to improve its environment for corruption. Similarly, studies that emphasize political culture, religion, or ethnicity as determinants leave policy-makers few levers other than separatism or large-scale religious conversions to improve corruption.

A small number of studies do attempt to determine the influences on corruption at the international level. For example, trade openness and other measures of competitiveness have been found to reduce corruption (Ades and DiTella 1999; Gerring and Thacker 2005; Sandholtz and Koetzle 2000), but Rose-Ackerman (2008) again notes that the causation is unclear; firms may not locate in corrupt countries to begin with, lowering trade volumes.

In one of the only studies that examines the potential link between international organizations and corruption, Sandholtz and Gray (2003) posit that greater degrees of international integration lead to lower levels of corruption. These authors assert that international factors affect a country's level of corruption through two principal channels. First, economic incentives from international integration can alter the costs and benefits of engaging in corrupt acts. Because bribe-paying companies suffer under international competition, they will have less money to offer for bribes and bureaucrats will find that their corruption-related income declines. Sandholtz and Gray note, however that causation could also run in the opposite direction – that high levels of corruption reduce trade – yet they dismiss this possibility based on existing research in economics (specifically an endogeneity check done by Ades and DiTella 1999). The causal mechanism in this case is the economic competition brought by integration into international institutions: domestic firms either refuse to pay bribes in order to keep their businesses profitable or fail when faced with more competitive international markets.

Interestingly, this causal story makes several important assumptions. It assumes that international firms importing into the economy will be immune from paying or refuse to pay bribes. It also assumes that bureaucrats will not find alternative sources of corruption-linked revenue, for example, by raising bribe levels from industries that possess comparative advantages on international markets and will flourish under international competition. Finally, it assumes that international institutions designed to liberalize and open economies actually do so. Yet, long-standing debates question whether international trade institutions, especially regional trade agreements actually assist states in opening their economies (for example, see Frankel 1997; Bhagwati, Greenaway, and Panagariya 1998). Despite these potential shortcomings, we do attempt to evaluate this causal linkage in our empirical tests.

The second causal mechanism suggested by Sandholtz and Gray is that international factors may affect a country's level of corruption through normative incentives. In other words, prevailing norms in international society may de-legitimize and stigmatize corruption domestically. Countries that are more integrated into international society are more exposed to both these economic and normative pressures against corruption. Sandholtz and Gray use data from 150 countries to confirm the proposition that the more a country is integrated into international society (through various measures of IO membership), the lower its reported corruption score.

Gerring and Thacker (2005) also provide an analysis of the intersection of corruption and international organizations. Specifically, these scholars use a cross-national data set of 181 countries from the mid- to late 1990s to see if neoliberal/market-oriented economic policies are associated with lower levels of political corruption, and state intervention in the economy with higher levels. They find that open trade and investment policies and low, effective regulatory burdens do correlate with lower levels of political corruption. They summarize that market-oriented states may be less corrupt, but interventionist states, as measured by public spending, are not necessarily more corrupt.

In sum, little research has focused on the international determinants of corruption. Most theoretical and empirical work has examined domestic determinants. This is entirely appropriate given that it is clearly the behavior of domestic actors that shape acts and perceptions of corruption. Yet, as we know from extensive research in the “second-image reversed” tradition, international forces may directly influence domestic actor’s preferences, cost-benefit calculations, and incentives (Gourevitch 1978; Keohane and Milner 1996).

### ***Causal Mechanisms***

Are the socialization and market-liberalization mechanisms the most theoretically plausible linkages between international institutions and corruption? They correctly locate the central actors in the domestic sphere: government level bureaucrats and politicians are key to explaining the presence of (or the perception of) corruption. Yet, those actors are susceptible to influences from both inside and outside the polity.

We suggest four possible causal pathways linking membership in international organizations to corruption. The first is consistent with existing studies –exposure to market forces and competitive liberalization will drive out corruption as an inefficient economic practice. The second is also consistent with extant studies: socialization may occur in international institutions encouraging the spread of norms to delegitimize corrupt practices. The third pathway is related to the first, but relies on the conveyance of information concerning best practices on ending corruption in national societies. Finally, IOs may pressure some member states with regard to levels of corruption, conditioning aid, assistance, or policy benefits on improved behavior in the realm of corruption. We review each of these causal pathways, suggesting critiques of each, but also outlining potential empirical tests of their veracity.

The first mechanism is straightforward and has been discussed previously: as countries join international organizations that call for increasing opening of domestic markets and/or remove existing barriers to market activity between states, corruption will be seen as a market inefficiency. External firms from low corruption environments will compete more efficiently, either driving out local economic actors or forcing them to change their practices to root out corruption, bringing more local market efficiency to compete with outside firms.

Of course, this causal process assumes that a key avenue of liberalization is through membership in international organizations oriented towards economic issues. As previously suggested, it is possible that many of these agreements have little influence on liberalizing economic policy, even though that is their intended effect. For example, controversies surround whether the GATT and WTO have actually led to liberalization in trade policy (Rose 2004; Tomz, Goldstein, and Rivers 2007). Moreover, many agreements in the trade and financial realm contain safeguards or exceptions that allow the exclusion of important industries from liberalization (Gawande, Sanguinetti, and Bohara 2005). Thus, the overall liberalization effect of these agreements may not as strong as commonly held. Still, we subject this mechanism to an initial quantitative test below, by determining if the number of economic-oriented arrangements is correlated with corruption levels in signatory countries.

Second, as emphasized by Sandholtz and Gray (2003), normative pressures can induce behavior changes with regard to anti-corruption standards. A strong line of research has demonstrated the possibility that international organizations can serve to socialize elites to

particular types of behavior (Checkel 2005). In particular studies have examined the role of institutions themselves promoting socializing behavior (Risse, Ropp, and Sikkink 1999) as well as institutions as the sites of socialization (Chayes and Chayes 1995; Hooghe 1999).

Socialization may take a variety of forms, but the process that is assumed to be at work in the existing corruption-IO literature is labeled normative suasion (Sandholtz and Gray 2003; for a typology of socialization, see Checkel 2005: 810-12). The idea of normative suasion is that elites interacting in the context of IOs self-reflexively change their preferences to eschew corrupt practices and return to their states to attempt this normative suasion on local actors.

While the normative suasion is the mechanism commonly used to explain correlations between IO membership and corruption levels, there is little direct evidence that this is the causal process at work in this or other issue areas. That is, little empirical exist that fundamental preferences of key domestic political actors have changed in response to membership in IOs. Indeed, as highlighted in the case studies below, the stronger evidence suggests that domestic actors reform their corrupt behavior only begrudgingly or under direct threat of sanction from IOs (although those threats are also only sporadically effective). Our case study findings are consistent with other work on the question of socialization (Hooghe 2005) suggesting that material explanations are more powerful to explain an actor's behavior.

The third causal linkage argues that it is possible that some domestic actors in a society wish to lessen the practice of corruption but lack the tools or knowledge to do so. Thus, membership in international institutions helps diffuse a set of best practices to states. For example, Reinicke (1999) highlights the role of global public policy networks, working with and through international organizations developing models of best practices in issue areas ranging from the environment, to development, to agriculture. In the area of corruption, Pope and Vogl (2000: 6) argue that "one key to success in building effective anticorruption agencies rests in the willingness of the proponents of good governance to share their experiences and to work together to develop greater knowledge of best practices. Our experience suggests that international organizations can make a major contribution on this front..."

In the context of European Union integration, this process is often referred to as *Europeanization*, typically defined as "a process of change in national institutional and policy practices that can be attributed to European integration" (Hix and Goetz 2000). Note that Europeanization can assume either, a bottom-up process that occurs as individuals interact within institutions (Schimmelfennig and Sedelmeier 2005), or can refer to a top-down process where by "best practices" are purposely diffused by the IO to improve behavior at the domestic level (Grigorescu 2003).

This mechanism recalls the "managerial" school of thought in the study of international organizations and compliance. As outlined by Chayes and Chayes (1993), this school contends that the presence of non-compliance with agreements often results less from an overt intention to disobey rules, but rather the lack of capabilities in doing so. Thus, a set of elites may have the desire to lower corruption domestically, but be unable to do so because they lack expertise. Membership in more international organizations provides access to information and knowledge, including better sets of standard practices as well as tools for controlling corruption.



The key issue with the “best practices” explanation is determining whether the “will” to fix corrupt practices was endogenous to the country, or whether the “will” is a result of the next mechanism we discuss: pressure or threats of sanctions by the international institution. Thus, in our case studies, we take special care to note how active nation-states are in seeking the advice of organizations rather than having it forced on them.

The final possible causal mechanism involves actual anti-corruption regimes embedded within existing international institutions. Indeed, some international organizations have *promoted* anti-corruption standards and the rule of law. Anti-corruption efforts became multilateral through NGOs and IGOs and used the traditional tools of international law—such as the treaty, convention, and formal agreement—in addition to newer forms of soft law (voluntary standards.)

Much of the push for anti-corruption standards in IOs came initially from the United States. After passing the Federal Corrupt Practices Act in 1977, private firms began pressuring the US government to push for parallel legislation abroad since US businesses and government officials feared that the FCPA would create a competitive disadvantage in markets affected by corruption. These actors had little success for at least 15 years, but the situation changed markedly in the mid-1990s (Abbott 2001). Over the next few years, the world witnessed a remarkable flowering of international rule-making aimed at bribery and corruption, especially in the context of transnational economic activity.

The first wave of international anticorruption initiatives occurred at the regional level. The Organization of American States Inter-American Convention Against Corruption was the first binding multilateral agreement on corruption, signed by 22 states including the US in 1996 (Webb 2005). While the OAS Convention has a broader scope than the OECD and European instruments, its weakness lies in the weakness of the monitoring mechanism that appears to have been an after-thought (Webb 2005.) In 1997, OECD members and five non-member countries signed a legally binding *Convention on Combating Bribery of Foreign Public Officials in International Business Transactions* requiring the governments of ratifying states to introduce and support domestic legislation making foreign bribery in pursuit of business a crime and to provide international legal assistance to prosecutions. The OECD Convention is significant because the 30 members represent 70 percent of world exports, 90 percent of foreign direct investment, and home to over 75 percent of multinational corporations (Webb 2005). However, the OECD Convention has a limited scope: for example, it does not apply to bribery that is purely domestic and does not apply to forms of corruption other than bribery. The monitoring system is rigorous but has been slow to be implemented (Webb 2005).

The European Union adopted treaties prohibiting bribery of EU and member state government officials, first in situations where the financial interests of the EU are at stake—the 1995 *Convention on the Protection of the European Communities’ Financial Interests*, and the 1996 *First Protocol to the Convention*—and later in additional contexts—the 1997 *Convention on the Fight Against Corruption Involving Officials of the European Communities or Officials of the Member States of the European Union*. The EU treaties only deal with member state conduct, and while bold statements are made in the non-binding instruments, specific legal initiatives are narrow (Webb 2005). Similarly, the Council of Europe has developed two significant anti-corruption instruments that are open to adoption by non-European countries. In 1999, the COE adopted the *Criminal Law Convention on Corruption* aimed at creating a common body of anti-

corruption law for Eastern Europe. The *Civil Law Convention on Corruption* was also adopted in 1999 and represents the first attempt to define common international rules for civil litigation in corruption cases. Both COE Conventions share a sophisticated monitoring system (Webb 2005).

The global financial institutions have also played a role in the increasingly apparent global regime of anti-corruption measures. The World Bank, after years of resistance adopted a policy that calls for policing fraud and corruption in Bank-financed projects, providing assistance in combating corruption to borrower governments that request it and taking corruption into account in other Bank programs. The IMF followed the World Bank's lead on corruption (Sandholtz and Gray 2003). In 1997, the IMF Executive Board adopted guidelines outlining an increased role for the organization in addressing governance problems such as corruption and rent seeking in borrower countries.<sup>2</sup>

Within this mechanism, it is important to consider the question of enforcement: how can anti-corruptions standards be promoted in practice? Do IGOs possess the leverage to punish states violating codes of conduct? Can collective action problems be solved in order to punish offending states?

It is also important to ask why states would adopt these corruption initiatives, especially if key elites were profiting from corrupt practices. The answer to this would be consistent with the third causal mechanism, but rather than lacking information on the best methods to control corruption, elites want a better way to create material incentives to reduce corruption. That is, elites would like to tie the hands of corrupt officials and/or provide external enforcement to change behavior at the domestic level. Existing research on international organizations has pointed to the ability of international organizations to be used as hand-tying or commitment devices by domestic elites to limit future policy flexibility (Moravcsik 2000; Pevehouse 2005). By moving at least some enforcement and monitoring to an external third party, domestic actors can make commitments to future behavior more credible versus a purely domestic set of reforms.

### ***Classifying and testing the causal mechanisms***

Note the difference between each of these three causal mechanisms. The socialization mechanism relies on the logic of appropriateness. Domestic actor's preferences change after their interaction and socialization with elites in international organizations. Corruption declines because elites become convinced it is wrong and stop practicing corruption and/or constrain other domestic actors from its practice. The best practices mechanism relies more on information and capabilities transferred to the state via the international institution. Here elites have lack not the will, but the way. IO membership provides tools to allow for domestic anti-corruption efforts to have maximum effect. The first (market) and fourth (pressure) mechanisms function through a logic of consequences. Here, IOs create material incentives (either directly or indirectly) for member states into improving behavior.

Yet another way to classify these causal processes is by the key agents driving the behavior. For the first and fourth mechanisms, the agents of change reside at the international level (IOs or markets), while for the second mechanism, change originates in a bottom-up

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<sup>2</sup> Interestingly, the WTO, however, has taken no action explicitly aimed at bribery and corruption. The Working Group on Transparency in Government Procurement (TGP) has attempted, but fallen short – it has almost completely avoided frank discussions of bribery and corruption (Abbott 2001).

process, with a change in domestic agents' preferences. The best practices mechanism is more of a hybrid, where domestic and international actors both drive outcomes.

It is important to outline these mechanisms according to their logics and locus of change to draw parallels with other literature and hone our empirical strategy. On the first score, other literatures that investigate linkages from the international to the domestic level have important lessons to offer. First, as previously mentioned, constructivist literature has had less success in finding solid empirical evidence that socialization processes play key roles in changing actor preferences (see the contributions in Checkel 2005). Socialization does not happen on a blank slate and often, attempts to use normative suasion to encourage different behavior are met with extensive resistance through well-developed local norms (Subotic 2009). While this does not mean we will find no evidence of normative suasion leading to lower levels of corruption, it does create some skepticism that this will be the key mechanism at work.

Second, studies examining how IOs influence domestic institutional arrangements suggest that IOs have their maximum influence when they abet (rather than supplant or overtake) the efforts of domestic actors (Pevehouse 2005; Kelley 2006). That is, external actors such as IOs can be important anchors for domestic change, but will be limited in their influence if domestic actors are unwilling to cooperate. If they are willing, but unable to cooperate, IOs can serve as an important mechanism to assist domestic actors in policy change. This recalls our earlier discussions of IOs and property rights: IOs lessened the concerns of economic elites over democratization not necessarily because they changed the preferences of key actors, but rather because the IOs provided external threats of punishment if rules were violated (see Pevehouse 2005, especially Chapter 5). These patterns are also evident in our case studies: bottom-up processes are key to top-down success. That is, if domestic actors fundamentally lack the desire to fix corrupt practices, even powerful regional organizations may have little influence on behavior.

When considering an empirical strategy to investigate the IO-corruption relationship, it is clear that a multi-method approach will provide the maximum leverage to both assess any correlation and uncover which causal processes are at work. Thus, our overall empirical strategy includes both a large-N statistical study and four case studies.

We begin with a large-N, cross-national statistical study to investigate the determinants of national corruption. While the number of large-N studies relating IOs to corruption is not an empty set, it is quite small. Indeed, the single study using measures of involvement in international institutions to predict levels of corruption (Sandholtz and Gray 2003) uses data on IO membership coded by the authors. There is little information on the scope or type of institutions coded. Thus, it is unclear whether the measure captures all possible international organizations, only some types, regional or multilateral, or simply a random set as determined by the authors.

Perhaps more importantly, existing large-N studies have not attempted to test particular causal hypotheses statistically. And while the opportunities to do so are limited, some do exist. For example, there are important reasons to expect only certain types of institutions to be related to certain hypothesized causal mechanism. For example, if exposure to forces of liberalization (the market mechanism) is the key factor pushing corrupt officials to back down

from their demands, we might expect only economic-oriented IOs to be important for creating an impetus for change.

Similarly, existing empirical research also does little to test the sociological hypotheses linking IOs to corruption. Indeed, studies in political science proffering the normative suasion mechanism use panel data with no time series element. Thus, change over time (the central observable implication of this mechanism) would be unobservable in the data. One simple way to more closely examine this hypothesis would be to differentiate IOs by their membership. That is, some IOs are made up of states already low on corruption, while others may be more heterogeneous in their membership. Presumably, IOs made up of high corruption states are not good candidates to attempt normative suasion on member states.

While the large-N study will be important to establish correlations between various measures of IO memberships, the statistical analysis will have only a limited ability to distinguish between the causal mechanisms. For example, due to data availability issues, evaluating the pressure causal mechanism is difficult in this paper. Our data on international organizations ends in 2000, thus we have only a few years of observations after the widespread adoption of these anti-corruption policies by IOs. To take another example, a measure of the corruption level of other IO member states could be a measure of the potential of an underlying socialization process, or it could be evidence that low corruption states also are better at defining best practices to be adopted by states.

Despite these limitations on the statistical tests, they are important for establishing basic patterns in the data. To have more certainty about the causal relationships behind our correlations, we turn to a selection of four case studies that better allow inferences about causal mechanisms. But first, we begin with our large-N analysis.

#### IV. Statistical Model

To begin our statistical analysis, we first define our dependent variable. To measure corruption, we use the International Country Risk Guide's (ICRG) data on perceptions of corruption. The ICRG creates a six-point scale which rates each country on a yearly basis for levels of corruption, which the ICRG defines as bribe-paying to conduct business, but also includes "excessive patronage, nepotism, job reservations, 'favor-for-favors', secret party funding, and suspiciously close ties between politics and business" (ICRG 2008: 31). The ICRG data includes measurement of most states from 1985 to the present. The measurement of corruption by ICRG consists of a continuous measurement, running from 0 to 6 (higher numbers equate to less corruption), based on country-reports and judgment by the ICRG.

Using this data as a measure of national-level corruption, we specify the following model to being our investigation:

$$\text{Corruption}_{it} = \beta_0 + \beta_1 \# \text{ IOs} + \beta_2 \text{Regime Type} + \beta_3 \text{GDP} + \beta_4 \text{pcGDP} + \beta_5 \text{Openness} + \beta_6 \text{Military Dispute} + \beta_7 \text{Investment} + \beta_8 \text{Transition} + e$$

One key to examining the influence of international organization memberships on corruption is to use a complete and comprehensive data set that measures IO membership. We use the Correlates of War International Organizations (COW-IO) data, which covers the 1885-

2000 period, leaving an overlapping sample of 1985-2000 (Pevehouse, Nordstrom, and Warnke 2004). Using a larger, more representative data set of international organizations has obvious advantages. The COW-IO data codes membership in over 400 international organizations. The COW-IO project defines an international organization as a formal organization, with a headquarters, consistent meetings, and at least three members (Pevehouse, Nordstrom, and Warnke 2004).

Our first measure of state involvement in international organizations,  $\# IOs$ , is a simple count of the number of full memberships of each state  $i$  in year  $t$ . If existing expectations are correct, greater involvement in IOs should lead to lower levels of corruption. While evidence as to whether general memberships in IOs may be more or less useful in testing our causal hypotheses, generating an initial estimate of the general effects of all IOs helps to establish a benchmark of sorts for our expectations.<sup>3</sup>

In addition to assessing the general influence of IO memberships on corruption, we also want to relax the assumption that all IOs are equally likely to influence corruption levels. To this end, we introduce two additional models. In order to see if different issue areas are more or less likely to influence corruption, we differentiate each state's commitments to international organizations based on the substantive specialization of the organization: general political; economic, or standards-based. We use data from Mansfield and Pevehouse (2008), to code the primary focus of each organization.<sup>4</sup>

General political organizations are those that serve mostly as regional or international forums. *Political IOs* include the League of Arab States, the Organization of American States, the African Union, and the Baltic Council. *Economic IOs* include preferential trading arrangements, currency groupings, cartels, and development banks. *Standards IOs* are those that set behavioral standards in particular issue areas. Examples include the Arctic Council, the Baltic Environmental Forum, the International Labor Organization, the World Health Organization, and the International Seabed Authority.

Another way to relax the homogeneity assumption is to look at characteristics of other members of the organization. To this end, we examine the level of corruption among the other member states of the organization. This test helps us to gain leverage on the causal process behind the socialization mechanisms hypothesized in the literature. Existing studies assume all IOs are equally like to create normative pressure, yet, a country with IO memberships in institutions where all members are highly corrupt may feel less social pressure to behave differently.

To measure the level of corruption among IO member states we compute the average level of corruption for each IO (using the ICRG data; *IO: Corruption*) *excluding* each state  $i$ . Then, we average these IO-level scores across each state's membership profile. Thus, if a country is a member of five IOs in a particular year, the value of *IO: Corruption* will be the average level of corruption within each of those five IOs (excluding that state's score), averaged across each of the five IOs. Thus, we hypothesize that a state in a number of

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<sup>3</sup> That is, if a subset of IOs has a particular effect (e.g., economic organizations), that is not useful unless we know if this a broader trend for all IOs or specific to that type.

<sup>4</sup> Re-coding the organizations to allow overlapping purposes (i.e., non-mutually exclusive coding) yields results very similar to those presented below.

organizations with other states that are themselves highly corrupt are less likely to be socialized out of their corrupt practices.

Besides membership in international organizations, other factors are likely to influence national levels of corruption. More importantly, several of these factors have also been hypothesized to correlate with membership in international organizations. To avoid the possibility of omitted variable bias, we thus introduce several control variables. First, past research has found a high correlation between democracy and the rule of law (Sandholtz and Koetzle, 2000; Kunicova and Rose-Ackerman, 2005). To this end, we control for levels of institutional democracy by introducing *Regime Type*, which measures state  $i$ 's regime score on a 21-point scale in year  $t-1$ . The 21-point scale ranges from +10 (the most democratic states) to -10 (the most autocratic states). Our data is taken from Gleditch's update of the Polity data (Jaggers and Gurr 1995; Gleditsch 2004). Regime Type has also been found to correlated with accession to and membership in international organizations (Mansfield and Pevehouse 2006; Shanks, Jacobsen, and Kaplan 1996).

Second, existing empirical work ties overall economic size as well as economic wealth to levels of corruption (Kaufmann 2003) as well as to membership in international organizations (Jacobson, Reisinger, and Mathers 1986). We measure a state's economic size by measuring gross domestic product (*GDP*), taken from the Penn World Tables (Heston, Summers, and Aten 2002). We measure the log of GDP of each state in year  $t$ . Similarly, we use per capita GDP (*pcGDP*) measured in logs, for each state in year  $t$ . This data is also taken from the Penn World Tables.

Third, as discussed above, some scholars have hypothesized that levels of international trade are likely to influence corruption (Ades and DiTella, 1999; Gerring and Thacker, 2005). States that trade extensively have also been found to be increasingly likely to join at least certain types of international institutions (Mansfield, Milner, and Rosendorff 2002). To this end, we introduce *Openness*, which measures a state's trade-to-GDP ratio in year  $t$ . Trade and GDP data are both measured in constant dollars and are taken from the Penn World Tables.

Fourth, while not hypothesized in the existing literature on corruption, controlling for military conflict is important in our investigation. Existing studies of international institutions control for the presence of militarized disputes: threats, displays or uses of military force between two or more states (Ghosn and Palmer 2003) and often find that states involved in disputes are less likely to join international institutions. As previously discussed, since conflicts can bring the centralization or the breakdown of domestic governance institutions, either of which could exacerbate corruption, it is crucial to control for the presence of military conflict to avoid omitted variable bias. To do so, we use the most recent Militarized Interstate Dispute dataset (Ghosn and Palmer 2003). We use this data to code an indicator variable, *Military Dispute*, coded one if state  $i$  is involved in a dispute of any type (threat, display or use of force) in year  $t$ , and zero otherwise.

Fifth, dependence on financial investment (whether from outside or inside state borders) is likely to create strong anti-corruption incentives. To lure domestic or international capital to invest in a country, leaders must foster institutions that ensure the safety of investments through the rule of law. To measure a country's dependence on investment, we introduce *Investment*, which measures the proportion of state  $i$ 's per capita GDP generated from

investment in year  $t$ . Data is taken from the Penn World Tables and is measured in constant dollars.

Finally, we include an indicator variable for whether a country has undergone a regime transition (democratic or autocratic) in the past five years. To compute this variable, we use the Polity regime type data (described above), and measure movements along the -10 to +10 scale. Any movement out of or into the -7 to -10 area or in or out of the +7 to +10 area over a five-year period is measured as a regime change.<sup>5</sup> Past work on corruption has found that more stable regimes have lower levels of corruption (Sandholtz and Gray 2003), while empirical work on IOs have found that states undergoing regime change are more likely to change their IO membership profiles (Mansfield and Pevehouse 2006; Mansfield and Pevehouse 2008).

Finally,  $e$  is a stochastic error term. Table 1 presents descriptive statistics on all variables used in the large-N statistical analyses. To estimate our model, we use Prais-Winsten GLS with panel-corrected standard errors (Beck and Katz 1995). In addition, we specify a panel-specific first-order autoregressive process to control for the “stickiness” of political corruption as well as the large degree of heterogeneity among the countries combined in our sample.<sup>6</sup> In particular, it helps to control for certain observable country-level characteristics that do not vary much over time (such as religion or political culture) that have been hypothesized to influence levels of corruption (for examples, see Sandholtz and Gray 2003; Swamy, Knack, Lee and Azfar 2001; Kunicova and Rose-Ackerman 2005). Perhaps more importantly, it controls for some non-observable country-level characteristics such as political culture, which presumably do not vary much over time yet may influence corruption.

## V. Results

The results of the first three models can be found in Table 2. Recall that because higher levels of the dependent variable indicate less corruption, negative coefficients indicate higher corruption, while positive coefficients indicate lower corruption. As shown in the first column, the estimate of  $\# IOs$  is positive but not statistically significantly different from zero, indicating that more involvement in international institutions has little effect on national-level corruption.

This finding is somewhat surprising since existing studies have shown that more involvement in IOs tends to lower corruption. As suggested, however, because we do not know the representativeness of those studies' samples of IOs, comparisons between the studies are difficult.<sup>7</sup> Still, this is an important null finding – general involvement in IOs has no systematic effect on levels of corruption.

Turning to the control variables, few achieve statistical significance, but those that do are of the predicted sign. In particular, the estimate of *per capita GDP* is positive and statistically significant indicating that wealthier states have lower levels of corruption. In

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<sup>5</sup> These -7/+7 threshold numbers are the commonly used cut points for defining autocracies and democracies. See Mansfield and Snyder 2002.

<sup>6</sup> The best way to conceptualize the panel-specific AR(1) model is as a fixed-effects model where the country fixed effect estimate is the autoregressive component in each panel.

<sup>7</sup> There are a number of possible explanations for the different finding from previous large-N studies, including the fixed-effects specification used here, the use of the time-series data in this model (other studies use only a single cross-section), and the broader IO sample in the COW-IO data. A cursory examination of the Sandholtz and Gray data suggests that they under-sample regional IOs in the developing world, which would lead to systematically higher membership levels for developed states, which also tend to be less corrupt.

addition, consistent with previous studies *Regime Type* is positive and statistically significant, suggesting more highly democratic countries suffer from less corruption. This estimate translates into a predicted lowering of the corruption index of nearly five percent when increasing the regime type of state *i* from an anocracy (a regime between a democracy and autocracy) to a democracy.<sup>8</sup>

Finally, greater contributions of investment to per capita GDP is associated with lower levels of corruption, although the substantive effect of this variable is small: an increase of one standard deviation in the value of *Investment* leads to about a one percent change in the predicted corruption score.

An equally interesting result emerges when distinguishing IOs by their substantive issue area. Examining the results in column 2 of table 2, political and standards organizations have no influence on corruption, while economic-oriented organizations do lessen corruption. The former should not necessarily be read as a rejection of the relatively new (1990s) anti-corruption standards that emerged in broad political organizations such as the OAS, the Council of Europe, the UN, and the OAU. As previously suggested, those standards were adopted immediately preceding the end of our observation period, making it difficult to pass judgment on those policies based on these results.

The strong results for economic organizations lend some credence to the market mechanism. If membership in trade, finance, and multilateral banks (which make up the vast majority of organizations in this category) lessens corruption it could be related to the liberalization brought on by those organizations creating market pressures driving out corruption. As previously discussed, this assumes these organizations actually do create pressures for liberalization. An alternate explanation for this finding is that given the importance of the topic of corruption to economic-oriented organizations, they are the institutions most likely to generate and promote “best practices” standards. In our case studies that follow, we attempt to hone in on which explanation may account for this strong correlation.

To take a first cut at the possibility that characteristics of the IO (or at least its members) influence levels of corruption, we examine the internal membership characteristics of the IOs in our sample. The third column of Table 2 presents the estimates for the level of corruption within the IO membership. The influence of *IGO: Corruption* is positive and highly statistically significant. As the levels of corruption decline in the IGO profile by a mere fifteen percent, the corruption level in that state declines by over five percent. This is a significant finding suggesting evidence of either a socialization effect or a best practices mechanism. In the later case, we assume only those states with generally low corruption are likely (or able) to promote best practices.

While this could also be evidence of specific policies adopted by IOs to encourage gatekeeping, the timing of this sample and efforts to instantiate anti-corruption policies within IOs make this less likely. That is, one possible explanation for this empirical finding besides a socialization effect would be that IOs with low-corruption members select only those members with low corruption for entrance into IOs. Two factors mitigate this possibility. First, almost no IOs have entrance conditionality tied to levels of corruption. At most, an IO might require a

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<sup>8</sup> This and all marginal effects in the paper are calculated while holding all other continuous variables at their mean value and discrete variables at their modal values.



certain commitment to democracy or even liberalization (e.g., in a trade agreement) before joining, but corruption is almost never explicitly a formal hurdle to entrance.

Second, as discussed above, movements *within* IOs (apart from some development banks) to confront corruption do not begin to strengthen until the mid-to-late 1990s – near the end of the sample used in this paper. By this point, most of the IOs adopting anti-corruption policies had admitted most of their potential member states. While these IOs may or may not choose to punish poor behavior on the part of existing members, this is a separate question from whether a selection process occurs before states accede to an organization.

As a final guard against the possibility of screening effects leading to the finding the low corruption IOs are associated with lower levels of corruption in other member states, we adjust our statistical model to control for this possibility. We add a new variable to our model *Probability of Joining* that is the predicted probability of a state joining a low-corruption organization.<sup>9</sup> This variable would control for the probability that a state will be selected to join an organization in year  $t$ . If it is an underlying characteristic (including low corruption) that drives a state to join a low corruption organization (thus yielding a correlation between low corruption IOs and low corruption at the state level), this variable should control for that underlying propensity (for a review of this technique, see Alvarez 1999).

Adding this new *Probability of Joining* model induces very few changes to the existing results. The estimate of *IO: Corruption* is still positive and statistically significant, nearly unchanged from the estimate in column 3. There are few changes to any of the estimates of control variables. The estimate of *Probability of Joining* is not statistically significant, even after adjusting the standard error to account for bias in the second stage estimation.<sup>10</sup> These new estimates give us more confidence that it is not screening on the part of the IO that gives rise to the previous finding.

As previous mentioned, while these statistical results give us broad cross-national evidence that economic organizations and low-corruption organizations can lessen corruption in member states, these tests are quite weak in their ability to tell us *why* this is the case. In the following section, we undertake four brief case studies as a way to investigate which mechanisms could be at work.

## VI. Case Studies

We have chosen four illustrative case studies to trace the causal mechanisms previously outlined. These cases will give us a clearer sense of the conditions under which international and regional institutions can influence domestic corruption. We have chosen two cases that, on the surface, are “most likely” successes: Latvia and Romania. Both were pressed to reform their domestic laws to minimize corruption as part of the accession process to the EU. As we

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<sup>9</sup> We generate this probability by modeling the probability that a state will join an IO whose average level of corruption among member states (without state  $i$ ) is at or above the 75% percentile of the distribution of the *IO: Corruption* variable. Explanatory variables in the model include *Corruption*, *GDP*, *Regime Type*, *Per Capita GDP*, and a counter for the number of years since a state has joined a “low corruption” IO. The model also includes country-level fixed effects.

<sup>10</sup> This is done by bootstrapping the standard error on the coefficient 3000 times to assess bias in the estimate. See Alvarez 1999.

will show, Latvia can be classified as a partial success (or a work in progress), while Romania is a clear failure.

We also choose two cases in Asia: Thailand and Malaysia. Both countries are ensconced in various Asian regional institutions, although none of them with particularly low levels of corruption among member states. Interestingly, both have relied on these institutions to assist in their fight against corruption, although in different ways. We argue that both Asian countries have made strides against corruption, but it is still probably too early to tell the long-term success of policy changes in these states.

### ***Latvia: Improving from the outside and inside***

Upon its independence from the Soviet Union, the Baltic republic of Latvia began an aggressive campaign of privatization of state-owned industries along with liberalization of trade and finance policies. As this process began, surveys of Latvians and international investors frequently found corruption to be a major problem in the Latvian economy (World Bank 2005). Indeed, in 2003 one report suggested “corruption in general troubles Latvia more than any other EU accession country” (Reed 2003: 1). Thus, Latvia was far from an “easy case” for the EU.

Much of the initial concern over corruption in Latvia grew out of the privatization efforts. In particular, privatization of the major shipping industries and maritime services appeared to be rife with corruption, especially in the area of state capture (World Bank 2002).<sup>11</sup> Legislative issues surrounding the reform of regulatory policies were particularly problematic with 40% of firms reporting that the sale of parliamentary votes had a significant impact on their business (Reed 2003).

The IO-corruption story begins in Latvia in 1996 with World Bank president James Wolfensohn’s offer to assist countries with their anti-corruption efforts. Latvia was one of the first states to respond, accepting the World Bank’s assistance (World Bank 1998). In 1997, a series of workshops were held in Latvia, supported by the World Bank. These conferences were clearly held to discuss methodologies to measure and combat corruption – in essence, to help the Latvian government set up their own internal policy apparatus for dealing with the problem.

Note that the “best practices” model is clearly at work in these initial steps. There is clear behavioral evidence that Latvia wanted to reduce the problem of corruption – they responded to a request from the World Bank to provide assistance in doing so. Thus, it is hard to tell a socialization story for this effect – the preferences of key actors in Latvia had internalized the anti-corruption norm. There is also little evidence that markets – i.e., competitiveness issues – played a role in the initial Latvian decisions – initial liberalization decisions had been made 5-7 years prior, exposing Latvian industry to international competition. The lag time between that exposure and their requests to IOs for help is strong evidence that other forces were at work.

Of course, the pressure mechanism could be at work: the World Bank quickly followed the workshops and policy recommendation to Latvia with a series of three structural adjustment loans (SALs) between 2000 and 2003. Yet, two factors make this less likely. First, the World Bank had already begun providing loans to Latvia before 1997. The largest such loan was in

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<sup>11</sup> State capture is generally defined as the provision of private benefits to public officials to bias legislation or regulation in favor of a particular interest.

1995. There is no evidence that the World Bank had conditioned these loans on anti-corruption packages at the time. Second, the amount of these SALs were quite small. For example, \$40 million was provided in 2000, \$20 million in 2002. For an economy with a GDP in the range of \$20-22 billion (at that time), these are relatively small loans. The clearest mechanism at work in these early World Bank programs appears to be consistent with the “best practices” mechanism.

Latvia’s anti-corruption efforts did not stop there, however. As it prepared for its application to the EU, efforts in the anti-corruption area increased. The original 1997 World Bank conferences resulted in the creation of an inter-ministerial body called the Corruption Prevention Council (CPC; World Bank 2002). And while there appeared to be early progress by the CPC in lowering corruption, some problems remained (Reed 2003).

To jumpstart the EU accession process and satisfy the EU Commission’s mandates for anti-corruption policy, Latvia created a high-level anti-corruption agency known as the Corruption Prevention and Combating Bureau (KNAB) in 2002. And although the creation of this agency was to satisfy EU admission standards for combating corruption, its founding was supported by both the World Bank and the Council of Europe (Michael 2005). Since its founding the KNAB has been aggressive at prosecuting corruption cases (Galbreath 2008).

How did the EU (and the Council of Europe) promote these anti-corruption efforts. Again, the “best practices” mechanism is a key part of the explanation. The Council of Europe, encouraged harmonization of anti-corruption efforts by pushing Latvia to sign several Council conventions and asking it to join the Council of Europe Group of States against Corruption in 2000 (Michael 2005: 41). Moreover, the World Bank continued its SALs with more information sharing on corruption. The EU has coordinated Latvian efforts with its European counterparts through the PHARE program.

Overt pressure, however, cannot be completely ruled out. As Reed (2003) notes, “This emphasis [on anti-corruption] has had much to do with pressure from the European Union, yet within the EU such [anti-corruption] agencies do not even exist...” Because of this, however, the EU (as well as the Council) have had to adopt their own approaches to Latvia.

Have these adaptations worked? Have World Bank and Council programs as well as EU accession lessened corruption? According to Galbreath (2008: 95), Latvia is “headed in the right direction”, but has still experienced significant corruption after EU accession. In particular, key political figures have accused politicians from rival parties of using the KNAB to settle political scores by accusing one another of corruption. Nonetheless, it seems that overall, while the level of Latvian corruption may not have fallen as quickly as hoped, efforts to continue the decline in corruption have continued to gain momentum.

### ***Romania: Still a problem child***

Romania has long been considered a relatively corrupt society (Uslaner 2008: 126). Perceptions of corruption and experiences with corruption, as measured by a 2000 World Bank survey, were extremely high. Indeed, depending on the service in question, between half to two-thirds of Romanians reported paying bribes (World Bank 2000). Even the *Financial Times* (2008) weighed in with the ominous observation that “The fight against corruption is the key to everything that is going on now in Romania.”

Because of the widely-held view of Romania as a high-corruption society, the EU in particular, has taken an interest in lowering corruption in Romania. Given the conditionality of EU membership surrounding “good governance”, there was intense pressure from the EU to reform Romanian institutions. Rather than threaten the “stick” of non-accession, however, the EU turned to its technical programs to coordinate domestic efforts to battle corruption. In particular, Romania (and Bulgaria) began to receive economic aid from the PHARE and ISPA assistance programs, (Andreev 2009), all the while holding the carrot of membership in front of Romanian leaders.

Thus, in the Romanian case, it is clear that the EU hoped to rely on a mixture of pressure, best practices, and socialization. In terms of the later two mechanisms, the EU had hoped to use programs such as PHARE to encourage reform through the dissemination of best practices and socialize (or “upload”) preferences to domestic actors (Grabbe 2001; Vink 2003; Andreev 2009). Unfortunately, there is solid evidence that, at least in the short term, socialization has not worked. Local and national actors still continue to lag behind in efforts to enforce anti-corruption standards. And while placing these standards “on the books” has been important, it is only half the story. There is no evidence of a logic of appropriateness developing in Romania: a 2003 survey found only 18 percent believed the government was actually even attempting to combat corruption (Uslaner 2008: 126-7). To this end, one observer notes: “during the first two years of membership the leaders of Bulgaria and Romania have done very little to convince their EU counterparts and societies at home that they have genuinely been willing to transform their political and administrative systems to fully meet the membership requirements” (Andreev 2009: 377).

It was also hoped that assistance in promoting best practices would assist Romania in their anti-corruption fight. Both Romania and Bulgaria received significant funds from various EU programs to hold conferences, visit established EU members, and reform their own bureaucratic structures (Girgorescu 2006). The idea was to have the EU as an “anchor” of reform in all areas of government, but particularly in anti-corruption efforts (Pridham 2005). The EU institutions, in theory, were to serve as “catalysts, moderators, facilitators and, at times, exhortators” (Goetz 2002: 4). Yet, as we discuss below, an unwillingness of domestic actors to adopt these models, practices, or preferences has led to a continued struggle for the EU to reform politics in Romania.

Indeed, according to Andreev (2009: 377), pressure has become the main mechanism to which the EU has turned: “domestic actors have remained quite passive over long periods of times, and have only reacted to direct pressure from the European institutions in an emergency fashion.” And while pressure has worked, some observers argue it has been too little, too late. According to local observers, a “poisonous fear of corruption” still pervades Romania (*Financial Times* 2008). Even the EU Commission’s own report on corruption in Romania was described as “grim, if not depressing reading” (Dempsey 2008).

Why has the outcome differed between Latvia and Romania? Two answers emerge. First, many experts have argued that the admission of Romania and Bulgaria to the EU were conducted on an expedited basis after EU officials interpreted the French and Dutch votes against the proposed European Constitution as a referendum on future expansion. In order to “stay ahead” of attempts to tie their hands against future expansion, enforcement of the

conditions became lax (Andreev 2009). Thus, the standards that say, Latvia, would have to meet prior to admission, even the nature and amount of guidance (i.e., sharing best practices) was limited.

This is not to say that the EU has turned a blind eye to continuing corruption in Romania. Upon its accession, the EU created a "Cooperation and Verification Mechanism" to monitor further Romanian efforts to meet EU demands for policy change, especially in the area of corruption. Indeed, in response to an interim EU Commission report in February of 2009 outlining many failures in the area of anti-corruption and including threats to punish the Romanian government, a National Integrity Agency was created and the National Anticorruption Directorate increased its caseload. The EU has required that Romania report its anti-corruption efforts every six months to the Commission or risk having its economic aid from the EU slashed.

Yet, these pushes, even with the threat of aid suspension, have had little success beyond the tweaking of existing institutions. The 2009 EU Commission report, while noting steps in the right direction, still concluded that the Romanian Parliament's actions to investigate high-level fraud were "neither uniform or swift" (EU Commission 2009: 5).

The Romania case sheds light on the debate between the "clubs" versus "convoy" models (see Kelley, this volume). Various observers have noted that the moral suasion and internal pressure used by the EU to change member state behavior has failed in the case of Romania. In particular, Andreev (2009) argues that policies of "naming and shaming" assumed to assist with socialization and improved behavior *after* admission, appears to be of little use. As a prominent reform lawyer in Romania noted: "I think we made a mistake when we became members of the EU. We needed the threat of being refused entry to make us do anything" (Escritt 2008).

The second, and related, explanation for the divergent Latvian and Romanian outcomes lies not in initial conditions, but in the underlying domestic prioritization of anti-corruption efforts. Compared to Latvia, the Romanian response to international "pushes" to end corruption has been tepid at best. As the World Bank's own study of Romanian corruption concludes: "Corruption is not just a matter of strong enforcement, but also hinges directly on the incentives facing public officials, enterprises, and households" (World Bank 2000: 14). If local preferences do not converge with international preferences, even strong enforcement and pressure at the international level may fall short. Romanian efforts against corruption seem to be a case in point. As the EU Commission (2009: 5) argued "the reform drive [of institutions] is not mirrored by an unequivocal commitment across political parties."

Thus, the story in Romania is one of failed "top-down" influence. A lack of rule enforcement on the part of the EU as well as fundamental differences between EU and Romanian preferences has limited the efficacy of *any* of the potential mechanisms linking IO membership to anti-corruption behavior.

### ***Malaysia: Adopting a regional model but to what end?***

Malaysia has a long history of fighting corruption. Unfortunately, the fight has not gone particularly well. The story begins in 1967 with the establishment of the Anti-Corruption Agency (ACA). By 1973, parliament created the National Bureau of Investigation out of the ACA, but in 1982 parliament changed the name back to the ACA and made that organizations the exclusive

domestic agency in charge of anti-corruption policy. By 1997, parliament was back at work creating the Anti-Corruption Commission that generated more strict legal standards on corruption issues.

Unfortunately, none of these early efforts appeared to bear fruit. A 2006 survey, commissioned by Transparency International-Malaysia (TI-M) found that bribe-paying increased proportionally to income and that 52% those earning more than RM5000 acknowledged paying bribes involving business activities. By 2008, the head of TI-M pronounced that “corruption is at a critical level here”. What made the pronouncements especially shocking was that during the early-to-mid 1990s, prior to the 1997 reform, Malaysia’s corruption rankings were appreciably *better* than by the end of the 2000s (Quah 1999: 72).

In response to the realization that corruption had worsened, the Malaysian parliament passed yet another corruption bill in 2008. This legislation created the Malaysian Anti-Corruption Commission (MACC), which began operations at the beginning of 2009. Two issues are worth noting regarding the MACC. First, the act creating the Commission disbanded the ACA. A key narrative in the discussion of the rising perceptions of corruption in Malaysia was that the ACA had become too close to the executive branch, limiting its effectiveness (Dass 2008). As a result, the MACC was given extensive independent power to conduct investigations and prosecute (with the approval of the Attorney General). We note below that this power has caused extensive controversy in Malaysia.

Second, the MACC was explicitly modeled on the anti-corruption agency of Hong Kong. In particular, the MACC is composed of several investigative boards that operate in several substantive issue areas (bribery, patronage, etc.). The MACC has strong independent investigative powers like its Hong Kong counterpart. Hong Kong’s own anti-corruption leaders have praised the adoption of their model in Malaysia. Tony Kwok Man Wai of Hong Kong’s ICAC noted the impressive design of the MACC: “I have visited 21 countries where I advise on fighting corruption matters, but I can say very few have this system of advisory committees” (*Malaysian Insider* 2009).

While there is no direct evidence that regional organizations served as the conduit for the adoption of the Hong Kong model, Malaysia’s participation in several anti-corruption programs increased substantially in the past 4-5 years. Malaysia became an active member of the Asian Development Bank/Organization for Economic Cooperation and Development (ABD/OECD) joint Anti-Corruption Initiative for the Asia-Pacific (OECD 2008a). This program has become both a source for disseminating information and standards about anti-corruption practices for many states in the region.

Indeed, the ADB/OECD program identifies its three goals as “capacity building”, “providing policy analysis”, and “fostering policy dialogue” (ABD/OECD 2009). In fact, the advantage of the ADB and the OECD partnering in this program is the deep experience with “best practices” on corruption issues that has been amassed by the OECD (Grigorescu 2006). The ABD/OECD initiative issues semi-annual reports that trace each state’s progress in adopting key standards in the fight against corruption, known as the Anti-Corruption Action Plan. In the case of Malaysia, the ABD/OECD have noted important progress in several areas including holding several workshops in Kuala Lumpur for all ABD/OECD participants as a part of an MACC outreach initiative to coordinate anti-corruption policies (ABD/OECD 2009).

The Asia-Pacific Economic Council (APEC) has also attempted to disseminate and coordinate best practices through a series of conferences (ADB/OECD 2009). APEC has been particularly important in sponsoring Anti-Corruption and Transparency Expert Workshops in which Malaysia (and Thailand) have been active participants as it takes to reform and evaluate its own anti-corruption legislation. Again, any causal influence here is likely through the best practices mechanism.

Has the adoption of the best practices of Hong Kong been effective at battling Malaysian corruption? On one hand, the Transparency International scores for Malaysia have remained relative steady. Reports of corruption still are relatively common in the Malaysian media, but it is clear that the MACC is busy working to prosecute individuals accused of high level corruption. In fact, the current controversy in Malaysia over the MACC revolves around the death of a young political figure who died while in the MACC's custody (BBC News 2009).

When considering our causal argument, there is little evidence that direct pressure, socialization, or market mechanisms were present in the Malaysia case. As we discuss in the conclusion there are likely important political limits to the operation of these other mechanisms. But as we conclude the study, there is no reason those limits must continue in the future.

### ***Thailand: Best practices at its best?***

On one hand, Thailand is not widely perceived to be extremely corrupt. It ranked 80<sup>th</sup> in the 2008 Transparency International ranking of 180 countries (lower rankings mean less corruption). This was up, however, from 63 just two years prior. Moreover, in the past 20 years, Thailand has suffered two military coups, the first in 1991, the second in 2006. One of the major justifications in each coup was rampant corruption in the Thai government, especially among high-ranking ministers. Indeed, in the 1991 coup, one of the first acts passed by the ruling military junta was to create an "Asset Inspection Committee" to reclaim wealth pilfered by former ministers (Singkaneti and Nanakorn 2002).

The 1997 constitution created a new, independent organization – the National Counter Corruption Commission (NCCC) – to create greater transparency in the Thai government. The NCCC was re-constituted in 1999 to allow the inspection of all Thai government officials including the Prime Minister (Singkaneti and Nanakorn (2002). Yet, this did not stop a 2006 coup from overthrowing the interim government of Thaksin Shinawatra, who promptly fled the country to escape prosecution on corruption charges.

Thailand has continued to promote the NCCC and in the 2007 re-writing of the constitution, re-constituted the NCCC to include the president and eight additional members appointed by the King (the head of state) in consultation with the attorney general. On one hand, the coup against Thaksin and prosecution of many officials who were part of the government can be taken as a sign that corruption is still a problem in Thai politics. Yet, the fact that there has been vigorous prosecution of many high-ranking members of state (albeit of a deposed administration) is also evidence that many in the Thai system are fed up with corruption.<sup>12</sup>

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<sup>12</sup> It should be noted that the military leaders leading the coup in 2006 (and in 1991) offered multiple justifications for their actions, of which corruption was one of the first. How genuine this concern was is a matter of

While Thailand has not relied on a single country model like Malaysia, it has cooperated with several international and regional organizations in rethinking its domestic mechanisms to guard against corruption. Like Malaysia, it has been an active participant in the ADB/OECD Anti-Corruption initiative and its Ministry of Justice representatives are part of that initiative's steering group. The World Bank has approved projects in Thailand to research and analyze patterns of corruption, while the IMF has been active in efforts to reform the Thai central bank and increase transparency in financial institutions (ADB/OECD 2008). All evidence points to the mechanism of "best practices" as the main conduit of influence between regional organizations and Thailand's anti-corruption reforms.

Indeed, it is the reports of international and local NGOs that tout the effectiveness of the "best practices" mechanism in Thailand, while also cautioning against placing blind faith in regional organizations: "international institutions have played less important roles than domestic institutions in combating corruption practices... But they do provide guidelines, financial support, and technical expertise that is important... Most important of all, these international organizations provide platforms for exchange of knowledge and experience in combating corruption among member countries and serve well as centers for data collection, research and the generation of policy recommendations." (Poocharoen and Tangsupvattana 2006). As these authors suggest, mechanisms employing strictly top-down dynamics are usually limited by a domestic unwillingness to cooperate.

As in the Malaysian case, there is little observable evidence of the effects of the other causal pathways. In both Malaysia and Thailand, there have been long-running efforts to limit corrupt practices, suggesting that a certain logic of appropriateness is already present. What is not clear is that the logic has been instilled by regional or international organizations through interactions of Thai (or Malaysian) officials in those organizations. Indeed, the history of efforts at stopping corruption suggests IO-based socializations is not a necessary condition for domestic action. Moreover, given the continued presence of corruption in both countries, it is clear that not all participants in government have internalized the normative prohibition against corruption. Obviously, the unobservable variable is whether continued corruption is evidence of a lack of will or the lack of a way. In Romania, the answer is fairly clear (a lack of will). In the two Asian cases, the answer is much less so.

Finally, there appears to be little outward pressure – either from markets or organizations. There is certainly nothing like the EU in Asia for Malaysia or Thailand that would consistently hold a carrot and stick in front of countries in the region. It is true that the IMF and World Bank condition many of their programs on participation in their anti-corruption initiatives, but again, efforts to battle corruption pre-date heavy involvement by the major IFIs.

## **VII. Conclusion: National Corruption and Asian Institutions**

This paper has attempted to bring systematic empirical evidence to the question of whether and how international and regional institutions influence domestic corruption. While the vast majority of work on corruption appropriately focuses on the domestic level, there is ample room for influence from external or international factors. The growth in the number and power of

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controversy in Thailand. Although the coup was controversial, it should be noted that former allies of Thaksin have had little luck securing office in new elections as the military has stepped back from politics.



international and regional organizations in the post-World War II era is one such factor to consider. After reviewing the general concept of the rule of law and how extant studies of IOs have related to them, we turned our focus to the question of corruption. We outlined four possible causal mechanisms relating membership in international or regional institutions and national levels of corruption.

The paper provided two types of empirical analysis. First, a large-N empirical analysis showed that more membership in IOs has little systematic effect on national corruption levels. Simply counting memberships in a large sample of regional and international IOs has no independent influence on corruption. Yet, as we relaxed the assumption that all IOs were alike in issue area and membership characteristics, different patterns emerged. In particular, strong evidence emerged that membership in economic-oriented IOs lowers corruption during the 1985-2000 period. This quantitative finding could be consistent with the market or the best practices mechanism, since as we showed in the discussion of the various anti-corruption programs adopted by IOs, most of these programs were initiated by economic IOs (e.g., the OECD, the EU, World Bank, IMF). Our case studies, however, found strong evidence that best practices was likely behind this quantitative finding.

Moreover, as we measured the member characteristics of the IOs themselves, we found that membership in IOs that had lower corruption levels among member states led to declines in levels of corruption. This finding could have several interpretations. We ruled out the possibility that screening was behind this effect based on an additional empirical test controlling for the likelihood of joining a low-corruption organization. Still, the quantitative finding is potentially consistent with either a best practices or socialization mechanism. In order to dig deeper into the causal relationships between IOs and levels of corruption, we supplemented our large-N analysis with four case studies: two from Europe and two from Asia.

What lessons can be taken from these case studies about the conditions under which regional institutions can influence corrupt practices? We discuss four lessons, drawing out their implications for developing regionalism in Asia. It is also worth noting that although our large-N and case studies were confined to investigating corruption, there is no *prima facie* reason to expect these theoretical mechanism and lessons to apply only to this one indicator of the rule of law. Whether the question is lessening corruption, reforming the judicial system, or strengthening property rights guarantees, all of these lessons are relevant in important ways, since the underlying issue is how to influence domestic policy-making from regional institutions.

First, consistent with literature in other areas that link regional institutions and domestic reform, it is clear that institutions have their maximum leverage when there are willing participants “on the ground” (see Pevehouse 2005; Kelley 2006). In the Romanian case, mounting evidence suggests the EU and Council of Europe have few local partners to rely on. Even with the extensive resources of the EU, the EU Commission has been quite hamstrung in inducing change in Romania, where corruption is now discussed as a “cultural phenomenon” (Escritt 2008). On the contrary, Latvia showed an early willingness to reform and the evidence garnered here suggests that the World Bank and EU have had good success in assisting domestic reform there. The lack of local partners limits the efficacy of *all* the causal mechanisms – even the pressure mechanism, since local officials will likely treat threats from regional institutions and simply meddling in domestic politics.

This is true in Asia, where a history of strong reverence for state sovereignty could limit the effectiveness of IO pressure especially in the absence of local partners.<sup>13</sup> In the two case studies of Asian states, it is worth noting that most recent reports of continued corruption have arisen from local actors (e.g., NGOs, domestic corruption agencies) rather than international organizations (contrary to the Romania case and the EU; Council of Europe) suggesting that there is a willingness of domestic actors to “do something” about corruption in their states.

Second, in each case, there is significant evidence on the importance of best practices. Whether in the form of high-level ministerial meetings (the EU), regional conferences (Asia), or workshops co-sponsored by NGOs (e.g., Transparency International) and regional IOs (the ABD/OECD initiative), the exchange of information is important to influence the transformation of domestic politics. States may use these forums to adopt models wholesale (Malaysia) or may pick-and-choose the practices from a variety of models (Latvia). While the ultimate outcomes in the two Asian cases is still unknown, there has clearly been a transfer of practices concerning anti-corruption that these states have sought out and used to bolster their own institutions.

Third, with regard to the pressure mechanism, the timing of IO policies appears to be key. The important lesson of Romania is that the EU missed their chance to exert maximum pressure on the government to reform. After admission, the EU’s leverage, while still present, was much diminished. The more extensive enforcement of the pre-admission standards for Latvia seemed more effective.

A final lesson arises concerning socialization. As in much of the existing literature on socialization, the influence of moral suasion as a causal pathway appears small. In fairness, without extensive interview data or primary evidence of fundamental changes in preferences, inferences about moral suasion are difficult to make. In fairness, even with direct evidence of fundamental changes in preferences, it would be hard to trace causation: have preferences changed because of norms or because of material incentives that become routinized? To distinguish the two, more fine-grained data would be needed: elite surveys or extensive interview-based case studies.

Still, the lack of evidence on socialization and the findings concerning the timing of the pressure mechanism suggests that in the area of corruption reform, the club model is superior to the convoy model (see Kelley, this volume). If regional institutions must maximize their leverage pre-accession to be most effective, and they cannot necessarily hope for socialization to improve behavior over time, better to institutionalize exclusive clubs to promote anti-corruption and the rule of law versus allowing all comers to join.

How might this be done in the context of Asia where no EU-type organization exists that is already made up of exclusively “good apples”? The current ADB/OECD initiative is a start in the right direction. It brings together many states of the region that share information on promoting good governance. Indeed, it brings together most states of the region to spread information concern best practices. On one hand, it is important to disseminate such information as widely as possible. The downside however, is that the organization can provide few selective incentives to ensure that the best practices are implemented in the most effective way possible.

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<sup>13</sup> On the issue of Asian sensitivity over state sovereignty, see Felicio 2006.

What is needed is a second institution, related to the ADB/OECD initiative that is made up of low-corruption states (where low is defined relative to the region). Those states remain members of the initiative program, but also are provided benefits (e.g., trade concessions, investment guarantees, “seals of approval” to lure investors) rewarding their progress. This way, information flow is maximized, yet selective incentives still exist.

This model hearkens to the NATO/PFP model, where far more states were admitted to the PFP than would, even in best cases, be admitted to NATO. Yet, PFP served as a conduit for information and best practices while states waited in the ante-chamber for the ultimate prize NATO membership. Based on this analysis, such a model would provide the best hope for achieving domestic rule of law reforms: generating information sharing for best practices in order to help those states willing but unable to reform domestically, yet creating a secondary organizations, whose benefits provide incentives (but no direct pressure) to those states who effectively reform based on the best practices they adapt.

Given the rapid pace of institutional formation in Asia, there is a golden opportunity to design (and extend) particular institutions to bring about domestic reform in the broad area of the rule of law. Many Asian states have a long road ahead in getting corruption under control and advancing the rule of law. Yet, had political observers suggested in the fall of 1945 that in half a century Europe would have a (relatively) common currency unit, a supranational set of governance institutions, and live in a era where war is unthinkable, they would have been greeted with incredulity. In Asia, careful institutional design will take time as will outcomes that flow from those designs, yet the transformation of the state of affairs in Asia fifty years from now may be no less miraculous.

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**TABLE 1: Descriptive Statistics**

Variable	Mean	Std. Dev.	Min.	Max
Corruption	3.46	1.38	0	6.17
# IGOs	65.40	18.83	7	130
Political	9.37	3.06	0	18
Standards	19.78	6.01	1	39
Economic	36.04	11.61	5	72
IGO: Corruption	3.46	0.41	2.61	4.51
Regime Type	3.29	7.05	-10	10
GDP (log)	17.91	1.81	13.06	22.94
pc GDP (log)	8.47	1.09	6.05	10.69
Openness	67.46	42.54	9.12	341.03
Investment	15.45	8.16	0.96	52.29
Transition	0.19	0.40	0	1
Military Dispute	0.40	0.49	0	1

NOTE: N = 1653 for all variables.

**TABLE 2: Influence of international and regional organizations on corruption, 1985-2000**

	All IGOs	By Issue Area	IO: Corruption	IO: Corruption
# IGOs	0.004 (0.004)	--.--	0.001 (0.003)	0.001 (0.003)
Political	--.--	0.003 (0.014)	--.--	--.--
Standards	--.--	-0.016 (0.014)	--.--	--.--
Economic	--.--	0.018* (0.007)	--.--	--.--
IO: Corruption	--.--	--.--	1.099** (0.116)	1.097** (0.115)
Regime Type	0.039** (0.011)	0.040** (0.011)	0.031** (0.009)	0.030** (0.009)
GDP (log)	-0.076 (0.049)	-0.101 (0.060)	-0.109** (0.041)	-0.113** (0.039)
pcGDP (log)	0.581** (0.113)	0.586** (0.128)	0.424** (0.081)	0.430** (0.072)
Openness	-0.001 (0.001)	-0.001 (0.001)	-0.0002 (0.001)	-0.0002 (0.001)
Mil. Dispute	-0.005 (0.018)	-0.003 (0.018)	-0.001 (0.017)	-0.001 (0.017)
Investment	0.008* (0.004)	0.010* (0.004)	0.007 (0.004)	0.007 (0.004)
Transition	0.010 (0.042)	0.012 (0.043)	-0.013 (0.039)	-0.011 (0.039)
P of IO membership	--.--	--.--	--.--	-0.051 (0.107)
Constant	-0.777 (0.955)	-0.497 (0.893)	-2.345** (0.667)	-2.316** (0.667)
N	1759	1759	1653	1653
N (countries)	126	126	126	126

NOTE: All tests of statistical significance are two-tailed. \*\* p < .01; \* p < .05.