Chapter 1

Introduction

1.1 The Puzzle

Sub-national politics bears heavily on the behavior of sovereign states in international relations. In the past twenty years, international relations scholarship has seen a burgeoning field of literature integrating domestic politics into the study of international relations. In the field of international cooperation, the scholarly attention has been drawn to understand how different political structures under democratic and autocratic rules result in systematic differences in the behavior of the state in international cooperation. While Neo-Liberal Institutionalism emphasizes that the process and outcome of interstate cooperation reflect the compatibility of the incentives of states at the international level, scholars come to realize that such representation and interaction of state preferences rises endogenously from incentives and institutions existing at the domestic level. The structure of political economic institutions at the sub-national level thus underlies the varying patterns of state interests and behavior represented in interstate interactions.

Democracies and non-democracies are significantly different in the procedures of preference aggregation among relevant domestic actors, in the distribution of policy-making power, and in the way in which domestic institutions interact with political actors, all of which generates salient implications regarding the formation of the interests, preference and behavior of the statehood in cooperative interactions at the international level. According
to the traditional Liberalist view of international relations, states with democratic institutions are friendlier than non-democratic regimes to international cooperation because liberal regimes have more to gain from cooperation both ideologically and materially. Neoliberalists extend the argument of democratic cooperation emphasizing the superiority of democratic to non-democratic institutions in making credible commitment in interstate interaction which renders cooperation more achievable. This line of studies also suggests that the dynamics of politics in democracies generates distinctive incentives for the political leader to cooperate internationally in fulfilling domestic political objectives.

![Graph](image)

Figure 1.1: Average IGO Membership: 1972-2005

More follow-up studies on the relationship between regime type and cooperation, how-
ever, cast doubts on the claim that democracies are better suited for cooperation. Scholars find theoretically and empirically that the evidence supporting the argument that democracies cooperate more is weak and ambiguous. Existing theoretical and empirical works show the structure of domestic constraint under autocratic ruler can actually make interstate cooperation more easily to take place between autocracies. Having recognized the value of institutionalized interstate cooperation in strengthening commitment credibility under autocratic rule, leaders in non-democracies are more likely to involve in institutionalized cooperation such as IMF programs and mandates than democracies. Existing scholarship has failed to produce consistent empirical findings and cannot provide a coherent theoretical account for the effect of political regime on international cooperative behavior. Such discrepancy in understanding results primarily from the absence of a specialized and coherent theory on non-democratic regime’s cooperation behavior. Most studies on this topic to date adopt a problematic dichotomized view of the analytical distinction between democracy and non-democracy. Most existing scholarship focuses overwhelmingly on the impact of democratic political dynamics on international outcomes, and non-democratic regime is treated perfunctorily in the analysis is as the opposite. This approach neglects the fact that democracy and autocracy do not share common analytical spectrum in many aspects and cannot be generalized with a dichotomous categorization.

The lack of a firm theoretical ground for understanding the international cooperative behavior of non-democratic regimes has prevented the scholars from understanding some of the most salient phenomena in international cooperation. Contrary to the Liberal view that democratization and international cooperation go hand-in-hand, empirical evidence shows the most illiberal regimes in the world have been highly active in international cooperation. Non-democratic regimes that have managed to survive waves of democratization in the second half of the 20th century are observed to have higher levels of involvement in international institutions. As Figure 1.1 and 1.2 evidently show, in the first fifteen years
after the end of Cold War, regimes with a polity score lower than 0 have more memberships in political economic Intergovernmental Organizations. This observation is in collision with the conventional thought that stubborn illiberal regimes must pursue an autistic strategy in order to preserve the domestic autocratic rule.

In particular, it is noticeable that illiberal regimes which have high levels of involvement in international institutions are less likely to experience political liberalization between 1972 and 2005. It is obvious from comparing Figure 1.3 with Figure 1.2 side-to-side that a significant portion of the illiberal regimes existing before the end of Cold War made their way towards political liberty and democracy by 2005. But non-democratic regimes which are still surviving by 2005, as shown around the upper-left corner of Figure 1.2, have on-average more memberships in political economic IGOs than those regimes experienced po-
Figure 1.3: IGO Membership and Political Liberty: 1972-1991

Political liberalization between 1972 and 2005. With a lot of the existing studies proclaiming the mutual-reinforcing effect between involvement in international institutions and political liberalization, the present literature in international cooperation is unable to provide an account for why the surviving illiberal regimes are actually more cooperative internationally than those regimes underwent democratization.

Could international economic exchanges explain this odd observation? Following the standard Functionalist argument, could it be that those enduring illiberal regimes are on-average more integrated to the world economy, which generates the need for more active participation in international institutions? If this conjecture is validated, economic interdependence, instead of political regime type, stands out as the fundamental explanation for the varying levels of involvement in international institutions. Collected evidences, however,
suggest this conjecture is unlikely to be true. Figure 1.4 and Figure 1.5 plot the memberships in IGOs against common measurements of international economic interdependence, international trade and direct investment inflows. If economic interdependence is the lurking causal factor underpinning the negative association between political liberty and institutional involvement, a positive correlation between institutional involvement and economic interdependence and a negative correlation between political liberty and economic interdependence should be expected. The patterns in Figure 1.4 and Figure 1.5 obviously reject the first part of the spuriousness conjecture: neither international trade or direct investment is shown to be positively correlated with institutional involvement. Hence, it is unlikely that economic interdependence alone can account for the puzzle.

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<th>Table 1.1: Countries with High Rule of Law Relative to Electoral Rights</th>
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The observation that surviving illiberal regimes are more involved in international institutions is also in interesting comparison with the performance of these regimes in domestic governance. Table 1.1 lists the countries with a high Rule of Law score but low Electoral
Rights score in 1998. Noticeably, many of the illiberal regimes with high levels of involvement in international institutions as shown around the upper-left corner of Figure 1.2 made to this list of countries with the highest Rule of Law Index relative to Electoral Rights Index. It is probably not surprising to see these illiberal regimes being highly viable throughout the years given their effectiveness in upholding the rule of law despite low levels of political liberty. But why are these regimes also associated with high levels of involvement in international institutions? While one could easily speculate on an explanation of the relationship upon observing the pattern, there has been few study that pays attention to the fact that illiberal regimes that are more internationally involved are also highly successful in domestic governance with non-democratic rules. Give these interesting but puzzling patterns of empirical observation, there exists a compelling need for a rigorous and systematic examination of the relationship between domestic governance and international institutions.

![Figure 1.4: IGO Membership and International Trade: 1990-2005](image)
Understanding the rationale of the involvement of illiberal regimes in international institutions is of great significance for a couple of other considerations. First, given the puzzling pattern of empirical observation, scholars should be prompted to rethink the relationship between global integration and domestic political development. Scholarships in international political economy and international institutions to date overwhelmingly embrace the idea that tighter political and economic linkages across sovereign states will decrease the viability of illiberal regimes under non-democratic rules. As a critical step in global integration, institutional involvement in Intergovernmental Organizations is considered catalyst for the international harmonization and convergence of domestic policy and institutions. However, given the most stubborn illiberal regimes in the world are highly active and enthusiastic about participating in institutionalized interstate cooperation, scholars are left wondering if international institutions have the speculated effect of precipitating domestic political change. The presence of such an anomaly calls for a systematic re-examination of the dynamics of
political development in the context of globalization. The need for a theory that addresses the domestic political consequence of institutional development at the international level becomes compelling as scholars realize the emergence of a new dimension of the significance of international institutions.

Second, the puzzle provides a compelling case for students of international cooperation to reconsider the significance of international institutions. Given the association between international institutional involvement and the path of domestic political development, it is worth speculating that international institutions have some distinctive domestic functionality. The debate between Neoliberal Institutionalism and Neo-realism regarding the effect of international institutions in promoting cooperation among nations have dominated the thinking in studies of international institutions. But very few has examined how institutions at the interstate level enters the sub-national political economy of sovereign states and may result in major difference in the domestic scenario. Such an idea merits contemplation given the intensifying transnational economic and social linkages between sub-national actors and institutions. Institutional arrangements originally designed to facilitate cooperation among sovereign states are now gaining significance in coordinating actions among business and other non-state actors in a transnational context. To provide a convincing account for the puzzle, the relationship between international institutions and domestic political economy in non-democratic regimes must be systematic addressed.

1.2 Institutions and Commitment under Non-democratic Rule

This research aims to develop a theory of the cooperative behavior of non-democratic regimes in the era of economic globalization which provides an explanation for the empirical puzzle presented above. While international institutions are originally devised to address issues in interstate interactions, it should be recognized that in order to understand the puzzling pattern of involvement of non-democracies in institutionalized cooperation, one ought
to take a deeper look at the domestic political dynamics in non-democratic regimes and
the impact of such dynamics on state behavior in interstate interactions. The call for more
attention to the domestic politics under authoritarian rule is particularly relevant given that
standard indicators of international economic activities of states alone are unlikely to pro-
vide an account for why illiberal regimes are more active in institutionalized cooperation.
A relevant examination of the puzzle should start with a characterization of the distinctive
domestic political dynamics under non-democratic rules and link the dynamics with the in-
ternational dimension of the survival of these illiberal regimes.

As numerous studies in political economy have suggested, the political viability of a
regime with closed and illiberal political rules hinges on the ability of the government to
find a cure for the domestic commitment difficulty, which is the most common pathology
of non-democratic systems. The syndrome of commitment difficulty under illiberal polit-
ical rules most directly stems from the absence of the set of institutional constraints on
the leadership that exists in mature democratic regimes. From a political economic point of
view, the distinction between “good” governments and “bad” governments is drawn from the
institutional inducement of the compatibility of the incentive of the political authority in ex-
tracting revenues with the incentive the domestic economic agent in undertaking productive
activities. Institutions dominate the incentive of political agents in deciding the efficiency
in the outcome. Given a constant incentive of revenue extraction, “bad” institutions lead
to more conflictual patterns of incentive which incurs sub-optimal political economic out-
comes whereas “good” institutions result in greater compatibility of incentives and hence
Pareto efficient social outcomes. In the context of non-democratic political system, the most
prominent aspect of the “badness” of institutions that causes inefficient political economic
outcomes is the absence of constraints on the leaders and the ensuing low credibility of policy
commitment. Such an observation is particular relevant in the area of redistribution policy
where domestic economic agents underinvest in production anticipating that the autocrat
would seize most of the output. Although both the producer and autocrat are worse off as a result, the absence of credible commitment apparatus make it difficulty to shift the outcome away from Pareto inefficiency.

Figure 1.6: IGO Membership and Foreign Factor Income: 1990-2005

The commitment problem in non-democratic regimes is of great political economic significance because the survival of the regime is ultimately decided by the economic outcomes. Regimes which managed to sustain the non-democratic rule all found cures for the commitment difficulty. The central logic underlying the theory of this dissertation is that leaders in non-democratic regimes could alleviate domestic commitment difficulty with either domestic liberalization or involvement in international institution. Moreover, domestic liberalization and international institutions are substitutes of each other depending on a number of political economic parameters. The substitution effect between domestic liberalization and international involvement explains the pattern of observation discussed at the beginning of
the chapter. Not surprisingly, the credibility of commitment under non-democratic rules can be restored by empowering the domestic victims of predatory policies. This is usually accomplished with partial political liberalization or institutionalization of autocratic political procedures. Anticipating punishment from these actors after empowerment, the autocrat could credibly refrain from making predatory policy. On the other hand, in the context of economic globalization, extension of the impact of domestic economic policy makes international level apparatus available for addressing domestic political economic issues. In the presence of intense global integration of production, international arrangements that were originally to protect the interests of international economic agents now becomes a weapon that domestic actors could resort to in guarding their interests against the predation from domestic political authority.

But what determines if one country will resort to domestic or international remedy for
commitment difficulty? In the empirical observation, what is peculiar about those countries staying in the upper-left corner in Figure 1.3 and 1.2 comparing to those where domestic liberalization has been underway? The nuance in the argument is that international institutions could be as effective as domestic remedies in enhancing the credibility of commitment only given tight connections between the domestic real economy and global chain of production. The premise of the effect of international level institutions on protecting domestic interests hinges on the low inseparability of domestic and international economic interests. In order for arrangements at the international level to generate positive institutional externalities for the domestic governance, it must the case that domestic policies are unable to discriminate domestic and international agents. Such connection between domestic and international interests is most accurately captured by the flows of factor income across national borders. Payments of factor earning to foreign factors owners, which is recorded in the current account in the balance of payments, reflect the contribution that foreign economic agents made in the domestic productive activities and naturally characterizes to what extent the domestic process of production is integrated into the global economic collaboration. International institutions will only have the desired effect of inducing responsible domestic governance in the presence of high levels of international integration of domestic economy. Non-democratic regimes that are highly involved in political economic IGOs are also associated with high levels of integration measured by the percentage of factor payment in GDP, which is shown in Figure 1.6 and 1.7.

Another factor entering the trade-off between the domestic and international remedies of commitment difficulty is the extractive capacity of non-democratic regime. Allowing the incentive of the political authority in revenue extraction to vary, different institutions for commitment credibility generate different implications. The first observation is that regimes that can extract tax revenue more effectively face more severe loss of efficiency from not being able to make credible commitments. As the extractive capacity of a regimes
grows, the state will become more desperate in grabbing the output of private production, leading to greater distortion of the incentive of domestic economic agents. The leaders in regimes endowed with a set of highly efficient tax institutions thus have to take the commitment problem more seriously. It prompts the leader to look for remedy either at the domestic level or at international level. As a result, the substitution effect between domestic liberalization and international involvement is expected to be much stronger given high levels of extractive capacity of the regime. Together, the integration level of domestic economy and extractive capacity provide an account for the negative association between political liberty and involvement in international institutions among surviving non-democratic regimes.

1.3 Organization of the Dissertation

This dissertation combines game theoretical modeling with large-\(n\) empirical methods in substantiating the rigorosity in the theoretical claims and identifying robust statistical evidences. In the next chapter I provide an overview in two relevant bodies of literature. The first one concerns the linkage between domestic politics and international cooperation, while the second one focuses on the political economy of non-democratic regimes with particular emphasis on commitment problems. The key argument developed in this research synthesizes the insights from both fields, but it more importantly makes important extensions of the literature and bridges the two fields that had little contact with each other in the past.

In Chapter Three, the theoretical argument is elaborated with the assistance of political economic model developed from a simple investment-taxation game. In modeling the decisions of autocratic polities in joining international institutions, I particularly emphasize the strategic interactions between the political authority and domestic and international economic agents. I then incorporate the political incentives under the non-democratic rule into the economic model in characterizing the political salience of the efficiency in domestic economic governance. I simplify the analysis of international institutions in the model,
assuming there exogenously exist a sufficient number of institutional arrangements at the international level and it is open for any sovereign states to join. The model provides logically support for the argument regarding the substitution effect between domestic liberalization and international involvement and derives specific mechanisms that can be directly tested against in the empirical investigation. Chapter Four formalizes the logic and arguments of the theoretical claims with a political model of external institutions commitment in illiberal regimes. The formal model more explicitly states and contemplates the assumptions that the central argument begets and demonstrate with greater rigor.

Chapter Five presents supportive empirical evidences from a cross-national study of the relationship among the number of memberships in intergovernmental organizations, international economic exposure, extractive capacity and domestic political liberty. Memberships in IGOs are narrowed to a specific set of institutionalized organizations that address salient political economic issues among member states. Accurate measurements of international integration and extractive capacity merit discussion and I justify the choice of data in great details when discussing the research design. Empirical evidences supporting the theory are drawn from cross-national and panel data analysis. The cross-national analysis using country-average data between 1972 and 2005 provides a straightforward characterization of the long-term equilibrium relationship among the key variables whereas the panel data explores the dynamic elements in the relationship over time.