The Costs of Membership Withdrawal from Intergovernmental Organizations

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Abstract:
Recent political events — including Brexit, the U.S. exit from the Trans-Pacific Partnership and UNESCO as well as U.S. threats to withdraw from NAFTA, NATO and the UN — have brought increased attention to countries withdrawing from intergovernmental organizations. Despite over 200 member-state withdrawals from intergovernmental organizations (IGOs) since WWII, we know very little about their effects. By focusing on withdrawals from regional economic organizations, this paper provides the first systematic examination of the economic consequences of withdrawal. We argue that states are likely to face different kinds of costs when withdrawing. First, states are *unlikely to witness large economic costs* because they anticipate potential costs and establish work-around strategies. Domestically, governments may use expansionary monetary policies to offset possible costs; internationally, governments may forum-shop to an alternative overlapping organization. However, withdrawing states *are likely to witness political costs* because international investors and analysts may adjudicate the state's retreat negatively because they have reneged on an international commitment. This 'default' may lower the credibility of the state's other international commitments and worsens international investors' assessment of the state's political risk. Last, not all withdrawals are equal. Instead, states are likely to face *higher costs when withdrawing from more institutionalized IGOs* because these IGOs more firmly 'tie states' hands.' To estimate the causal effect of withdrawal from observational data, we leverage the synthetic control method and an original dataset of IGO withdrawals. We find strong support for our argument. These findings are particularly relevant in an age of growing backlash for globalization and populist challenges toward membership in multilateral economic institutions.

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1. **Introduction**

In June 2016, the United Kingdom decided by referendum to withdraw from the European Union (EU). While many scholars and policymakers were alarmed by the vote, attention quickly turned to its *expected effects*: what implications might the UK's withdrawal--or Brexit--have for the British economy? Analysts and forecasters have begun to weigh in on the potential economic ramifications of membership withdrawal from the world's most institutionalized intergovernmental organization. The U.K.'s independent fiscal watchdog, the Office for Budget Responsibility (OBR), estimates the U.K.'s 2018 economic growth will be only 1.6% versus the pre-Brexit vote expectation of 2.1%.[3] Over the next five years, OBR expects growth to be 2.4% slower as a result of Brexit.[4] Furthermore, slower growth is expected to have implications for government debt as the U.K. will need to carry 8.4% more debt in 2017 alone to make up for less tax revenue from a contracted economy.[5] According to OBR, Brexit is expected to negatively affect jobs as companies shift production out of the U.K., migration becomes stricter, and Britain transitions to a "less open economy."[6]

These economic forecasts speak to a particularly salient case—the world's 5th largest economy withdrawing from the world's most interdependent union. However, these projections allude to much broader questions in international relations: under what conditions is membership withdrawal from an intergovernmental organization (IGO) costly for that member state? What are the ramifications when states back out of IGOs?

The Brexit case is just one example in a wider set of historical IGO withdrawals, but one that is particularly important in the context of recent mounting challenges to globalization and membership in multilateral economic institutions. IGOs like the EU have been the bedrock of the liberal international order and therefore, a better understanding of the costs of state withdrawals has large implications for global governance. This research can also help us better understand whether pulling out of IGOs will have costs that are often associated with protectionist trade policies, or whether the recent wave of withdrawals is largely noise.

This paper is the first systematic analysis of the costs of membership withdrawal from international organizations. We define costs as those that accrue to the state in aggregate. We recognize that as with most aspects of globalization, there will be winners and losers at the sub-state level. However, our analysis seeks to evaluate how a country fares overall.

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[3] < http://money.cnn.com/2017/03/29/news/economy/brexit-article-50-cost-economy-debt/index.html> Accessed 25 September 2017.

[4] <https://www.ft.com/content/51a19263-9788-37b9-a9fa-8cd307265edf?mhq5j=e6> Accessed 25 September 2017.

[5] Ibid.

[6] In addition to these expected economic effects, the UK's withdrawal will also trigger an expected 60B pound "bill" to pay for liabilities and commitments they have made to the EU but yet to pay, including pension payments to EU officials, guarantees on loans such as the bailout of Ireland, and spending on infrastructure and structural funds agreed on but still to be financed. <https://www.bloomberg.com/news/articles/2017-07-14/brexit-s-costs-and-whether-britain-will-pay-up-quicktake-q-a> Accessed 25 September 2017.

We first argue that IGO withdrawals might not be costly in terms of traditional economic indicators, but political costs may mount. The economic consequences of withdrawal might be neutral—or even positive—for the withdrawing state because of anticipation and substitutability. First, leaders can anticipate many of the likely economic costs of IGO withdrawal and plan ahead by subsidizing the domestic economy to mitigate potential downturns. This logic aligns with research on the political business cycle. At least in the short term, the government can use strategies like expansionary monetary policy to offset the potential negative ramifications of withdrawal, so that large economic costs in GDP growth or trade may not materialize. Furthermore, because of rampant forum shopping across IGOs, state leaders may look to other IGOs as replacement forums for international cooperation before even making withdrawal decisions. In other words, withdrawals that are expected to be very costly might also be least likely to be pursued.[7] However, IGO withdrawals might have political costs for the state. These political costs largely accrue because of implications on the withdrawing state's reputation after it reneges on an international agreement. International investors, for example, may regard backing out of an international agreement as a risky move as they begin questioning whether the government's other international commitments will be credible in the future. These concerns result in observers regarding the country with more political risk which can in turn affect others' perceptions of the state's credibility too. The second part of our argument, however, notes that these costs will not accrue uniformly on all states and from all IGOs. More highly institutionalized IGOs, for example, are better able to tie states hands to their commitments. Withdrawing is therefore likely to be costlier from these types of institutions.

We utilize an original dataset of IGO membership withdrawals from regional economic organizations (REOs) to test our argument. We examine this subset of the IGO population because REOs are quite common (30% of all IGOs)[8] and they have relatively similar missions (economic growth) which allows us to better specify the expected effects of membership withdrawal.[9] Consistent with our argument, we find that for highly institutionalized IGOs, withdrawal brings a significant boost in GDP growth and a small drop in political risk scores. However, for low institutionalized IGOs, we find no economic or political costs. These findings show that IGO withdrawals are not uniformly costly.

The paper proceeds as follows. We first provide background on IGO withdrawals, including empirical examples and scholarship. Next we outline our argument regarding the expected effects of membership withdrawal from IGOs. Next we detail our research design and

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[7] While Brexit is expected to be quite costly, this withdrawal was not intended by political leadership. Indeed, Prime Minister David Cameron thought it very unlikely that British citizens would vote to leave the EU, and thus put this to a referendum vote. The referendum vote yielded unexpected results, and new Prime Minister Theresa May has been trying to negotiate alternative trade deals in order to limit expected negative effects.

[8] Regional economic organizations include those with a focus on trade or commerce. Data from Westerwinter 2017.

[9] To broaden the population under examination, we could also look at withdrawals from regional trade agreements (RTAs) that are not IOs. However, most RTAs that are not IOs are bilateral trade agreements; this means that withdrawal of one party is really a unilateral termination which might include a completely different underlying mechanism. We thus stick to REOs.

discuss the statistical results. We conclude with broader implications for international relations and suggestions for future research.

2. **Background**

Withdrawal from an intergovernmental organization occurs when a member state voluntarily removes itself from all contractual obligations and legally terminates its membership. Withdrawal is a unilateral act, requiring no consent or approval from other member states. States withdraw by providing notice to other member states, then waiting a required amount of time for the request to be formalized.

The possibility of withdrawal from IGOs is quite broad across institutions, and is stipulated in the Vienna Convention on the Law of International Treaties (1969). The Convention establishes that withdrawal has to be provided explicitly in the IGO covenant,[10] but that a contracting party may withdraw from a treaty which does not have a withdrawal clause when all parties to the treaty agree. In addition, the Convention recognizes that a member state may withdraw unilaterally from a treaty that has no exit clause due to a 'fundamental change in circumstances' which 'constituted an essential basis of the consent of the parties to be bound by the treaty.'[11] These provisions mean that if a state wishes to withdraw from an IGO, it can do so with enough time and documentation (even if the process is not especially clear on *how* this is accomplished, as exemplified in the Brexit case).

Brexit is not a stand-alone case. To the contrary, our original data show that there have been around 200 member-state withdrawals from IGOs.[12] States also often get what they want by *threatening* to withdraw. For example, Britain threatened to leave the European Economic Community (EEC) in 1975 (also by referendum) if the EEC heads of state did not agree to renegotiate the terms of British accession. While Britain struck a favorable deal in 1975, its Brexit threat was not enough to garner its desired E.U. reforms. Lavelle (2007) also notes that states have subtle diplomatic strategies they can use to exercise some degree of "exit" from an IGO that is short of full withdrawal. Chiefly, they can lower the diplomatic rank of those attending meetings and conferences and lower their financial contributions below a sustainable level.

Given that states face other options, what drives IGO withdrawals? Scholars in law and politics have begun to shed light on this question. International law scholarship on denunciation and withdrawal *from treaties*, for example, provides a framework for understanding the likelihood of IGO exit (if we consider IGOs a special kind of treaty with a secretariat). Rational design scholars argue that institutional design—whether or not the charter contains explicit withdrawal provisions—will affect the likelihood of state exit (Helfer 2005; Koremenos and Nau 2010). These scholars argue that withdrawal clauses reduce uncertainty because they provide states a low cost way to exit if the state of the world should change.

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[10] See https://treaties.un.org/doc/Publication/UNTS/Volume%201155/volume-1155-I-18232-English.pdf. Article 54.

[11] Ibid, Article 62.

[12] We do not include states leaving because the IO is being replaced in name.

Other scholars argue that shifts in international preferences for cooperation largely explain withdrawals (Athanassiou 2009; Hill 1982). In many cases, states first threaten to withdraw as a way to push IGOs to change some aspect of operations before pulling out (Magliveras 2011; Orbell et al 1984). But the success of these threats is largely related to the threatening state's outside options. Vabulas (2017) argues that domestic politics and geopolitical power explain many IGO withdrawals. Withdrawal may be particularly useful as a political strategy during or around elections when domestic public opinion on foreign policy shows declining support for engagement in world affairs. Moreover, geopolitically powerful states or those that contribute disproportionately to the IGO are more likely to withdraw because they have strong go-it-alone potential (Gruber 2000) and therefore higher bargaining leverage.

Given these different factors that affect the likelihood of IGO withdrawal, what can we expect as a result of state exit? Recent newspaper headlines have highlighted the potential costs of states exiting from regional economic agreements. For example, in January 2017, the Trump administration withdrew from the Trans-Pacific Partnership (TPP).[13] The TPP would have slashed tariffs for American imports and exports with Canada, Mexico, Japan, Australia, New Zealand, Chile, Peru, Malaysia, Singapore, Vietnam and Brunei; these countries make up 40% of the world economy. In exchange, the United States had negotiated labor, environmental, and intellectual property protections sought by major businesses. The decision to withdraw reversed decades of American presidents pushing for lower trade barriers and an interconnected global economy. But because the TPP hadn't yet taken place, the numbers offered by both advocates and critics are disputed."[14] The deal was supposed to promote American exports, create access to new markets, and protect American inventions and innovation. Opponents, on the other hand, emphasized that the TPP could have shifted American manufacturing jobs overseas to nations with lower wages and fewer labor protections.

Instead of engaging in contested forecasting, we look to the historical record. In order to examine this question, we look specifically at withdrawals from one type of IGO: regional economic organizations (REOs). As with all IGOs, REOs are intergovernmental organizations with a secretariat and at least three member states (Pevehouse, Nordstrom, and Warnke 2004). Two aspects distinguish REOs from other IGOs. First, while they sometimes address non-economic issues, REOs' primary objective is the promotion of economic policy cooperation among their members (Haftel 2010; Mansfield and Milner 1999). Even though some REOs have security-related components,[15] they are not alliances. Second, membership in these organizations is restricted to geographically proximate states. While some REOs span sizable swaths of territory, like the Latin American Integration Association (LAIA), they are all regional rather

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[13] < https://www.whitehouse.gov/the-press-office/2017/01/23/presidential-memorandum-regarding-withdrawal-united-states-trans-pacific> Accessed 26 September 2017.
[14] <http://www.cnn.com/2017/01/23/politics/trump-tpp-things-to-know/index.html> Accessed 28 September 2017.
[15] For example, the Economic Community of Western African States (ECOWAS) and Mercosur.

than global in nature (Haftel 2010; Nye 1971). Twenty-five REOs that span most continents and include the majority of states worldwide correspond to these criteria (Haftel 2010).[16]

We narrow our analysis to REOs because REOs are most relevant to our theoretical expectations as well as being widespread. First, by focusing on IGOs with similar mandates, we have greater conceptual clarity and better theoretical predictions about the effects that these IGOs should have. By definition, REOs are set up to promote regional economic openness, including freer trade, greater economic growth, and more extensive integration in regional markets. These economic outcomes are more easily evaluated than the myriad aspirational goals of other subsets of IGOs. Our research then asks: when member states withdraw from a REO, do they experience economic and political costs (as opposed to those who maintain their membership)? In other words, we evaluate the potential costs on the withdrawing state (even if there might also be costs on the entire international community). We therefore look at costs on the state in aggregate while noting that future research should evaluate the costs (and benefits) on individual groups within the withdrawing state.

The second reason to focus on withdrawal from REOs as a subset of IGOs is that they have expanded greatly in recent years, now comprising about a third of all IGOs (Westerwinter 2017; Baccini and Dur 2009; Farrell 2005; Goertz and Powers 2012; Feng and Genna 2005; Mansfield and Milner 1997; Solingen 1998). These patterns of expansion underscore the importance that these institutions have in world politics. While membership has soared, however, politicians occasionally rebuke their membership and threaten to leave. Because REOs have become the most prominent form of IGOs, understanding the implications of withdrawal from REOs is essential to understanding emerging patterns in international cooperation and discord. Relatedly, a comprehensive analysis of REO withdrawals allows us to systematically evaluate IGO exit in order to make sense of one-off "real world" events that make newspaper headlines.

Brexit is a prominent case of a REO withdrawal but there are many others. For example, in 1970, Honduras withdrew from the Central American Common Market (SICA) when its relations with El Salvador became tense in the so-called "Football War" (Cable 1969). While some might brush off Honduras' departure because it was the original 'banana republic', this withdrawal was particularly noteworthy because at the time, SICA was one of very few examples of successful economic integration amongst developing countries. Policymakers assert that Honduras' withdrawal "disrupted regional trade and hurt the economies of all countries."[17]

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[16] This conceptualization excludes several types of agreements that are related to economic regionalism but do not qualify as REOs. For example, many preferential trade agreements (PTAs) are bilateral and almost always lack a continuous institutional framework. These agreements, as well as similar agreements between two REOs or an REO and another country, do not meet the standard criteria of IOs. Non-reciprocal agreements, such as the U.S. Caribbean Basin Initiative (CBI) and the Lomé Convention, are excluded on similar grounds. Finally, framework agreements, like the Asia Pacific Economic Cooperation (APEC), are also excluded. While these agreements may embrace the idea of regional cooperation, they lack concrete measures to achieve this goal. See Haftel (2010) for more.

[17] < http://pdf.usaid.gov/pdf_docs/Pcaaa484.pdf> Accessed 26 September 2017.

However, short of a systematic analysis, it remains unclear whether these economic costs were purely due to withdrawal or due to the underlying conditions (war).[18]

It has also remained unclear how withdrawal from one REO affects a country if it maintains membership in other REOs. For example, in 2000, Tanzania withdrew from the Common Market for Eastern and Southern Africa (COMESA) because of "concern that changes in internal tariff arrangements would harm Tanzania."[19] Tanzania believed that the loss of tariffs would hinder its industrial development—even though free trade proponents would argue the opposite. Meanwhile, Tanzania remained a member of two other regional economic blocs -- the Southern African Development Community (SADC) and the East African Community (EAC).[20] So what were Tanzania's costs of withdrawing from COMESA?

Even more recently, Uzbekistan withdrew from participation in the foremost economic cooperation organization in the former Soviet region, the Eurasian Economic Community (EAEC).[21] The EAEC committed Belarus, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, and Uzbekistan to common policies on trade, migration, currency exchange, and infrastructure development. But in 2008, the Uzbek President submitted a diplomatic note to exit the EAEC, arguing that EAEC duplicates other organizations such as Commonwealth of Independent States (CIS) and the Collective Security Treaty Organization (CSTO). But rival tensions with Kazakhstan, ongoing water problems in the region, and concern about Russia's pushing for an automatic Customs Union were also blamed.[22] Given the volatility of world markets and the East-West divide that emerged following the Russian-Georgian conflict that same year,[23] what were Uzbekistan's costs for withdrawal? Our paper speaks to these questions.

3. **Theory: Under what conditions is IGO Withdrawal Costly?**

We outline our argument about the expected costs of IGO withdrawal. First, we argue that IGO withdrawal may not have strong *economic costs* for the withdrawing state because they may anticipate potential costs and adjust. The withdrawing state might provide offsetting economic benefits at home or substitute its forum for international cooperation by leveraging another IGO. Withdrawal, however, may have strong *political costs* for the withdrawing state as international analysts look to withdrawals as a sign that the state is willing to renege on international agreements—and may be more likely to do so again in the future. Last, we argue

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[18] In future iterations of the paper, we plan to include conflict as a control variable in our analyses.

[19] < http://news.bbc.co.uk/2/hi/africa/908008.stm> Accessed 27 September 2017.

[20] In future versions, we plan to control for overlapping REO memberships.

[21] < http://www.marshallcenter.org/MCPUBLICWEB/en/nav-fix-sec-insights/173-cat-english-en/cat-publications-en/cat-pubs-security-insights-en/512-art-pubs-sec-insights-3-en.html> Accessed 27 September 2017.

[22] < http://enews.fergananews.com/articles/2477> Accessed 27 September 2017.

[23] < http://www.eurasianet.org/departments/insightb/articles/eav112508a.shtml> Accessed 27 September 2017.

that the costs of IGO withdrawal are not heterogeneous. Instead, we argue that the costs to states for withdrawing will be stronger from particular kinds of IGOs as well as for particular kinds of states. Withdrawal will be costliest for states that withdraw from IGOs that are more institutionalized: these IGOs tend to lay out extensive features that facilitate information sharing and solidify a state's constraints which will make removal costlier. We unpack the various components of this argument below.

3.1 Economic costs

IGO theory points in different directions about the expected economic costs of withdrawal. Economic costs could include measureable material cuts to economic growth, trade, and foreign direct investment among others. Liberal institutionalists argue that IGO membership provides states extensive cooperative benefits including more open economies, economic growth, and expanded trade (Balassa 1961; Mattli 1999; Mansfield and Milner 1997; Whalley 2008; Gowa and Hicks 2012). Thus, when a state removes itself from membership, it will lose those benefits which may be economically costly for the withdrawing state. REOs also provide states with valuable information since regular face-to-face high-level meetings can enhance economic cooperation and diplomacy between states (Haftel 2007). When a state withdraws, these mechanisms for information sharing may be sharply cut with spillover economic fallout. Furthermore, REOs provide a host of other externalities including better foreign direct investment (Büthe and Milner 2008), more consolidated democracy (Pevehouse 2002), improved human rights practices (Hafner-Burton 2005) and more transparent elections (Donno 2010); all of these effects stand to be challenged after a state's withdrawal, potentially making it economically costly for the state that exits.

Despite these arguments for the costliness of withdrawals, we argue that states will rarely see immediate economic costs from withdrawal because they may anticipate these potential economic costs and take preemptive actions domestically and internationally to thwart these losses. Protecting the economy is one of the most important items on a government's agenda so they may therefore work to substitute for the above-mentioned loss of economic benefits attributed to IGO membership in two ways. First they may embark on domestic economic policies that might stimulate the economy once trade ties go away. For example, a government that is worried about the economy retracting as a result of pulling out of a free trade agreement may stimulate macroeconomic policies by increasing domestic spending. Indeed, according to Keynes, governments proactively engage in public works and deficit spending to try to increase aggregate savings. This may temporarily offset future economic losses—both in real terms and sociotropic psychological terms.

This logic also links to a large body of work on the political business cycle: macroeconomic cycles of spending and retraction often have political determinants. Nordhaus' (1975) influential study, for example, showed that politicians often engage in opportunistic pre-electoral economic manipulations. Just as there may be "election-year" economics, we argue that there may be "withdrawal-year" economics. Withdrawal from currency unions (CUs)—a particular kind of IGO—are a case in point here. CUs are sometimes dissolved specifically to gain macroeconomic policy autonomy—in other words to embark on domestic economic stimulus packages. States may want to employ quantitative easing and/or avoid austerity

measures mandated by the IGO if it otherwise remained a member. A good example of this occurred when the UK left the European Exchange Rate Mechanism (ERM) in 1992. This exit was in no small part about Prime Minister John Major and Chancellor of the Exchequer Norman Lamont not wanting to swallow ERM austerity that would have been required to remain in the international institution. Because of these strategic actions, withdrawal may be associated with a slight *economic boost* for the withdrawing country, at least in the short term.

To summarize the logic thus far: governments are strategic actors, and if they want to cut ties with a REO (for whatever reason), they might substitute for the economic benefits of a REO with other economic projects. The prior paragraphs have outlined how they might substitute domestically to offset any economic losses but they can also look to alternative international institutions to offset losses. The regime complexes (Keohane and Victor 2011, Perspectives in Politics 2009 special issue) and overlapping institutions scholarship (Bhagwati, Greenaway and Panagariya, 1998) shows how states are entangled in an interconnected web of IGOs. Because there is often a large overlap in IGO operations across institutions, withdrawing from one institution may just be replaced by "forum shopping" to a similar IGO to maintain or even enhance economic benefits. In this case, states may not face any economic costs of withdrawal because other IGOs can fulfill the functions of the "lost" IGO membership for the withdrawing state. This leads to the first hypothesis:

> *H1: IGO membership withdrawal should be associated with a small economic boost for the withdrawing country.*

3.2 Political Costs

While withdrawing states may experience small economic boosts, they may simultaneously experience *political costs* from exiting REOs. Withdrawing from an IGO can send a signal of increased uncertainty or instability to international investors. Investors usually value stability and may use withdrawal as a cognitive shortcut to downgrade a country's political risk metrics. Withdrawal means the exiting state will not receive IGO membership benefits and could also result in future policies that are less favorable for the withdrawn country. Moreover, withdrawal signals that the state has reneged on an international commitment which may cast doubt on the country's credibility to honor other and future commitments, increasing uncertainty. In other words, IGO withdrawal plays an "information provision" role for international investors, a role that IGO scholars have attributed to IGO membership more broadly for decades.

Indeed, IGO accession has been linked to a drop in acceding country's political risk ratings, an improvement in the country's credit ratings, and a reduction in the country's sovereign debt spreads (Dreher and Voigt 2011; Dreher and Voigt 2015). Our argument hones in on the flipside: countries that withdraw from an IGO should lose these boosts. Furthermore, IGO theory has routinely referred to IGO membership as a mechanism that makes a state's commitments "credible." This is because undertaking obligations to join an IGO imposes *ex ante* costs whilst reneging on those commitments imposes *ex post* costs. In short, IGO accession acts as a signaling device to provide a "seal of approval" of the country's policies which allows investors' expectations to converge. Our argument instead looks at membership withdrawal as challenging that seal of approval which should make the country less credible. Since a country's

credibility is a key factor shaping the expectations of international investors, withdrawing from an IGO should affect these political metrics in the opposite way. In fact, even a small change in the perception of political risk could be politically costly because it can affect follow-on outcomes that are dependent on assessments of investor risk; given that the average year-on-year change in political risk zero, a small change may have a significant effect.

This argument about expectations of political costs leads to our second hypothesis:

H2: IGO membership withdrawal should be associated with a reduction in international investor confidence (political costs) for the withdrawing country.

In contrast to the expectation that IGO withdrawal will be politically costly, neo-realists argue that IGOs are a reflection of existing power disparities, and therefore do not change outcomes in international politics. These scholars argue that IGOs do not have independent benefits, but are instead epiphenomenal institutions (Mearsheimer 1994; Waltz 1979). These scholars might therefore argue the direct opposite of our hypothesis and expect withdrawal to be politically costless.

3.3 Heterogeneity across IGOs

The last part of our argument centers on the notion that IGOs are not all created equal. IGOs vary in their institutional structure, mandate, and member cohesion (Boehmer, Gartzke and Nordstrom 2004). Even in our subset of IGOs—REOs—we see a great deal of heterogeneity in their aims, designs, and implementation (Haftel 2012; Hettne 2005; Gray and Slapin 2012).

Certain IGO attributes make them more effective at fostering cooperation among states. Because these attributes strengthen cooperation among states, they may also make withdrawal less likely because they provide mechanisms to facilitate communication and dispute settlement to keep members working together. In other words, these attributes can make it more likely that aggrieved states will "work it out" rather than walking away from the negotiating table. Moreover, when withdrawal does occur, certain attributes may make withdrawal costlier for the exiting state because when it is breaking away from stronger organizational connections. These attributes help tie states hands; the stronger these ties, the costlier it might be to break them.

Importantly, IGOs differ on their *level of institutionalization*. IGOs with high degrees of institutional links both better facilitate interstate operations and also impose stronger constraints on member states (Koremenos, Lipson, and Snidal 2001). This is because highly structured institutionalized IGOs provide important tools for consultation and grievance management. IGOs with sophisticated administrative capabilities and extensive institutional structures can act as mediators and information brokers among members (Gilady and Russett 2002) which might diminish the chance of states withdrawing in the first place. Essentially, states can lean on highly structured institutionalized aspects of the IGO to bargain through their differences. Scholarship has shown, for example, that highly structured institutionalized IGOs lower the probability of militarized conflict between member states (Karreth and Tir 2013) for this very reason.

In addition to this information-provision role, highly structured institutionalized IGOs also impose more substantial constraints on member countries. These constraints increase the credibility of a government's commitment. Put differently, highly structured institutionalized IGOs ensure that members are more likely to uphold their end of the bargain because their hands are 'tied tighter.' Much of this argument about tighter constraints comes from the idea that highly structured institutionalized IGOs are better able to impose ex post costs when states back away from their commitments. "Via the threat of future costs for reneging on promises [], highly structured institutionalized IGOs can provide implicit assurances that the government will continue to honor its commitments" (Karreth and Tir 2013:100). Moreover, "that states voluntarily join organizations with such leverage over them suggests that states value this membership and its benefits—resources that can also be withheld" (Karreth and Tir 2013:98).

This leads to the third hypothesis:

H3. Membership withdrawal should be costlier from highly institutionalized IGOs.

4. **Research Design**

We test these hypotheses in a statistical analysis of IGO withdrawals from 1980 to 2015 worldwide. As explained above, we focus on regional economic organizations (REOs)[24] as a subset of all IGOs to ensure comparability and reduce heterogeneity. We leverage original data on IGO withdrawals for coding the independent variable. In order to compile the dataset of withdrawals, we searched the Factiva database for historical newspaper articles that included both the IGO name and the word "withdraw."[25] An example of a newspaper article pointing to IGO membership withdrawal from the Council of Europe is Agence France-Presse' article on 6 April 2000 that "The Turkish delegation withdrew twice voluntarily, first in 1981 following a military coup, then in 1995 over treatment of Turkey's Kurdish parliamentary deputies."[26]

The key variable *IGO withdrawal* is binary and coded 1 when the country withdrew from a regional economic organization and 0 otherwise. We restrict withdrawals to those that were unrelated to joining another organization. For example, Bulgaria and Romania withdrew from the Central European Free Trade Agreement (CEFTA) in 2007 in order to join the European Union, which stipulates for accession that a country must formally transition from the precursor organization to the EU. This and similar cases are excluded from the analysis. In our dataset, about 0.03 percent of country-years withdrew from intergovernmental organizations.

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[24] Based on trade and commerce indicators with data from Reinsberg and Westerwinter (2017).
[25] The compilation of the dataset is complicated by the fact that there are many viable synonyms for withdrawal, including "secession" and "voluntary exit" (terms that were also included in the search). Furthermore, the fact that many IO treaties or public announcements are not in English means that there might exist a number of different translations that are equivalent to "withdrawal." We plan to continue ensuring the integrity of our data.
[26] See http://reliefweb.int/report/russian-federation/russia-suspended-council-europe-over-chechnya-rights

We proceed in two steps, examining the drivers of IGO withdrawal before estimating the costs of IGO withdrawal. This allows us to identify possible confounding factors which may influence both a country's decision to withdraw and its costs. We then include important drivers of withdrawal as controls in the main outcome equation, lowering the risk of omitted variables. In the first step – assessing the drivers of withdrawal – the unit of analysis is the IGO-country-year.[27] As described above, we focus on only those country-years that are members of regional economic organizations. To model a country's withdrawal, we include factors for domestic politics (following Vabulas 2017), IGO institutionalization (drawing on Karreth and Tir 2012), and the company states keep (following Gray 2013). That is, we model a country's decision to withdraw as a function of (logged) *per capita GDP*, democracy/*polity2*, *government party orientation* (left, center, right), whether this or the previous year was an *election year*, *trade dependence*, as well as IGO *institutionalization*, the number of other *IGO memberships*, and the average *IGO democracy score* in each IGO that the country is a member of in a given year.[28] All independent variables are lagged by one year to mitigate endogeneity concerns. We also include cubic polynomials of time to account for temporal dependence.[29] We use both country-fixed effects to examine temporal variation within individual countries and, alternatively, random effects to examine cross-country variation. The random effects models include country-clustered standard errors to account for the lack of independence between years within a single country. Since the outcome in this first step is binary (whether or not a country withdrew from an IGO), we use logit analyses.

For the main analyses of the costs of membership withdrawal from IGOs, we use *withdrawal* as the explanatory variable and then two dependent variables: *GDP growth* and *political risk scores*.[30] The first measures the economic outcome while the second measures the political outcome of international investor confidence. *Political risk scores* are issued by Political Risk Services' (PRS) International Country Risk Guide (ICRG).[31] Higher scores imply that on balance, the country's investment environment is more secure and less risky. Note that the political risk ratings are only available since 1984 and not for all countries; many countries do not finance themselves in international bond markets and are thus not rated. We include a range of control variables to account for both the non-random nature of a country's decision to

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[27] COW-IGO datset from Pevehouse, Nordstrom, and Warnke 2004.

[28] We source data from Graham and Tucker (2016); Marshall, Jaggers, and Gurr (2016), Beck et al. (2001), Karreth and Tir (2012)

[29] Beck, Katz, and Tucker 1998.

[30] We source data for both variables from Graham and Tucker's (2016) compilation of IPE data, which are based on the World Bank World Development Indicators and International Country Risk Guide (ICRG).

[31] The ICRG Political Risk index ranges from 0 to 100 points. It is based on 12 weighted variables covering political, economic, and social attributes including government stability (12 points), socioeconomic conditions (12 points), investment profile (12 points), internal and external conflict (each 12 points), corruption (6 points), military in politics (6 points), religious and ethnic tensions (each 6 points), law and order (6 points), democratic accountability (6 points), and bureaucracy quality (4 points). ICRG staff collect this component information and create the index. Available at http://www.prsgroup.com/wp-content/uploads/2012/11/icrgmethodology.pdf. Accessed 11 August 2016.

withdraw from an organization and other drivers of the dependent variables. Based on results from the first-stage models, we include (logged) *per capita GDP*. When estimating the effect of *withdrawal* on *GDP growth*, we control for *lagged GDP growth, democracy, trade share*, and (logged) *population size*. When estimating the effect of withdrawal on Political Risk Scores, we control for the *lagged Political Risk Score, law and order, trade share*, and *GDP growth*.[32] All control variables are lagged one year to mitigate endogeneity. All descriptive statistics are in Table 1. To examine the effect of a country-year withdrawal on its political and economic outcomes, we collapse the IGO-country-year dataset to the country-year level. In order to examine hypothesis 3 about the differential effect of high versus low IGO institutionalization, we then subset the dataset on these two groups, estimating the model for each subset.

To estimate the costs of withdrawal, we use synthetic control matching. This method was proposed by Abadie and Gardeazabal (2003) and further developed by Abadie, Diamond, and Hainmueller (2010, 2011, 2014). The synthetic control method for causal inference provides a systematic way of choosing comparison units which are intended to reproduce counterfactuals. The idea behind this approach is that a weighted average of all potential comparison countries on the same trajectory as the "treated" country is often a better counterfactual than any single country alone. It then compares outcomes between country-years which withdrew and otherwise similar country-years which did not withdraw. Given that the "treated" and synthetic control units had a similar trend in the outcome before the intervention (withdrawal), any significant deviation from the joint trajectory after the intervention can be interpreted as support for a causal effect of withdrawal on outcomes.

The synthetic control method has several advantages. It selects counterfactuals in a careful and automated fashion, which improves over cherry-picking in qualitative studies and extrapolation bias in regression-based studies (which often arises due to weights being restricted between zero and one; see Abadie et al. 2014). This method also is ideal for studies in which the intervention of interest is relatively rare, which makes it an excellent fit for our purposes. There have been 47 cases of withdrawals from REOs between 1980 and 2015. The synthetic control method was developed by Abadie and co-authors for the case of a single treated unit and extended to allow for multiple treated units by Galiani and co-authors (Cavallo et al. 2013, Quistorff and Galiani 2017). With the statistical package Synth Runner, we can take into account multiple withdrawing countries (instead of just one country at a time), allowing us to look at the average causal effect of withdrawing on outcomes of interest.

5. **Results**

We proceed in two steps, evaluating the drivers of IGO withdrawal before estimating the effect of withdrawal on economic and political outcomes. Table 2 reports logit estimates of domestic and IGO-level factors on a country's decision to withdraw. Columns 1-3 show the random effects models and columns 4-6 shows the country-fixed effects models. Columns 1 and

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[32] These controls closely follow Dreher and Voigt 2011; Cukierman 1992; Cosset and Roy 1991. We do not control for inflation and interest rates, as these have higher missingness but intend to do so in future iterations.

4 show a parsimonious model of domestic politics, columns 2 and 5 add IGO-level factors, and columns 3 and 6 add government orientation; this variable has higher missing and is thus not included in the parsimonious models.

These results in Table 2 indicate that as countries become more economically developed, they are less likely to withdraw. The coefficient on *per capita GDP* is negative and significant in the fixed-effects models (columns 4-6). There is also some evidence that those countries which had elections in the previous year are more likely to withdraw from an IGO in the current year. The coefficient on *lagged election year* is positive in all columns and significant in column 3. In terms of IGO-level variables, countries seem to be somewhat less likely to withdraw from medium and highly institutionalized organizations as compared to low institutionalized organizations. The coefficient on *institutionalization* is negative in all columns and significant in several. When a country is a member in more democratic organizations, it is less likely to withdraw. On the other hand, the number of remaining memberships, democracy, government orientation, and trade dependence do not seem to play a role for the decision to withdraw. Taken together, these findings speak to the importance of domestic politics as well as institutionalization and the "company" states keep in organizations.

In the second step, we estimate the effect of withdrawing from a regional economic organization on *GDP growth* and *political risk scores*. Figures 1 and 2 graphically illustrate these effects. Within each Figure, panel (a) shows the estimated effect of treatment, panel (b) shows the estimated difference in outcomes between treated and control, and panel (c) shows the accompanying standardized p-values for this effect.

Figure 1 shows the estimated effect of withdrawal on GDP growth, indicating a positive effect in Figure 1 (a) after the intervention year. Figure 1 (b) further illustrates that this positive trend after withdrawal is in stark contrast to the synthetic control cases, which note a negative trend on average. In terms of substantive magnitude, country-years that withdraw have a 4 percentage point higher GDP growth than synthetic controls, i.e. a weighted average of the otherwise similar country-years which did not withdraw. Figure 1 (c) shows that this difference is statistically significant, as the standardized p-values are all 0.00 in the six years after the withdrawal. This supports hypothesis 1, which states that withdrawal should be associated with increased growth.

Figure 2 illustrates the estimated effect of withdrawal on political risk scores, indicating a negative trend in Figure 2 (a) after the intervention year. Figure 2 (b) shows that the withdrawal cases have a lower score than their synthetic control cases. With regard to substantive size, country-years that withdraw have a 0.1 lower score than synthetic controls. At first glance, this seems fairly small given that the full range of the PRS variable is from 0 to 100. Note, however, that the average year-on-year change of that variable is zero, so even a small variation can be significant and can change follow-on outcomes dependent on investor risk, such as FDI and aid flows. Lastly, Figure 2 (c) shows that this difference is statistically significant in the year after withdrawal but then is short-lived and becomes in-significant (statistically in-distinguishable from the synthetic control) in subsequent years. Still, we conclude that this supports hypothesis 2 about reduced investor confidence after withdrawing.

Finally, to assess hypothesis 3 about the differential effect of withdrawing from a high or low institutionalized organization, we estimate these effects on subsets. Figures 1 and 2 showed the effects for high-institutionalized organizations. Figure 3 show the same estimates for the subset of low-institutionalized organizations. Of the 47 REO withdrawals between 1980 and 2015, 3 cases are from highly institutionalized IGOs, 6 are from moderately institutionalized organization, and 26 are from low-institutionalized organizations. Figure 3 shows the estimated effects of withdrawing from a regional economic organization that has low institutionalization on GDP growth and political risk scores. In contrast to Figures 1 and 2, which were for highly-institutionalized IGOs, Figures 3 and 4 show no significant effects. As indicated in Figures 3(c) and 3 (d) the treatment and synthetic control trends after the intervention (withdrawal) are not divergent. While there are significant effects in years 2 and 3 after withdrawal, they point in opposite directions. This suggests that there are no clear consequences for GDP growth when countries withdraw from low-institutionalized organizations. Since this stands in strong contrast to the effect from high-institutionalized organizations (as discussed above and shown in Figure 1), we conclude there is empirical support for hypothesis 3.[33]

In future work, we intend to test the mechanism behind our argument. If indeed withdrawals are associated with positive economic effects because governments anticipate and try to mitigate economic contractions, then we should find evidence that governments with fewer veto players and more economic might are more successful at this than governments restricted in their policies and without economic leverage. To boost confidence in our theoretical argument, we aim to test this observable implication in a future iteration of this paper. We also aim to test whether other IGO features such as the depth of cooperation, availability of flexibility devices, and issue linkages also affect the costs of withdrawal.

6. **Conclusion**

Our paper provides the first systematic examination of the *effects* of state exit from IGOs. We focus on a subset of IGOs—regional economic organizations—in order to better hone in on the expected costs of state withdrawal which should be more uniform for a similar group of institutions. Moreover, by studying this group of IGOs, we are able to pay attention to an important group of institutions that are proliferating in world politics.

We argue that asking whether IGO withdrawal is universally costly misses the mark. Withdrawals are not homogenous, and neither are the IGOs or states in question. Instead, this paper shows that states that withdraw from highly institutionalized IGOs see a strong *economic boost* in GDP growth. We argue that this is because states act strategically and substitute domestic or international economic strategies in place of cutting IGO ties. These include expansionary macroeconomic policies as well as forum-shopping to alternative IGOs. For example, Theresa May is trying to find complementary trade deals with countries like the U.S.,

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[33] The results suggest the synthetic matching was imperdect or did not work as well as it could have though, as the trends are diverging even before intervention. For the PRS score, this is much smoother.

Canada, and Japan, even before Brexit comes into effect.[34] Moreover, May has been pumping more money into the British economy, for example, vowing to put Billions into the National Health Service.[35] However, states that withdraw from highly institutionalized IGOs face *political costs* as outside observers such as international investors become wary that the withdrawing state might be more likely to renege on other international investments. Withdrawing from these highly institutionalized IGOs can thus put a black mark on the reputation of the withdrawing state to uphold future commitments. Indeed, our argument has held up in the case of Brexit: S&P Global stripped Britain of its coveted triple-A investment rating after the Brexit vote in June 2016, downgrading it by two notches to AA and assigning a negative outlook.[36] The ratings agency—along with other political risk groups like Moody's—also recently announced that they are likely to take action on the U.K. again, most likely resulting in another cut to its sovereign ratings.[37]

We test our argument on an original dataset of withdrawals from IGOs. To estimate the costs of withdrawal, we use synthetic control matching which provides a systematic way of choosing comparison units which are intended to reproduce counterfactuals. The synthetic control method selects counterfactuals in a careful and automated fashion and is ideal for studies in which the intervention of interest is relatively rare. Using this method of causal inference, we find support for our argument.

Our research speaks to important debates in international organization research and international relations literature more broadly. Because some of the costs of IGO withdrawal are strong, while other costs appear to be weak or even non-existent, we echo Martin's (2017) findings that IGOs appear to be "weak" commitment devices. Many states who are willing to deal with the political fallout from exiting IGOs have arguably already made the calculation that economically speaking, it will be worth it. But other states use withdrawal as a short term strategy to reap political rewards from constituents without fully considering the more far-reaching consequences.

Our data provides extensive opportunities for future research on withdrawals from other IGOs. First, future research should test whether withdrawal is also heterogeneous across states. States with the deepest trade dependence and lower levels of GDP disproportionately gain from their economic ties and thus may be hurt the worst when they depart from an IGO. We also hope to test how different aspects of IGO heterogeneity—such as the depth of cooperation, availability of flexibility provisions, and issue linkage—also affect the costs of withdrawal. Future research

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[34] <http://www.politico.eu/article/theresa-may-to-pursue-trade-deal-during-canada-trip/>; < http://www.bbc.com/news/business-41096406>; < http://www.mirror.co.uk/news/politics/theresa-wants-copy-paste-deals-11079222> Accessed 28 September 2017.
[35] < http://www.dailymail.co.uk/news/article-4531304/PM-warns-Corbyn-end-leading-Brexit-talks.html> Accessed 28 September 20017.
[36] < https://uk.reuters.com/article/uk-britain-eu-s-p/sp-says-could-cut-britains-rating-again-before-brexit-terms-known-idUKKBN19B1CV> Accessed 28 September 2017.
[37] < https://www.theguardian.com/business/live/2017/jul/11/markets-ben-broadbent-bank-of-england-interest-rates-haldane-economics-business-live> Accessed 28 September 2017.

can also examine the effects of REO withdrawal using other economically related costs such as increased government debt, non-economic costs such as the effect withdrawal may have on conflict, or the effect withdrawal might have on public opinion (both at home and abroad). Indeed, recent opinion polls show that large groups of U.S. voters supported Trump's reasoning for withdrawing from the TPP showing that a move that might be considered costly is in fact beneficial in terms of shoring up domestic political support.

This study is pertinent in an era of emerging populist backlash against IGOs, particularly in western countries. If this trend is to continue, our study speaks to the potential future costs of more withdrawals from highly institutionalized IGOs. But it also shows that countries in less institutionalized IGOs may be more likely to withdraw given that the costs are not pronounced. Likewise, if we see this trend of withdrawals subside, our study provides insight to why governments might begin to shy away from more retreats from international organizations: while leaders can often try to anticipate costs and look to alternative mechanisms to replace IGO ties, they cannot change the perception of withdrawal which exacts political costs in the marketplace.

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Table 1: Descriptive Statistics

Variable	Mean	SD	Min	Max	N
IO-Country-Year-Level					
Withdrawal	0.001	0.024	0	1	79,170
GDP per capita, lagged and logged	7.984	1.612	3.913	11.674	69,543
Trade Share of GDP, lagged	77.871	48.056	0.309	531.737	70,581
ElectionYear	0.247	0.431	0	1	79,170
Election Year, lagged	0.247	0.431	0	1	78,975
Polity2, lagged	2.802	6.939	-10	10	69,586
Govmt Party Orientation:	2.141	0.932	1	3	41,288
IGO institutionalization, lagged	1.698	0.818	1	3	64,449
IGO democracy score, lagged	7.349	2.29	-1.244	10	71,452
IGO memberships, lagged	14.151	4.591	1	27	79,170
Country-Year-Level (high inst.)					
Withdrawal	0.001	0.023	0	1	5,657
GDP growth (annual percent)	3.423	6.642	-57.885	57.818	5,456
GDP growth (annual percent, lagged)	3.369	6.836	-57.885	57.818	5,452
GDP per capita, lagged and logged	7.923	1.585	3.913	11.674	5,447
Trade Share of GDP, lagged	81.309	49.929	0.309	531.737	5,148
Polity2, lagged	1.896	7.171	-10	10	4,914
Population size, lagged	15.508	1.992	10.321	21.019	5,597
PRS	63.717	15.598	8.5	97	3,584
PRS, lagged	63.751	15.585	8.5	97	3,578
Law and order index, lagged	3.648	1.492	0	6	3,584
GDP per capita, logged and lagged	7.923	1.585	3.913	11.674	5,447

Table 2: Drivers of REO Withdrawals

	(1)	(2)	(3)	(4)	(5)	(6)
GDP per capita, lagged and logged	0.010	0.098	0.026	-1.755	-2.498	-10.438
	(0.118)	(0.171)	(0.181)	(0.923)*	(1.254)**	(5.609)*
Trade Share of GDP, lagged	0.001	-0.001	0.000	-0.014	-0.007	0.032
	(0.003)	(0.003)	(0.008)	(0.011)	(0.012)	(0.034)
Election Year	-1.247	-1.147	-1.300	-1.343	-1.192	-1.138
	(0.804)	(0.837)	(1.009)	(0.951)	(0.977)	(1.335)
Election Year, lagged	0.544	0.913	1.695	0.523	0.875	1.901
	(0.710)	(0.783)	(0.950)*	(0.897)	(0.928)	(1.225)
Polity2, lagged	0.008	-0.007	-0.037	0.041	-0.001	-0.518
	(0.025)	(0.031)	(0.084)	(0.067)	(0.087)	(0.414)
IGO institutionalization (medium)		-0.698	-1.639		-0.685	-1.883
		(0.491)	(1.075)		(0.500)	(1.087)*
IGO institutionalization (high)		-1.180	-0.948		-1.210	-1.277
		(0.589)**	(0.781)		(0.620)*	(0.956)
IGO democracy score, lagged		-0.082	0.065		-0.512	-4.579
		(0.120)	(0.133)		(0.244)**	(1.884)**
IGO memberships, lagged		0.024	0.001		0.107	0.114
		(0.052)	(0.074)		(0.152)	(0.498)
Govmt Party Orientation: right			0.646			0.262
			(0.721)			(1.073)
Govmt Party Orientation: center						-12.681
						(2048.218)
Constant	-8.299	-8.069	-16.544			
	(1.362)***	(1.429)***	(5.088)***			
Country Fixed Effects	✗	✗	✗	✓	✓	✓
Polynomials of Time	✓	✓	✓	✓	✓	✓
Observations	61,329	49,339	25,457	14,950	10,080	3,955
AIC	715.845	528.636	240.082	478.541	346.694	118.959
BIC	806.085	651.927	362.253	539.441	433.314	206.917

Notes: Table reports logit estimates with random effects (columns 1-3) and country fixed effects (columns 4-6). Estimates significant at the 0.05 (0.10, 0.01) level are marked with ** (*, ***). The excluded reference categories are low IGO institutionalization and left government party orientation.

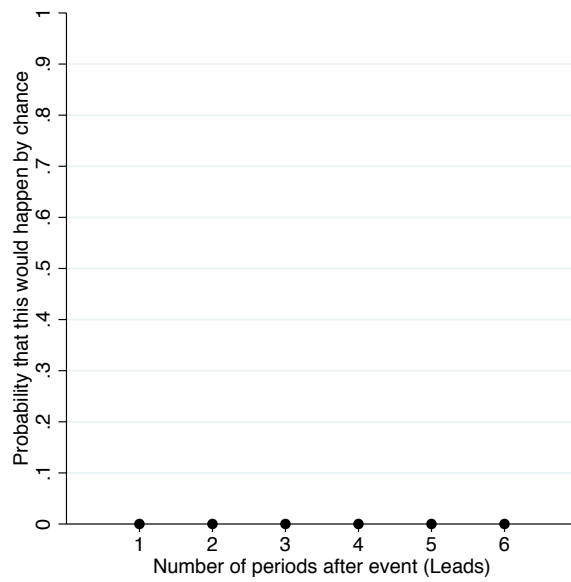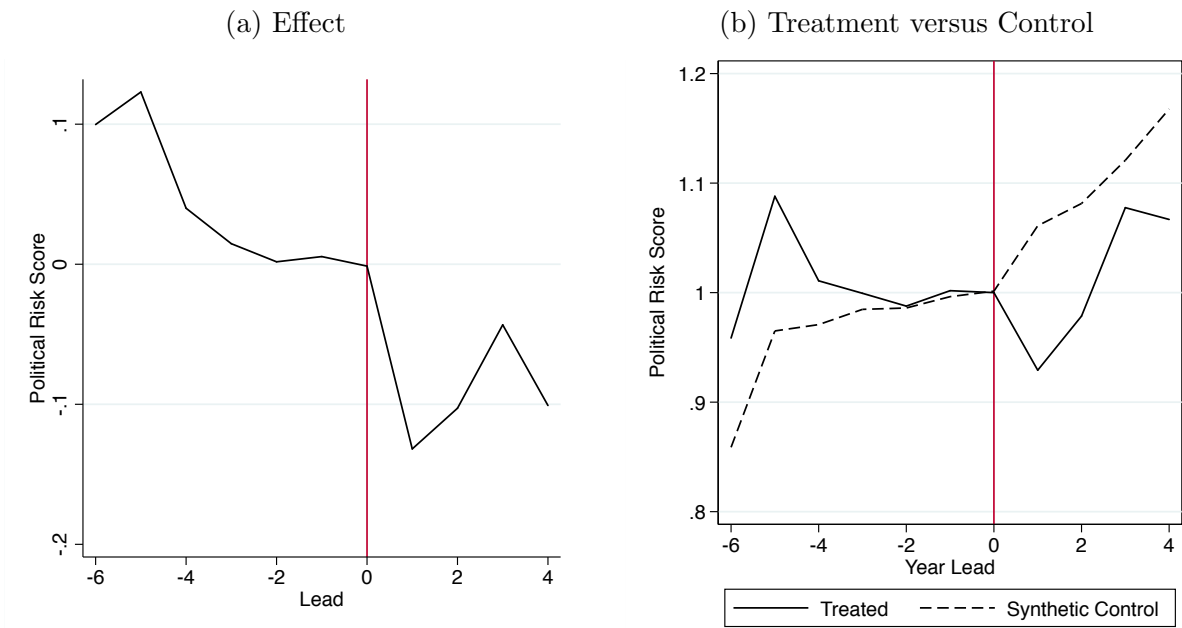Figure 1: Effect of REO Withdrawal on GDP Growth (high institutionalization)

(a) Effect

(b) Treatment versus Control
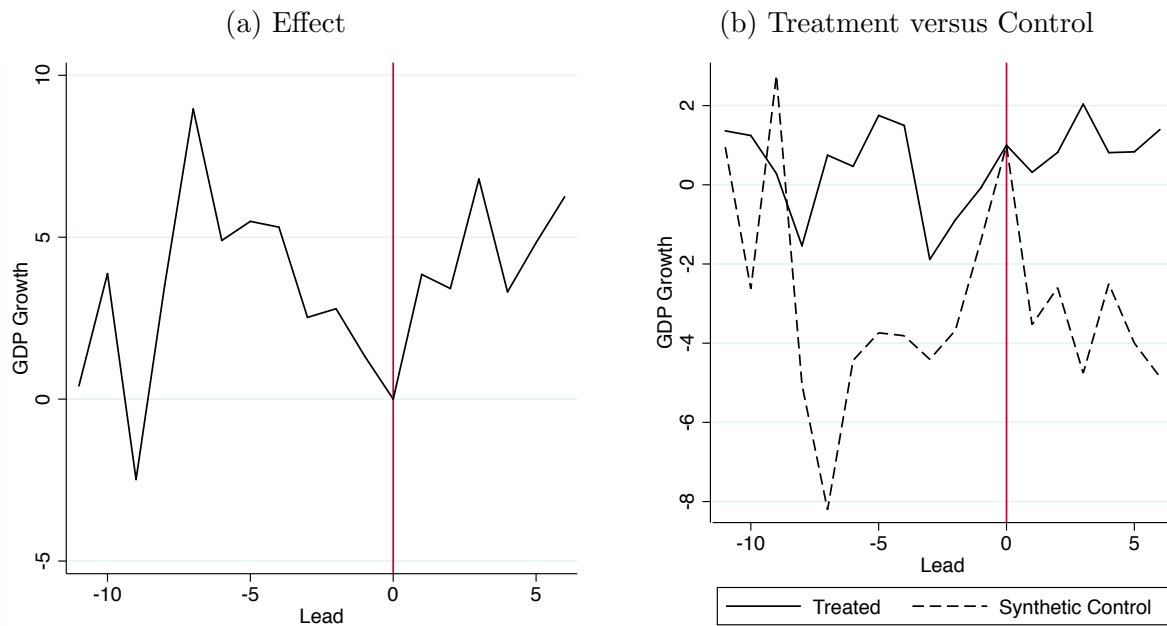
(c) Standardized P-values

Figure 2: Effect of REO Withdrawal on Political Risk Scores (high institutionalization)

(a) Effect

(b) Treatment versus Control
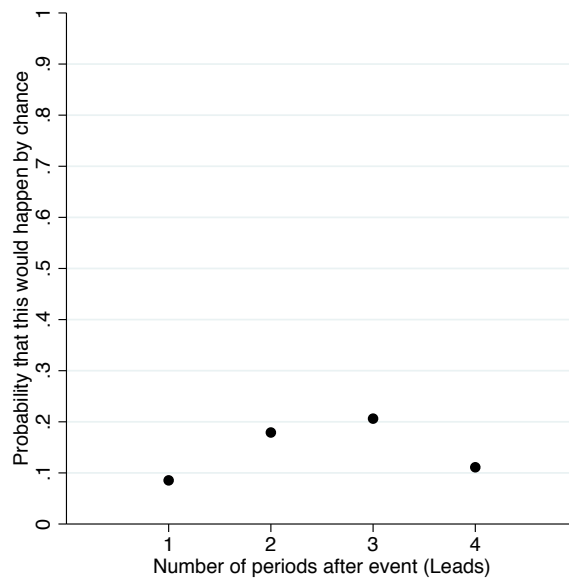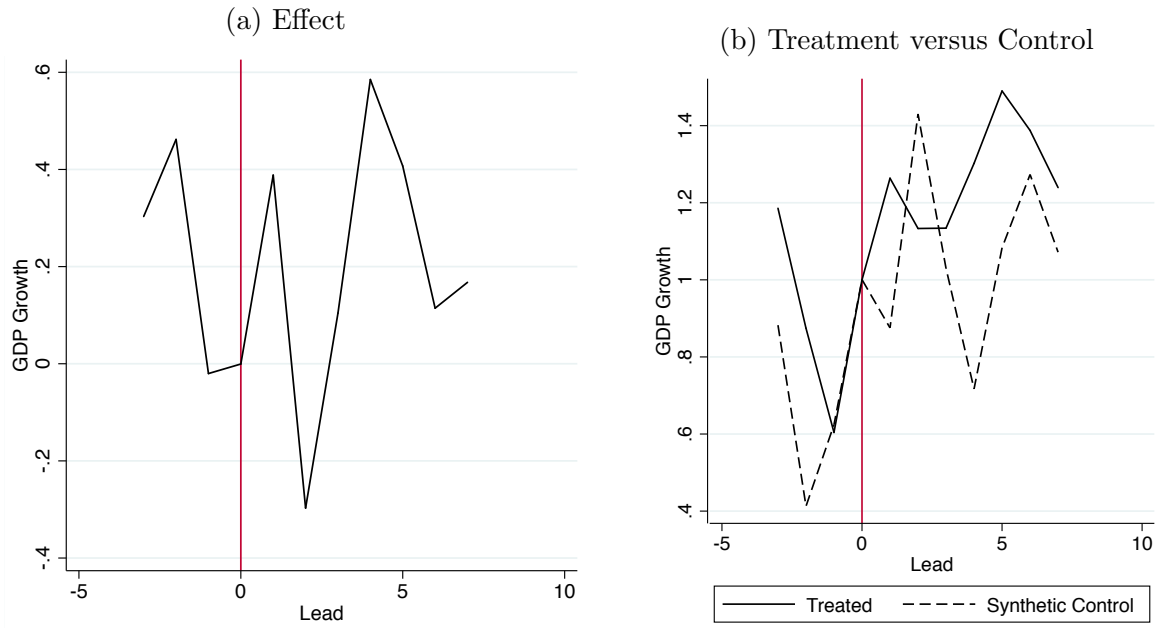

(c) Standardized P-values

Figure 3: Effect of REO Withdrawal on GDP Growth (low institutionalization)

(a) Effect

(b) Treatment versus Control

(c) Standardized P-values