

Ideas and the OECD: Creating synergy and organizing diffusion of bilateral tax treaty

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## **ABSTRACT**

### **Ideas and the OECD: Creating synergy and organizing diffusion of bilateral tax treaty**

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The intensive spread of bilateral tax treaty (“BTT”) based on a standard form developed for OECD member countries in non-OECD member countries (“non-members”) in the 1990s leads to the overarching questions “What are the conditions allowing an idea to influence policy adoption in diverse national settings, how are these conditions created and by whom?” The main theoretical argument is that an approach which gives ideas a fundamental role but considers also actors and mechanisms of idea diffusion appropriately explains policy adoption. The empirical analysis strongly demonstrates that the OECD has been central in creating the necessary conditions for the idea of BTT to influence non-members in the 1990s.

The theoretical framework is mostly informed by constructivist arguments. However, in order to provide a complete explanation, the dissertation recognizes the complementarity of findings from a wider range of approaches dealing with ideas and from diffusion literature. The framework offers an innovative and comprehensive way of addressing the necessary conditions for ideas to be influential. First, the harmonious combination or compatibility (“synergy”) existing or created between a policy, a paradigm, a problem and a public sentiment can explain why an idea is more influential than another. Second, the proactive and purposeful promotion of an idea and its synergy through direct and indirect means (“strategic diffusion”) is essential to explain a policy adoption.

To enhance the comprehension of the phenomenon, the dissertation provides an exclusive descriptive analysis of BTT focusing on what is spreading, to which non-member countries, how

and when. In addition, it is demonstrated that interests alone do not explain the puzzle and that the OECD is likely to have played an important role to explain the puzzle.

The dissertation uses mixed method to provide strong evidence verifying the hypothesis formulated based on the theoretical framework. First, to determine if and how the OECD was involved in the process of synergy and strategic diffusion, a case study addresses the activities of the OECD with regards to BTT and its promotion to non-members and confirms the hypothesis. Second, a quantitative analysis is done to further the evidence that the OECD's involvement is related to this spread of BTTs. A correlation analysis establishes that the expansion of BTT networks in non-members in the 1990s is associated to contacts these countries had with the OECD. Furthermore, the results of an event-history analysis confirm that prior contacts with the organization increase the likelihood of signing a first BTT in subsequent years.

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## List of Acronyms

BIAC	<i>Business and Industry Advisory Committee</i>
BTT	<i>Bilateral Tax Treaty</i>
CCEET	<i>Centre for Co-operation with European Economies in Transition</i>
CCET	<i>Centre for Co-operation with Economies in Transition</i>
CCNM	<i>Centre for Co-operation with Non-Member</i>
CFA	<i>Committee on Fiscal Affairs</i>
DAE	<i>Dynamic Asian Economies</i>
DAFFE	<i>Directorate for Financial, Fiscal and Enterprises</i>
DNME	<i>Dynamic Non-Member Economies</i>
FDI	<i>Foreign Direct Investment</i>
MAI	<i>Multilateral Agreement on Investment</i>
NIS	<i>New Independent States</i>
OECD	<i>Organisation for Economic Co-operation and Development</i>
OEEC	<i>Organization for European Economic Cooperation</i>
UN	<i>United Nations</i>
WB	<i>World Bank</i>
WP1	<i>Working Party no.1 dealing with tax treaty issues</i>

## CHAPTER 1: INTRODUCTION

### 1. INTRODUCTION

On September 8, 2008, the Organisation for Economic Co-operation and Development (“OECD”), celebrated the 50<sup>th</sup> anniversary of the OECD Model Tax Convention (“OECD model”) and held a special conference on the topic of bilateral tax treaty (“BTT”) for the occasion. This event reunited 650 international tax experts from business<sup>1</sup>, government senior officials as well as academics from more than 100 countries and jurisdictions. “Today, there are more than 3 000 tax treaties in force around the world based on the OECD model.” (Owens and Bennett 2008: 10) In his opening remarks at this conference, Angel Gurría, OECD Secretary-General, noted the success story of the OECD model.

BTTs are signed between two partner countries (OECD member countries or non-OECD member countries) generally to solve problems of double taxation occurring when the same income is taxed in both countries. While all BTTs are not identical, it is important to note that every BTT is based on the same standard form and its content is fundamentally derived from the OECD model. For the dissertation, the “global BTT network” refers to every BTT signed worldwide, whereas the expression “BTT network” for a country is used to address the set of BTTs signed by this country with other countries. It is important to note that “network” therefore, refers to the concept as used in a technical sense in the field of international taxation and not as the theoretical concept used in public policy literature. For example, Canada has a large BTT network which comprises 87 BTTs signed with partners who are OECD member and non-OECD

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<sup>1</sup> “It will be the first time that the OECD opens to private sector specialists its annual meeting of government officials working on tax treaties.” (OECD 2008: 3).

member countries (Department of Finance Canada, 2010). To be more precise, each BTT is comprised in each of the partners' BTT network and only once in the global BTT network.

Even if BTT existed since the early 1900s, few BTTs were signed prior to the mid-1950s and countries which signed BTTs were mostly developed countries with partners from the same region (Rixen 2008). The total number of BTTs in the global BTT network grew from 70 in 1955 to near 1 800 in 1997 (Easson 2000). In 2004, more than 90% of all possible BTTs between OECD members were signed (Rixen 2008).

The dissertation is interested in the spread of BTTs signed by non-OECD member countries ("non-members") in the 1990s following the standard set by the OECD for OECD member countries. While BTTs have existed since the early 20<sup>th</sup> century and the OECD model since the mid-1900s, a spread of BTT signatures by non-members is most noticeable in the 1990s. Table 1 presents the increase in the number and percentage of BTTs by at least one non-member as a partner over the period 1950 to 2007<sup>2</sup>. Before 1970 very few treaties were signed by non-members. These countries were not familiar with the OECD model produced by and for developed countries, and this fact also brought suspicion on their part (Surrey 1978). During the 1970s, some treaties were signed between developed countries and less developed countries, particularly in Africa and Asia, mostly between colonial states and their colonies or with the aim of attracting foreign direct investment (Easson 2000).

As indicated in table 1, the global BTT network included 474 BTTs between non-members or between a member and a non-member before 1990. This number rose to 1 315 BTTs by the end of the 1990s. Figure 1 further illustrates this large increase in the number of BTTs signed by non-OECD countries in the 1990s and the puzzle to be explained.

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<sup>2</sup> A BTT signed by two non-member partners is calculated once in these numbers.

Table 1. Number of treaties with at least one non-OECD member country partner by decade <sup>(1)</sup>

Years	Before 1950	1950s	1960s	1970s	1980s	1990s	2000-2007
Nb of treaties	1	6	28	164	275	<b>841</b>	433
Cumulative	1	7	35	199	474	<b>1,315</b>	1,748

(1) Source: Worldwide Tax Treaty database from Tax Analysts (taxanalysts.com)

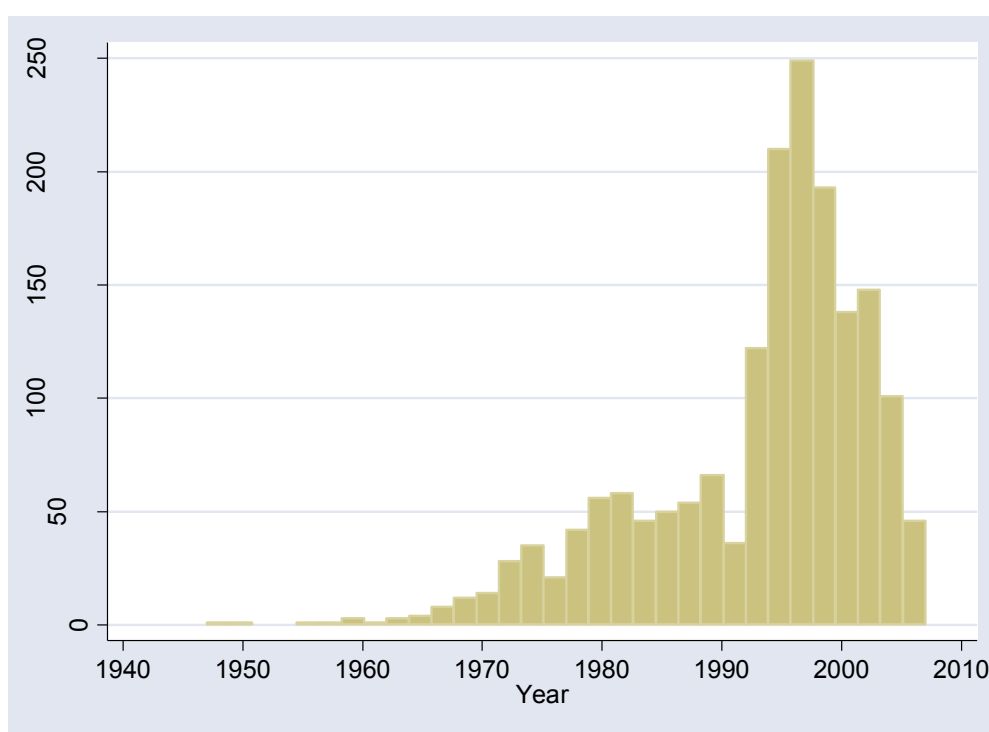


Figure 1. BTTs signed by at least one non-OECD member country for the period 1950 to 2007.

This research will investigate the possible role played by the OECD in the explanation of this wave of BTT signatures. Why study the development of BTT networks since 1990 in non-members when some BTTs have been signed before? The distinct and clear intensity of BTT signatures in the 1990s makes for an interesting puzzle to analyze what has changed and what allowed for the idea to become so influential at this time among these countries. Chapter 3 will

provide a more in-depth empirical analysis of the pattern of BTT network development by non-members since 1990.

Globally, the dissertation is interested in theoretical and empirical questions related to that puzzle. On the theoretical level, the dissertation addresses the questions: What are the conditions allowing an idea to influence policy decision in diverse national settings, how are these conditions created and by whom?

On the empirical level, the following questions are raised: What explains the major spread of BTTs in non-members in the 1990s? Has the OECD influence the choices of these non-members to sign BTTs? These general questions raise inherent sub-questions: How can the BTT spread in non-members in the 1990s be described? Which countries participated to this trend? What are the similarities and divergences among the BTT networks developed by some of these countries?

The dissertation argues that an approach emphasizing ideas as a key determinant to policy choices while allowing for an international organization to have an autonomous influence on the diffusion of ideas is the best alternative to understand fully the expansion of BTT networks in non-members in the 1990s.

Even for literature according to which public policy-making is still largely a state's prerogative, policy choices are made in an international environment (Garrett 1998; Weiss 1998). Capital and people mobility increases the international influences on domestic taxation policy choices, resulting in an internationalization of the policy-making process (Doern and al. 1996; Hirst and Thompson 1996). Research studying public policy should account for these international influences or "transnational influences" (Orenstein and Schmitz 2006). Much



research on public policy now incorporates the mechanisms which link domestic policy process to the international system (Risse-Kappen 1995; Finnemore and Sikkink 1998). Among these international influences, recent researches emphasize the role of international organization in influencing policy choices (Orenstein and Schmitz 2006; Barnett and Finnemore 2004) and also playing a key role in global governance (Avant and al. 2010; Mahon and McBride 2008). Considering that ideas matter and fully incorporating transnational actors in the domestic policy-making analysis “cut(s) across the divide between international and domestic politics in political science” (Orenstein 2008: 172).

While states try to preserve their sovereignty or autonomy particularly concerning their right to tax and the control over their many programs and expenditures (Li 2004; Sawyer 2004), international factors may, in fact, influence their autonomy (Rixen 2008). The dissertation will therefore, enhance the theoretical and empirical understanding of international influences and more particularly, the role of an international organization in shaping domestic choices with regards to taxation policies in a global environment. The research in this dissertation is informed by constructivism by offering a theoretical approach which allows incorporating national and international factors in the explanation, and by giving ideas a central role.

## 2. WHY STUDY BTT NETWORK IN NON-OECD MEMBER COUNTRIES?

Before 1990, 70 non-members had signed at least one BTT and from this number only 24 countries had a network of 10 treaties or more. In 2007, 63 out of 117 non-members had a network of more than 10 treaties. The substantial 1990s wave illustrated by the decisive and rapid BTT network expansion, moreover based on a standard developed for OECD member countries,

and the diversity of countries involved makes the diffusion of this policy an interesting phenomenon.

The dissertation focuses on the involvement of the OECD and argues that the OECD's activities concerning OECD and non-members could explain the puzzling spread of BTTs in these countries in the 1990s. As the brief history provided in Chapter 4 will illustrate, BTTs, which have become an area of expertise for the OECD during the last 50 years, have existed since the early 1900s. At the beginning of the century, increasing international exchange created a potential problem of double taxation that countries wished to solve. BTT was developed as a solution for two countries to prevent double taxation. A BTT provides for the allocation of taxation rights among countries in order for the income to be taxed only once. Appendix 1 gives detail and an example.

The expansion of BTT networks in non-members is an appealing subject for public policy research purposes for many reasons. First of all, it constitutes a wide adoption of an idea at the international level in a rather limited period of time. It is even more puzzling because a wide variety of countries has decided to develop BTT networks. Furthermore, it is an idea that was originally designed to solve double taxation problems in developed countries, which has more recently been widely adopted by developing countries, not only in their relations with developed countries but also in their relations with each other. The fact that the application of the BTT prevails in case of contradiction between a BTT and domestic legislation, the existence of alternative policies and the lack of clear evidence of the benefits or consequences of BTTs for non-members all make the question even more puzzling.

The characteristics of BTT presented in further detail in chapter 4 support the importance to address this puzzle. BTT is not the only solution for the perceived problem of double taxation,

and for its other purposes. Choosing to go along with BTT can lead to a loss of sovereignty over taxation policies because a BTT has priority over domestic tax rules. Therefore, signing one treaty may not be a real threat to tax sovereignty but developing a network of 20 treaties definitively hinders the application of subsequent changes to domestic tax legislation with regard to international taxation<sup>3</sup>.

When capital flows between two countries are symmetrical, the allocation of taxing rights in favour of one or the other country is not problematic. In this situation, the losses in tax revenues are generally compensated by an equivalent gain. However, the allocation of taxing right between countries with asymmetrical capital exchanges can lead to a loss of revenues for capital-importer countries, particularly when the taxing rights of the source country are restricted (Davies 2004; Surrey 1965). The example presented in Appendix 2 illustrates this situation. Despite the possible loss of tax revenues and control over taxation policies which will be discussed in more details in chapter 4, the number of bilateral tax treaties signed by non-members has grown exponentially since the 1990s.

International taxation policies may affect current or future tax revenues for all countries and especially non-OECD members, affecting more or less directly its population. Countries might have to increase the tax burden of their residents to compensate for the loss of tax revenues on mobile sources of income. Because international taxation policy choices may have major consequences for the entire population, it makes the decision-making process in this area worth

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<sup>3</sup> For example, if Country A decided to increase its tax rate applicable to income earned by non-residents within its border to 25%. If Country A has a tax treaty with country B which limits the right to tax such income to 10%, only a tax equivalent to 10% could be charged to the resident of country B even if the rate provided by the domestic legislation is 25%. If this is the only BTT signed by Country A, then the increase of tax rates can apply to non-residents from any other country. However, if Country A has a BTT network of 20 treaties with almost all of its commercial partners, then the increased tax rate (25%) will rarely be applicable since the application of the rates provided in all these treaties will prevail.

analysing in more detail. In that context, understanding the influence exercised at the international level on domestic policy-making can enlighten the decision-making process and the source of influence. Among the possible factors explaining policy-making, it is relevant to deal with the impact of the involvement of national decision-makers with international organization where they get their learning from and where their cognitive capacities are structured (Weyland 2005).

The dissertation is based on a premise which will not be questioned or verified empirically in this research. The analysis considers that the affirmation according to which the entire global BTT network is based on the OECD model is correct, even if every BTT does not replicate exactly the content of the OECD model. There are many reasons to support this affirmation often made by tax experts: 1) every BTT has the same format as the OECD model and is based on a distinction among types of revenues to attribute taxing rights; 2) a brief overview of BTT history reveals that the OECD model is central in the evolution of the global BTT network; 3) while there may be departures from the OECD model in BTTs signed by non-members, the OECD model is often the starting point of the negotiation<sup>4</sup>; and 4) the UN model has been developed based on the OECD model with adjustments, and therefore, it is more a variant of the OECD model than a real competitor model. The research for the dissertation did not undertake any content analysis of each BTT signed by non-members to establish their level of conformity with the content of the OECD model. This premise might disregard the potential influence of the UN which might have attracted the attention of developing countries on this option in 1979 when it released its model. Nevertheless, it is fair to say that the OECD model is intrinsically related to the idea of BTT in general.

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<sup>4</sup> For example, a professional tax expert indicated that “I recently talked with a former tax treaty negotiator for China, who described one of the key negotiations in which she participated with a major developing country. What was the template agreement from which the two countries began their discussions? The OECD Model Tax Convention, of course, even though neither country is an OECD member” (Barnes 2008).

It is also important to precise that the idea of BTT is connected to the idea of BTT network. While there are arguments to sign a particular BTT with a specific country, these same arguments support the need for a country to sign as much BTTs as possible and therefore, to develop a BTT network. As the case study will demonstrate, the OECD promotes BTT through a recommendation that countries develop extensive BTT network. The argument of the OECD is that BTTs are beneficial to countries and the benefits are multiplied by the number of BTTs signed.

The active participation of OECD member countries in the OECD's work may pose an endogenous problem difficult to overcome when addressing the influence of the organization on member countries' policy without looking at the origin of an idea. While further research should try to evaluate the OECD's influence on its members or their interaction, addressing BTT in the case of non-member countries helps to overcome this stumbling block. This is particularly true in the early 1990s because participation from non-members in the work of the organization was very limited.

### 3. IDEAS ARE CENTRAL AND DIFFUSION IS IMPORTANT

The dissertation's analysis is informed by constructivism however it argues that claims from other research programs such as historical institutionalism as well as diffusion literature can help to operationalize the conditions under which an idea gains influence upon policy adoption. Constructivism is a relevant theory to explain and understand the power and authority of an international organization derived by creating and disseminating information and knowledge upon which actor's interests are defined. In explaining the power and authority of international

organizations, it is important to understand that these organizations also act upon their perceived interest. In these circumstances, the promotion of ideas by an international organization can be understood as part of a strategy which is in accordance with the organization's interest (Pal 2008; Best 2010).

Institutionalism includes ideas in the analysis but ideas are not central in any of these explanations (Béland 2005). Woods (1995) indicates that rationalism ignores the reasons why states rely on a particular set of ideas to define their preferences and interest. Without denying the importance of interests, the dissertation argues that ideas alter the perception of interests. States may be acting upon their perceived national interest but when uncertainty prevails, the identification of interest can be altered by information received. Ideas can also be seen as a filter for the interpretation of interests (Radaelli and Kraemer 2008). These ideas are strategically pushed by some actors through the use of narratives (Jabko 2006).

The theoretical framework developed in the dissertation is based on approaches which recognize the importance of different types of ideas (Campbell 1998; 2004), whether they are; a paradigm (Hall 1993), a public sentiment (Risse-Kappen 1991; Page and Shapiro 1983), a problem (Peter 2005; Weyland 2004), or a policy (Dolowitz and Marsh 1996). However, the dissertation argues that each type of idea is important and that a policy option will be influential if the other three types of ideas further support this idea. Based on the typology of ideas developed by Campbell (1998; 2004), the dissertation defines ideas in a more systematic manner. Recognizing that there are different types of ideas, which have distinct influence and which interact together increases the explanatory power of the concept of ideas.

The theoretical framework posits that ideas matter but their influence is likely to increase if there is a synergy with other types of ideas, and if they are strategically diffused. The concept of

synergy is used in the theoretical framework to refer to a harmonious combination or compatibility of different types of ideas. Synergy is similar to the concept of coupling (Kingdon 2003) but its existence is less random and more strategic. Synergy is also supported by other arguments, such as the reference to the fact that ideas must “fit” the ideological environment (Sikkink 1991; Goldstein 1993). The dissertation argues that a policy is more likely to be influential if there is a synergy with a dominant paradigm, a problem and a public sentiment.

From the focus on the process supporting the causal chain between idea and policy adoption emerges the concern about diffusion. The diffusion literature emphasizes the mechanism which can explain the adoption of an idea across diverse settings; learning, competition, coercion, socialization or emulation. The dissertation argues that the consideration of these mechanisms should be connected to the analysis of the impact of ideas more globally. To ideas and the concept of synergy, the theoretical framework adds the process of “strategic diffusion”. “Strategic diffusion” is the proactive and purposeful promotion of an idea through direct and indirect means. This concept is based on the literature on diffusion but adds agency and provides for the consideration of the role of an actor, experts or policy entrepreneur, in the analysis of the process of diffusion.

Assuming that, as expressed by Radaelli, “... a consideration of ideational variables is a methodology for an empirical study of power. Knowledge and power – to begin with – are in a symbiotic relationship” (1998a: 2), then the experts or policy entrepreneur who holds the knowledge can be powerful actors. The source and mechanisms by which ideas circulate are of crucial importance if we are to ascertain how and why an idea becomes influential.

Some studies establish that ideas are influential when credible, salient (Haas 2004), when their flexibility can lead to a consensus (McNeil 2006) or when it can be framed in a more

attractive way (Béland 2005). The credibility and knowledge held by some actor makes their ideas more persuasive (Majone 1989). The theoretical framework which is presented in more details in chapter 2 abides by this literature, but it constitutes an effort to go forward and to systematize the conditions under which an idea becomes prominent by bridging the gap between the evidence that an idea exists and the explanation as to why the idea was adopted. It goes further than rational approach (which bridges this gap by the reference to interest) in arguing that ideas may alter the perception of interest.

The dissertation will provide an innovative and more systematic way to think about ideas by highlighting how ideas from different types interact together and can be used to diffuse a particular policy option. The process explaining how an idea led to a policy adoption is based on the creation of a synergy among different types of ideas and its strategic diffusion and allows for actors to play a role in these processes.

#### 4. WHY STUDY THE ROLE OF THE OECD?

From a theoretical perspective, agency situates ideas in time and space (Ruggie 1998). Agency is part of the explanation of policy transfer literature (Marsh and Sharman 2009) and others argue that agency should also be taken into account in diffusion studies (Lee and Strang 2006). Agency is considered in different ways through concepts such as; epistemic community, policy entrepreneur or experts. However, the more structure-driven analysis of network overlooks the importance of specific actors in the process of idea development and diffusion (Hay 2000). Epistemic community literature provides relevant insights about the development of knowledge and the characteristics of “usable knowledge”. Since knowledge is power, control over this knowledge is an important factor to explain policy-making (Stone 2004). Therefore, the analysis



must address who holds, develops and promotes this knowledge. The dissertation argues that policy entrepreneurs can put an issue on the agenda by combining it with a solution at a specific time (Kindgon 2003), but it can also play a more strategic role in the development and the promotion of knowledge if this policy entrepreneur holds a specific expertise (Miller 2007; Stone 2004; Rich 2006). International organization can be seen as such experts (Dostal 2004; Lazer 2005) or policy entrepreneur (Laffan 1997).

Recent studies have emphasized the autonomous role of international organization. “IOs are more than the reflection of state preference and [...] they can be autonomous and powerful actors in global politics” (Barnett and Finnemore 1999: 700). The dissertation bases its analysis on this premise. The OECD is seen as an autonomous actor and the case study concerning the OECD’s activities on a specific program helps to understand this actor’s role and influence on national policy-making decision.

On the empirical level the OECD has been overlooked for many years (Woodward 2004). However, more recently many studies have highlighted the important role played by this organisation in policy-making or governance (Marcussen 2005; Mahon and McBride 2008; Armigeon and Beyeler 2004; Woodward 2009). More specifically with regards to BTT, the organization has been working on this issue and developed a specific expertise on the topic in general and through its model more particularly for over 50 years. The organization acts as the central actor (Rixen 2008; Woodward 2009) with regard to this idea and takes a lot of pride in the global reliance on the OECD model and its role in creating international norms and standards.

The study of the possible influence of the OECD on a particular tax policy is important for many reasons. First of all, the technical nature of BTT has hidden this topic from public scrutiny and may have given more space to particular actors with information, expertise and credibility to

shape a state's decision (Haas 1992; Miller 2007). Secondly, the OECD can take advantage of the dominance of this standard and its lock-in effect. Other issues of international taxation, such as e-commerce, transfer pricing and exchange of information have been connected to BTT. The increased global BTT network in place makes it easier to adopt the solutions promoted for these other concerns. As a transmission belt for many taxation issues, BTTs are a corner stone of the international tax system.

International taxation is a very technical issue that is rarely publicly debated. Only a small number of experts, particularly in the business sphere or in the Finance ministries or academics, are interested and involved in this matter. It could be argued that all these experts, along with experts from the OECD are part of an epistemic community (Haas 1992). However, looking at the entire group of experts as such a community could downplay the role played by specific actors in this community (Sebenius 1992). The OECD reunites many international experts, either as OECD's employee or consultant. The organization gathers information, produces reports and analysis, makes recommendations and creates standards. The work of the organization is supervised by member countries but once large goals are determined, the secretariat of the OECD develops the strategy and manages the tasks to reach these objectives. In the 1990s, the organization created linkages with non-member countries on many purposes including taxation and BTT and provided learning opportunities. The theoretical framework will help to understand the influence of the OECD and the conditions that allowed for the idea of BTT as supported by the OECD to gain significant influence in non-member countries at a certain point in time.

While the global BTT network has been addressed as an international regime (Rixen 2008) or as a form of global governance in previous studies, the OECD has rarely been looked at as the creator of focal point in taxation. This case can help to understand the circumstances in which an international organization without "coercive power" can shape the policy decision of many states

and not only its members. The general role of the OECD has evolved over time. After a few years of existence, it was noted that the OECD had to be looked at as an intergovernmental organization and not a supranational organization because it did not stipulate a common policy to be followed by its members but focused on achieving coordination through cooperation and was mainly a forum for discussion (Aubrey 1967). During the first decade of the organization, its role involved the “exchange of information, better understanding, and influence by “moral suasion” or collective pressure between policymakers from member countries” (Aubrey 1967:39). Recent researches (Woodward 2009; Marcussen 2001; Porter and Webb 2004) seem to depict a more active and autonomous role for the organization.

This organization which could have been previously seen simply as a forum for discussion and as a research or statistic provider to support the discussion in the forum at the beginning of its existence has gained a more autonomous role in the global economy. The lack of an official mechanism to enforce its rules or standards should not lead to the conclusion that this organization does not have its own influence on domestic policy making. The functions performed by the OECD in the global economy have been identified as the promotion of cooperative solutions, the gathering and dissemination of information, the provision of support services for other international institutions and the setting of standard (Woodward 2004).

The literature supports the necessity to develop further the understanding of this organization. The thesis constitutes an effort to accumulate evidence on the impact of an international organization’s ideas, and the diffusion mechanisms used to contribute to the emerging literature on the OECD's role in policy-making and also to the development of the ideational and diffusion approaches.

## 5. METHODOLOGY

As per Orenstein, "...methods for studying transnational actor influences on domestic policy remain in their infancy" (2008: 7). I argue that the only way to empirically analyze the influence of the OECD on the BTT spread in non-members is to use mixed method. Qualitative and quantitative methods are complementary to demonstrate the influence of ideas on policy adoption in the context of diffusion. The first part of the analysis aims at understanding the prevalent conditions at the OECD level for allowing the idea of BTT to become influential in non-members through process tracing. The second part of the analysis tests the relationship between the actual increased numbers of BTTs in the 1990s by non-members to the contacts these countries had with the OECD concerning BTT.

Firstly, the dissertation argues that an approach which gives ideas a prominent place in the explanation is better suited to understand and analyze the role played by the OECD in the development and the promotion of BTT to non-members. Therefore, the first part of the analysis aims at understanding the prevalent conditions at the OECD level for allowing the idea of BTT to become influential in non-members through a process tracing analysis of the work of the OECD on the subject of BTT and the diffusion activities to non-members. This analysis is conducted through a case study about the OECD's involvement in the diffusion of the idea. A case study is a relevant methodology to address process tracing, and it will allow determining if the processes expected to explain the wide adoption of a policy ("synergy" and "strategic diffusion") were in place within the OECD's activities concerning BTT. The case study will therefore, help to answer the question what has been the involvement of the OECD with regards to the BTT idea and its diffusion to non-members? It will allow tracing how the organization worked on the idea and the activities or other features of the organization which supported the diffusion.

The focus on the OECD's involvement represents a critical case. Since the OECD is seen as a central actor with regard to BTT by the tax community (Avery Jones 1999), the theoretical framework would expect that this organization has been involved in the creation of a synergy and strategically diffused the idea of BTT to explain the widespread signature of BTTs by non-members. Doing a case study of the OECD's involvement allows explaining the role of the OECD in these processes and uncovers the conditions related to the idea that prevailed at that time within the organization. What was going on in the OECD in the late 1980s and 1990s with regard to BTT and non-members, which could have made the idea attractive to non-members?

The theoretical framework suggests that for an idea to be influential it needs to have a synergy with other related types of ideas, and it needs to be actively diffused. A case study focusing on the OECD's work concerning BTTs allows establishing the role of the OECD in creating this synergy and organizing for a diffusion of this idea in the 1990s. The objective of this case study is similar to the study of the World Bank and pension reform by Orenstein (2008) which was to understand the internal dynamics of a transnational policy actor, its objective and the specific mechanisms of its influence.

The case study results from the analysis of numerous OECD documents. A list of documents is provided in Appendix 8, from public reports or papers to documentation obtained from the OECD archives upon requests containing meeting summaries from diverse OECD bodies working either on BTT or on non-OECD member relationships for the relevant period. The information gathered through this documentation analysis was corroborated or completed by semi-structured interviews with key officials from the OECD<sup>5</sup> specialized either in BTT or in relationship with non-members.

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<sup>5</sup> These interviews have been conducted in Paris in 2008, at the OECD's premises, except for one interview, which was conducted in Toronto. The limited number of people involved at the OECD in

A case study may not demonstrate causal relationship but allows a more in-depth analysis of the circumstances where an idea can influence policy-making in a particular setting at a particular time. Case studies can lead to the identification of important clues of plausible cause-effect relationship (Yin 2003). A case study is particularly useful because it can help to make sense of how ideas get influential and what is the role of international organization in the diffusion of ideas because it gains in depth what it loses in width (Flyvbjerg 2000). These studies are particularly relevant to account for processes (Odell 2001; Van Evera 1997). While this case study may not expose all the variables in the explanation, it offers significant insight as to how an international organization might organize knowledge and diffuse it. More particularly, concerning taxation policies, a case study is relevant to increase empirical knowledge about policy making in this area. “Ultimately, though, further case studies on international tax organizations should improve the overall assessment of their power and influence, and correspondingly direct attention to their decision-making processes, accountability, and legitimacy in shaping international tax policy.” (Ring 2010: 133)

The design for the case study is based on the concepts of the theoretical framework. The linkages created by the OECD among the four types of ideas can be revealed with this particular case study. The case then focuses on the promotion of BTT by the OECD directed at non-members. While prevalent conditions for ideas to be influential can be uncovered through the case study, the more direct relationship between the idea and the actual adoption of the idea in specific countries at a particular time needs to be addressed more explicitly. As chapters 5 and 6 demonstrates, the case study confirms that the OECD has created the conditions for the idea which has facilitated its adoption through the process of synergy and strategic diffusion.

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projects related to the case studied does not allow making direct references to interviews to preserve confidentiality.

However, it cannot be concluded that these conditions led to the worldwide spread of BTTs and does not account for other possible explanations. A more specific analysis of this relationship is necessary.

A large-N quantitative analysis is conducted in chapter 7 in order to answer the questions: What explains the major spread of BTTs in non-members in the 1990s? Has the OECD influence the choices of these non-members to sign BTTs? To do so, a variable is created to consider contact of non-members with the OECD with regard to BTT. The dependent variables are based on the descriptive statistics provided in chapter 3 concerning the evolution of BTT networks in non-member countries in the 1990s. Then, the relationship between the variable measuring the contact with the OECD and the dependent variables are analyzed. Therefore, the case study is complemented by the quantitative analysis to allow tracing the actual development of BTT networks in non-members to efforts of the OECD. Furthermore, this statistical analysis includes other variables which according to previous research could explain this phenomenon.

By combining qualitative and quantitative analysis, the dissertation develops a stronger argument for the influence of the OECD in explaining the spread of BTTs in non-members in the 1990s.

## 6. CONTENT OF THE DISSERTATION

Briefly summarized, the dissertation is composed of three parts. First, chapter 2 provides a literature review and elaborates a theoretical framework to explain the conditions under which ideas influence policy decisions. Second, chapters 3 and 4 provide details to understand better the phenomenon of BTT in non-members. Chapter 3 describes the BTT spread in the 1990s to

situate the phenomenon in time and space and demonstrate the diversity of countries which participated to this spread. Chapter 4 emphasizes BTT characteristics in order to demonstrate that BTT is not directly connected to a predetermined interest for non-OECD members and that the OECD was involved with BTT. Thirdly, the last part of the dissertation contains a substantial empirical analysis presented in 3 chapters. Chapters 5 and 6 present the case study of the OECD's work in relation to BTT and non-members. Chapter 7 provides a quantitative analysis to establish the relationship between the OECD's work and the actual BTT signatures by non-members.

More explicitly, chapter 2 provides a literature review concerning the role of ideas in different research programs and argues that a constructivist view allows ideas to play a central role and provides for the basis of an accurate explanation of policy decision in an international environment. The literature review first demonstrates how the diffusion of a policy can be described on a temporal, substantial and geographical basis. The literature review shows the theoretical complementarity nature of ideas and diffusion in providing a complete explanation of the process of policy adoption, from the development of the idea to its adoption by a diversity of countries. The theoretical framework elaborated in this chapter bridges an explanation based on ideas with arguments from other research programs, such as historical institutionalism and diffusion literature to enlighten a constructivist explanation by leading it to be a more systematic approach. These studies can be complementary to understand the conditions and the process which makes an idea influential and to capture the role of actors in these processes. The theoretical framework operationalizes the conditions under which ideas gain influence through the processes of "synergy" and "strategic diffusion" and the role of actors in these processes. I argue that this approach correctly addresses the question "What are the conditions allowing an idea to influence policy adoption, how are these conditions created and by whom?" More particularly, the theoretical framework helps to understand the role of any actor, including an international organization. The presentation of the theoretical framework is then followed by the



elaboration of the hypotheses that are addressed in the dissertation. This chapter also elaborates on the theoretical and empirical contribution of the dissertation.

Chapter 3 describes more specifically the spread of BTTs in non-member countries in the 1990s, to focus on whether a policy has diffused according to the definition of diffusion in the literature. The analysis emphasizes the temporal dimension, the substantive terms and the spatial dimension of the phenomenon. It addresses empirical questions, such as “What distinguishes the BTT spread of the 1990s from previous adoption phases by non-members? Which non-members participated to the BTT spread in the 1990s? What are the similarities and divergences among the BTT networks developed by some of these countries?” This analysis further determines how the 1990s spread is different within the evolution of the global BTT network from 1950 to 2007. Since the increase in the number of BTTs is due to countries developing their BTT network and not only signing their first BTT, the analysis demonstrates how the development of BTT network can be similar or different across countries. This analysis permits the identification of five patterns of BTT network development, two of which are more related to the 1990s BTT spread.

Chapter 4 serves as contextual synopsis briefly situating BTT and the OECD’s involvement. It gives more details on the origins of BTT, its objectives and consequences. General information about the involvement of the OECD since its creation in 1960 with regard to BTT is also provided. The evolution of the general relationship developed by the OECD with non-members is summarized. This chapter has two main purposes. The first goal is to demonstrate that BTT consequences are unknown for non-members and an explanation based on interest is clearly insufficient to explain the spread of BTTs in these circumstances. Secondly, the involvement of the OECD is briefly presented in order to support the hypothesis that this organization did play a role in the diffusion of BTTs. This chapter puts BTT into context, to

further support the intriguing nature of the puzzle and to sustain the relevance to investigate the OECD's involvement.

To address the hypotheses formulated based on the theoretical framework, the dissertation relies on mixed method; a case study and a large-N quantitative analysis. The case study is divided into two chapters each addressing a specific hypothesis. First, chapter 5 addresses the first part of the case study by concentrating on verifying the hypothesis about the creation, by the OECD of a synergy among BTT, a paradigm, a problem and a public sentiment. Through the analysis of the text of OECD documentation (archives, report, summary of meetings) and interviews with experts from the OECD, the case study allows establishing that the OECD created and maintained linkages between the BTT policy idea, a paradigm (market economy) and a problem (double taxation). However, no public sentiment is revealed through the analysis, and this can be explained by the fact that the idea of BTT was insulated from public scrutiny since it has been presented by the OECD as a technical matter only.

Second, the case study analysis is continued in chapter 6 by addressing the second hypothesis; the strategic diffusion by the OECD of BTT to non-members. Through the analysis of the OECD documentation and interviews, the case study traces the means by which the OECD has promoted BTT directly or indirectly to non-members to conclude that the OECD did actively and strategically promote BTT to this specific audience in the early 1990s.

To further the evidence that efforts by the OECD to create a synergy and organize a strategic diffusion with regard to BTT helps to explain the BTT network expansion in non-members in the 1990s, a quantitative analysis is presented in chapter 7. This analysis develops a variable to account for the contact non-members had with the OECD concerning BTT in the first part of the 1990s. This variable is then included in a correlation analysis which establishes that

the expansion of BTT networks in non-members is associated to contact these countries had with the organization. Furthermore, the results of an event-history analysis confirm that prior contact with the organization increased the likelihood of countries signing their first BTT.

Chapter 8 briefly summarizes the arguments and the findings. It also presents limitations of this research and prospects for future studies.

## 7. CONCLUSION

This dissertation will make two original contributions to research on public policy in an international context. Firstly, the theoretical framework proposes a dynamic and systematic approach to ideas to better explain why some ideas influence policy decisions while others do not. The analysis will bring together in a systematic framework, ideas and the diffusion mechanisms by demonstrating how the combination of both enlightens the conditions under which ideas are influential and how agency has to be considered in the creation of these conditions. Secondly, it will enhance the understanding of the role and influence of international organizations, and more precisely the OECD, on national policy decisions. Woodward expressed: “The OECD remains the “forgotten institution” of global governance. For over 40 years, it has greased the wheels of the international system by brokering agreeable solutions to many of the problems that have bedevilled the emergent global economy. Throughout this time the OECD has remained largely hidden from view.” (2004: 124). The dissertation will add empirical evidence on the role of the OECD in shaping tax policy decisions to better understand its impact in policy-making.

The more direct role of the OECD on policy making has just recently begun to be studied in political science research. The OECD has often been seen as a data gathering organization, as a

technical assistant to the member countries and as a forum of discussion. In reality, the OECD plays a more autonomous role in the development and diffusion of ideas. Recent researches have focused on the OECD but did not deal with its role in taxation policies (Mahon and McBride 2008; Marcussen 2005; Armigeon and Beyeler 2004; Woodward 2009).

At a time when the OECD is trying to take a more assertive role in the governance of the global economy (Woodward 2004), knowing and understanding the conditions under which ideas influence policy-making is useful. For the organization itself, it is particularly relevant to understand what conditions need to be met to maintain its influence particularly when facing growing public scrutiny. Furthermore, for other actors who wish to have their voices heard in the field of international taxation the process of synergy and strategic diffusion are of great value. For scholars interested in policy-making, this case will enhance the understanding about the conditions under which ideas are influential in shaping policy choices.

## **CHAPTER 2 – BRIDGING IDEAS, DIFFUSION AND ACTORS**

### **1. INTRODUCTION**

The dissertation is interested in explaining the spread of BTTs based on the OECD standard in non-members in the 1990s. The dissertation addresses in a general manner the conditions under which ideas matter in explaining policy adoption and more specifically the role of actors in creating these conditions.

What are the conditions allowing an idea to influence policy decision in diverse national settings, how are these conditions created and by whom? The main argument in this chapter is that an ideational approach informed mostly from constructivism is relevant for the analysis of these questions. However, constructivism does not provide for a systematic analysis of ideas determining when ideas are expected to influence policy adoption and when they are not. I argue that claims from historical and sociological institutionalism can enlighten a constructivist explanation based fundamentally on ideas and situating actors in setting a favourable climate for ideas' influence. It is also necessary to bridge ideas with findings from the diffusion literature and incorporate agency to understand the conditions and the processes through which an idea becomes influential. I argue that an idea leads to policy adoption when the policy is in synergy with a paradigm, a problem and a public sentiment and when it is strategically diffused. The processes of synergy and strategic diffusion allow for the analysis of the role of specific actors in supporting the conditions for an idea to be influential. If the OECD played a role in the spread of the idea of BTT, this role will be captured theoretically through the analysis of ideas and these processes.

Rationalism, constructivism and all forms of institutionalism include ideas in their explanation for policy-making. However, the importance and the role of ideas vary greatly. There is no clear or consistent sense of what ideas are (Finlayson 2004) and the conditions under which ideas matter are not systematically or consistently considered across these studies even within the same research program. Second, while diffusion literature abounds concerning the mechanisms for diffusion (including learning, competition, coercion, socialization) not much has been written about the reasons for a particular policy to be diffused and the necessary conditions for diffusion. The dissertation argues that by bridging approaches which give ideas a more central role with diffusion literature and situating the role of actors in these approaches, it helps to uncover conditions for ideas to be influential. The theoretical framework developed in this chapter provides for a better answer to questions such as which policy diffuses and why. I argue that this approach is the relevant one to understand the role of the OECD in explaining the BTT network expansion in non-member countries in the 1990s.

This chapter presents a literature review of the concept of ideas in different research programs and also discusses findings from diffusion literature. It demonstrates how these two approaches are complementary in explaining the diffusion of a policy adoption, theoretically as well as empirically. The first part of the chapter situates the dissertation's argument in a wider environment to establish why approaches allowing for ideas to play an important role are more suited for the kind of research questions to be dealt with in the dissertation. This literature review addresses approaches explaining policy-making in the context of globalization in order to demonstrate how ideational and diffusion approaches allow for the consideration of relevant international factors affecting policy-making. The review deals, more particularly, with the literature which demonstrates the importance of ideas without disregarding interest but offering a prevalent role for ideas as they influence the formation of preferences. The review is then

completed by emphasizing the arguments and findings of diffusion literature to enlighten the process through which ideas can influence policy-making.

The second part of the chapter elaborates the theoretical framework and its concepts and situates those more specifically in the existing literature about ideas and diffusion. A typology of ideas distinguishes among four types of ideas; policy, problem, paradigm and public sentiment. The interrelation among these types of ideas is discussed. This section also demonstrates how agency is omnipresent throughout literature about ideas. The theoretical framework combines characteristics of an idea and its synergy with other related types of ideas and the promotion or strategic diffusion of this idea.

The concluding remarks about the theoretical framework also provide for the development of hypotheses. Finally, this chapter elaborates on the contribution of the dissertation, at the theoretical and empirical level.

## 2. LITERATURE REVIEW

### 2.1 Policymaking and globalization

In an era of globalization, or a more institutionalized globalization, the analysis of public policy needs to incorporate international factors (Doern and al. 1996). The distinction between foreign policy and domestic policy is blurred. The concern about the international environment in the study of public policy allows a more systematic analysis of the factors that may have an impact on policy decision.

### *2.1.1 Globalization and Global Governance*

Approaches focusing on globalization as the phenomenon or as an explanation assimilate globalization to increased communication technology and capital and people mobility. For Held and McGrew, globalization refers to “expanding scale, growing magnitude, speeding up and deepening impact of interregional flows and patterns of social interaction” (2003: 4). According to the globalization explanation or more specifically to economic determinism, the globalization of market creates pressures that cause certain policies to be broadly adopted. States are not a relevant unit of analysis because the global economy determines their policy choices. “Governments, therefore, have no real option other than to accommodate to the forces of economic globalization” (Held and McGrew 2003: 27).

Assuming that globalization explains convergence does not provide a complete explanation for policy adoption. For example, Brooks (2009) demonstrated that globalization pressures do not explain pension privatization in Latin America. What explains that convergence occurs with regard to particular policies at a specific time? Why is a policy perceived as necessary by some states at some time?

The globalization explanation overlooks two important explanations. On one hand, it does not allow understanding which ideas, sustained by the name of globalization, influence perceptions and policies. On the other hand it does not provide for any role being played by particular actors in developing and promoting these ideas. As Drezner (2001) argues, globalization is not deterministic and convergence is created by the choice of states to cooperate and agree on certain norms. From this point of view, what causes states to agree on a particular idea becomes a valuable question in order to explain convergence. Internationalization may change the preferences of actors (Garrett and Lange 1996) and because of the underlying



complexity and uncertainty it brings, the identification of interests is made more difficult.

Alteration of the perception of preferences and interests is possible through the diffusion of ideas about the possible impact or consequences of particular problems or policies.

Others argue that problems are defined globally, and they need some form of global response, or global governance. According to Rosenau's definition, governance is a rule system, "social functions or processes that can be performed or implemented in a variety of ways at different times and places (or even at the same time) by a wide variety of organizations" (2003: 225). This rule system can be formed in different arenas and by different groups. The dissertation argues that it is necessary to uncover the sources of governance by focusing on ideas and their promoters.

### *2.1.2 Neo-liberal institutionalism and regime theory*

According to neo-liberal institutionalism, states use international organization to achieve their objective based on their interest (Hobson and Ramesh 2002). International organizations are not recognized as autonomous actors but more as mechanisms used by states. This could explain why and how OECD countries exchange and work with the organization to reach their goals.

If we argue that countries which adhered to an international regime are those for whom it was in their interest to do so, it brings back the question of the determination of interest. As Ikenberry noted that "An adequate explanation must grapple with the problem of how interest came to be defined by governments on both sides of the Atlantic at a critical historical juncture, which in turn requires an understanding of the way in which evolving policy ideas influenced governments' conceptions of their interests" (1992: 58). In this perspective, a set of dominant ideas reduces the uncertainty and transaction costs and interests are exogenously given.

“Neoliberals have drawn heavily on economic theories of institutions that focus on information and transaction costs” (Hasenclever and al. 1996: 183).

Neoliberal institutionalism and regime theory more precisely, offer relevant claims for international regime formation and persistence. In regime theory a regime is a set of rules and norms but not an actor, and international organizations are simply “epiphenomena of state interaction” (Barnett and Finnemore 1999: 700). The rationalist regime theory considers that a regime can be formed when states consider that it is in their interest to cooperate. While this could explain regime formation and the cooperation among OECD member states in the creation and the adherence to the regime, it does not explain why and when non-OECD member states adhered to the regime.

Understanding the construction of focal point can help to explain international regime formation. For Martin and Simmons, the question of “under what conditions are constructed focal points likely to gain international recognition and acceptance” (1998: 747) is a useful question to develop a research agenda on the impact of international organization. Rixen (2008) referred to the OECD BTT model as the focal point. States which are part of this construction try to reduce transactional costs to achieve cooperation. Once a consensus is reached among countries which had an interest in the creation of this focal point, these institutions may then have an impact on other states if other states are convinced they should cooperate. Rixen (2008) demonstrated that OECD member countries had an interest in the development of a focal point through the OECD, and once the OECD model had been developed and followed by OECD countries, the standard had consequences for the non-members and “the outsiders voluntarily follow the standards adopted within the OECD” (Rixen 2008: 170). However, Rixen’s analysis does not explain why some (and not all) non-member countries adhered to this focal point at a particular point in time.

The “weak cognitivist” trend opens up to the consideration of ideas (Goldstein and Keohane 1993). Knowledge-based theories of regimes are better suited for the kind of analysis in this dissertation because it addresses “the origin of interest as perceived by states” and questions such as “Where do convergent expectations that are the bases of regimes come from?” (Hasenclever and al. 1996: 206). As I will develop later, approaches based on epistemic communities are aligned with knowledge-based regime theory, and the dissertation is inspired by this literature to tackle the role of agency. International organizations with prevalent expertise can have a similar impact as epistemic community.

## 2.2 Interests, preferences, rationality and ideas

In the dissertation the impact of ideas and interests is comprehended in a manner similar to the argument put forward by Blyth (2002) that actors actions are not dictated by material interests but rather by the perceptions of these material interests. Ideas render interests “actionable” (Blyth 2002: 39). While Hay (2004) indicates that it is mutually exclusive to consider interests as social constructs and as given by material circumstances, I argue that material factors and structure can not be deterministic because it is very unlikely that these would lead to a unique definition of interest in an uncertain environment. The dissertation argues that ideas articulated in given circumstances of material factors and structure can determine the interest.

An actor acts in accordance with its perceived interest within a particular system and material factors which are articulated through ideas circulating on the one hand about its identity, its role and on the other hand about problems, policies and outcomes. This actor can himself use or promote ideas from one of the four types of ideas (paradigm, problem, policy, public sentiment) in a way to further its perceived interest and these ideas alter other actors’ interest

perception. As noted by Jabko, “From this standpoint, ideas are important not so much as pure beliefs but because, in any given policy area, the parties involved must resort to ideas to articulate and advance their interests. Therefore, ideas can be crucial resources in the hands of strategic actors who understand their usefulness as rallying grounds for those in pursuit of diverse or even incompatible goals” (2008: 8). Best (2010) studies the IMF’s constructivist strategy in the case of the governance and transparency standards it developed after the Asian financial crisis. A constructivist strategy refers to “any actor or institution that takes ideas and norms seriously and believes that they can have practical effects is likely to pursue initiatives that seek to make use of ideas and norms to achieve their ends” (Best 2010: 198). As Jabko (2008) and Best (2010), the dissertation argues that ideas can be used strategically, therefore this recognizes that some actor are purposive and can use ideas in accordance with their perceived interest.

“From neo-realists to rational institutionalists and back again, material or organizational features dictate the interest that explains actions. Ideas, norms, and their attendant uncertainties are conspicuous by their absence.” (Abdelal and al. 2010: 4) While recognizing that there are material forces constraining the choices of policy-makers, other factors need to be analyzed as the driving forces for action. Structures and institutions do intervene and constrain policy choices, but they do not solely explain a policy decision. Structural approaches do not consider what is prior to interest and preference, and perhaps it is necessary to consider how these preconceived features developed, as “constitutive rules” (Ruggie 1998). An explanation based only on interest disregards the fundamental question of the interest determination.

Ideas and agents must be included in the analysis to reach a complete explanation. Many forces affect the determination of national interests. In the case of BTT, what made non-members consider that signing BTTs was in their interest? The lack of evidence of BTTs’ consequences for non-members’ economies, discussed in chapter 4, further supports the impossibility to link BTT

adoption with an exogenously given interest. And prior to the analysis of BTTs, how were these countries' interests determined and what were the influences upon this conclusion?

Taking preferences and interests as undetermined will allow an opening towards what and who influence the identification of these preferences and interests according to which decisions are taken. Policies adopted may be the ones that policy-makers are convinced are the best ones to respond to a perceived need. Firstly, even if policy-makers are seen as rational decision-makers, these decisions are based on the perception of a problem according to perceived interests. Secondly, once interests are seen as undermined by a particular problem, a decision is taken upon the perceived best solution. The inclusion of ideas and agents in the analysis can help uncover the influence on all these perceptions. The examination of ideas allows understanding what occurs prior to any phenomenon explained by the neo-utilitarian model (Ruggie 1998). I argue that material incentives exist and policy-making is interest-based. However, these interests are not structurally determined but are determined by perception.

According to rationalism, the preferences and interests of actors can be objectively determined since they are structurally determined and decision-making consists in the identification and thorough analysis of every alternative with regard to given interests to determine which one maximizes these interests. For a softer form of rationalism, the role of ideas is that of policy alternatives or options that will be analyzed for policy making purposes (Béland 2005). Goldstein (1993) sustains that policy outcome can be explained both by market-driven interests and by ideas concerning the issue. Goldstein sites Weber according to whom “ideas are switches that channel interests down particular paths” (Goldstein 1993: 250). Therefore, that which structures the perception of an interest and a solution is much more fundamental in the explanation than the interest alone.

Even once interests are identified, I argue that rational decision-making cannot explain every decision made because of the uncertainty about the context and the consequences of a policy, and lack of complete information. Ideas have an even more prevalent role when uncertainty prevails (Blyth 2002). Considering that internationalization may increase uncertainty, ideas can have an increased influence on the identification of national interest and the evaluation of consequences. Understanding the source of the information on which the perception is based and the communication of this information is necessary to ascertain the influence of ideas and actors. “Given the complexity and uncertainty of most political economic interactions, appropriate ideas may serve as pivotal mechanisms for coordinating expectations and behavior.” (Garrett and Weingast 1993: 178)

It is often impossible to determine all the alternatives and to account for the real impact of these alternatives due to cognitive limitation. Therefore, the decision is “satisficing” instead of maximizing (Simon 1955). The absence of complete rationality emphasizes the importance of discovering the source of the information and what alters the cognitive attributes of policy-makers (Dobbin et al. 2007).

Considering the relationship between ideas and interests is fundamental to understand the case of bilateral tax treaty and many other phenomena. As Campbell (1998; 2004) and other authors (Goldstein 1993; Kahler and Lake 2003; McNamara 1998) have stated, the development of a coherent theoretical framework does not have to sacrifice either ideas or interests. The dissertation argues, as do Orenstein (2008) and Blyth (2002), that it is not useful to maintain a division between ideas and incentives but rather to address their interrelation. Recent studies in political science (Béland and Cox, forthcoming) and even in international political economy (Abdelal and al. 2010) also recognize that ideas shape preferences and interests.

As Ruggie (1998) argued, interests are socially constructed and research needs to go beyond the impact of material forces. To give a central role to ideas in the explanation does not necessarily mean that there is a direct causal relationship between ideas and actions. An idea does not necessarily cause the action, but it could be the reason why other factors caused the idea to be implemented (Ruggie 1998). Ideas are primordial in the explanation because they could have changed or influenced the perception of interest and then the perceived interests/preferences can cause the action. While constructivism tends to be a less systematic approach, the dissertation argues that a form of constructivism defining more precisely ideas, including processes and actors generates a more systematic theoretical framework to analyze the conditions under which ideas lead to policy adoption. Different types of ideas, such as paradigm, problems, policies or program, public opinion all interact together and the theoretical framework will help to analyze this interaction and the role of agents in the process to develop and promote ideas.

## 2.3 Diffusion

### *2.3.1 Identifying diffusion*

Diffusion is defined as “any pattern of successive adoptions of a policy innovation” (Eyestone 1977: 441) or as “the process by which an innovation is communicated through certain channel over time among the members of a social system” (Rogers 2003: 35). Also, from an institutionalist perspective, diffusion is the “spread of institutional principles or practices with little modification through a population of actors (David and Foray 1994; Strang and Meyer 1993)” (Campbell 2004: 77). A policy can diffuse in many different settings and lead to the adoption of similar policies, albeit not necessarily identical.

According to Weyland (2005: 264) diffusion has three distinctive features: “wavelike character”, “geographical clustering” and the “spread of commonality among diversity”. On a temporal basis, the wavelike character is also described as an S-shaped curve (Gray 1973; Rogers 2003; Finnemore and Sikkink 1998). Diffusion of a policy is usually characterized by a few adopters at the beginning followed by an increased number of adopters and then in a third phase, the number of adopters tempers down.

The geographical clustering is generally associated to diffusion patterns because “proximity prompts imitation” (Weyland 2005: 266). A regional effect of diffusion can be observed when the innovation has been developed by a specific country and neighbour countries have learned about this innovation and through mimicry, have adopted this innovation locally. This was the case for pension privatization, where Chile’s innovation spread first in Latin America (Weyland 2005).

On a substantive basis, diffusion is said to occur when the policy adopted is similar within a diversity of adopters. While the policy adopted in different settings does not have to be identical for the identification of diffusion, it becomes essential to understand when the adoption of a policy can be said to be similar. Campbell (2004) enumerates a few examples of studies of policy diffusion (such as economic deregulation) which did not necessarily lead to an identical policy choice. The similarity of policy adoption is not straightforward. In his study of pension privatization, Orenstein (2008) identifies different types of pension privatization where privatization reforms are either substituted to, combined with or added to social security systems. Concerning policy transfer, Page (2000) differentiates copying, adaptation and inspiration. Therefore before discussing the diffusion of a policy it is essential to understand what this diffusion is about. Exactly what has been diffusing and how is the policy adopted worldwide similar in a variety of countries?



Before addressing a phenomenon as diffusion and explaining this diffusion through diverse mechanisms, it must be analyzed on a temporal, geographical, as well as substantive dimension. This analysis allows determining what exactly is being diffused, where and how before trying to explain the worldwide spread of an idea.

### *2.3.2 Explaining diffusion*

According to Simmons and al., “[i]nternational policy diffusion occurs when government policy decisions in a given country are systematically conditioned by prior policy choices made in other countries (sometimes mediated by the behavior of international organizations or even private actors or organizations).” The dissertation argues that international organizations or other actors have a more fundamental role in the diffusion process and the analysis of diffusion mechanisms can be connected to this role. The diffusion literature has focused explanations on diffusion mechanisms such as coercion, competition, learning, and socialization or emulation. Marsh and Sharman (2009) indicate that these four mechanisms are used in diffusion as well as policy transfer literature however to different degrees.

Constructivist approaches have tended to highlight social acceptance as explaining policy diffusion. A country will adopt a policy which is perceived as the relevant norm. The analysis of the reasons for a particular policy choice to be seen as appropriate becomes crucial. Social acceptance is said to be formed around policies adopted by leaders, similar countries, or new policies developed and promoted by experts (Dobbin and al. 2007). Some studies tend to prove emulation with a structural argument and explain the adoption of a policy by demonstrating that another country had adopted this policy before. This type of explanation does not provide any detail on how a country learned about the policy or why some countries have adopted it while

others have not. Some studies focus more particularly on the role of “teachers” of norms, whether they are international organizations (Finnemore and Sikkink 1993) or epistemic communities (Haas 1992).

Other studies have emphasized how coercion explains diffusion. When international financial organizations’ lending policy is based on the adoption of specific policies, this conditionality is a form of hard power and explains the diffusion of these policies (Levi-Faur 2005; Braun and Gilardi 2006). For Dobbin and al. (2007), there is no evidence of the impact of conditionality in explaining policy diffusion. Brooks (2002) has found that loans from the World Bank may explain pension privatization however she notes, as does Orenstein (2008), that soft power is probably as important as conditionality in the explanation. The softer form of coercion has some resemblance with social learning as well as emulation since it refers to a form of persuasion about what is appropriate.

According to the mechanism of competition, states compete for capital and export markets. States will emulate policies adopted by other states to ensure the country is attractive for investors. Elkins and al. (2006) have demonstrated that countries are more likely to sign a bilateral investment treaty when countries with which they compete for capital have done so. This mechanism is related to an explanation based on interest and a process of rational decision-making; policies are adopted because they are perceived as attracting essential investments. However, competition can not explain why a particular policy is seen as being capital friendly.

Learning can originate from past experiences of a country or from experiences of other countries. Learning can also be seen as intentional in the policy-making process or as an indirect effect. In some literature, learning refers to a rational process through which new evidence of the efficiency of a policy in some countries is the basis for its adoption by other countries (Meseguer

2006). On the other hand, some other studies situate learning in the context of bounded rationality. For Weyland, “Given the overwhelming amount of available information, decision makers commonly use cognitive shortcuts” (2004: 5). Furthermore, Weyland (2004) emphasizes that rational learning can not explain the temporal, geographical and substantive dimension of the spread of an idea.

Bennett and Howlett (1992) identify five approaches addressing learning differently: political learning, government learning, policy-oriented learning, lesson-drawing and social learning. Meseguer (2006: 38) adds “causal and diagnostic learning.” “What is learned and what is remembered must always be seen in the context of political interests and political power” (Bennett and Howlett 1992: 291). While the questions of who learns and what is learned are relevant, questions addressing who teaches are also central and rarely discussed in learning approaches. Some forms of learning explanations are similar to emulation in the context of social acceptance.

This brief overview of the diffusion literature supports the argument that prior to any analysis of a policy diffusion, it is essential to understand exactly what, when and how is a policy adopted. The pattern of diffusion of a policy then becomes the dependent variable that needs to be explained. The more information about this pattern the more relevant the analysis of the mechanism of diffusion. Furthermore, before addressing the diffusion mechanisms, it is relevant to inquire about any actor involvement as the teacher for this specific policy. Then the analysis of the mechanism should include the consideration for such actor. The theoretical framework developed in the next section incorporates the concept of “strategic diffusion” which allows integrating agency into diffusion analysis.

### 3. THEORETICAL FRAMEWORK

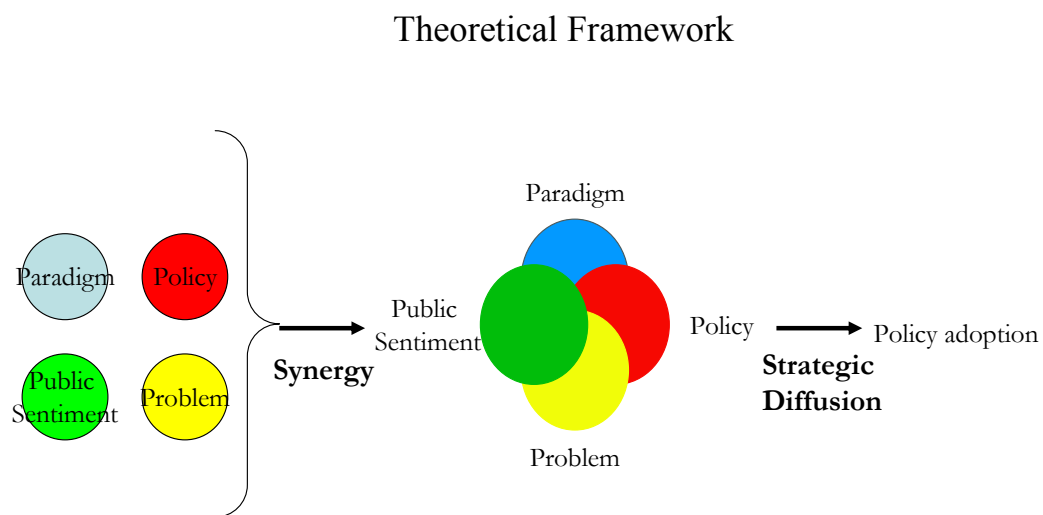
The main theoretical argument of this dissertation rests on the opinion that an ideational approach which gives ideas a central role but also considers actors and mechanisms of idea diffusion explains appropriately policy adoption. The theoretical framework is informed by constructivist arguments. However, it incorporates findings from other research programs as well to capture the conditions under which an idea is influential. I argue that this framework offers the best tool to understand and analyze the role of the OECD in the BTT adoption in non-members in the 1990s.

Based on ideas, the proposed framework illustrated in figure 2 and presented in the following paragraphs helps in answering the general question: What are the conditions under which an idea influences policy adoption in diverse national settings? How are these conditions created and by whom? It also provides guidelines to organize empirical research on the influence of ideas. A theoretical framework may not explain all situations, but it is a valuable tool in organizing the development of knowledge about the role of ideas in public policy (Dogan and Pelassy 1990).

Firstly, types of ideas are defined in order to understand the different levels and sources of ideas within a particular issue area. Campbell's typology (1998; 2004) of ideas is one step toward a more enlightening and systematic approach to ideas. Secondly, linkages created among different types of ideas should be identified to understand the role played by different ideas and the relationships among them. This step includes the consideration of agency in the creation of the synergy between these types of ideas. The argument is that each type of ideas can have specific features (background, foreground, outcome oriented or not) and characteristics (salient, malleable, simple, credible, feasible) which increase their influence. Furthermore, ideas which are

linked dynamically (synergy) to the other types of ideas are expected to be more influential. The third step is to address the mechanism or strategy (strategic diffusion) through which the idea reached and influenced relevant policy-makers. Agency is incorporated in the analysis of synergy and strategic diffusion.

The typology, the synergy and the strategic diffusion are presented in distinct sections to simplify the analysis of the process. However, it is important to note that ideas and these processes do not evolve in stages; all four types of ideas interact with each other and evolve simultaneously, and synergy and strategic diffusion also may occur simultaneously.



**Synergy** is defined as a harmonious combination or compatibility of different types of ideas. The creation of a synergy refers to the construction of an advantageous conjunction of different types of ideas.

**Strategic diffusion** is the proactive and purposeful promotion of an idea and synergy among different types of ideas through direct and indirect means

Figure 2. Illustration of the theoretical framework.

### 3.1 Definition of ideas

The ambiguous definition of ideas and its impact originates from the fact that different research programs add ideas in their explanation in a variety of ways. Constructivism is known to give ideas a central role but ideas are not operationalized fully. While all forms of institutionalism consider the impact of ideas; rational institutionalism, historical institutionalism and sociological institutionalism do so in different ways. Rationalism tends to give a limited role to ideas. This variety of perspective of ideas makes it an overused term and an ambiguous concept making its systematic analysis a challenge.

According to Fischer,

“...ideas can be statements of value or worth: they can specify causal relationships; they can be solutions to public problems; they can be symbols and images, which express public or private identities; and ideas can be world views and ideologies. Theorists not only differ in the extent to which they think ideas influence or constitute actions, they refer to different things when they talk about ideas.” (2003: 24)

Ideas may have many meanings and different roles. On one hand an overarching definition may blur the concept, and on the other hand, it may not be relevant to sacrifice some meanings to benefit others.

Campbell’s typology (1998; 2004) is used as the first step to define more precisely the concept of ideas. The typology distinguishes between 4 types of ideas: a paradigm, a public sentiment, a frame and a program. Taken one step forward, I argue that this typology permits to fully understand the dynamics of ideas. Finnemore and Sikkink (1998) use the term “norm” and use a life cycle to understand the emergence and impact of a norm. A norm could be seen as an idea that is influential, which brings us back to the question “When does an idea become influential?”

The inclusion of ideas into historical institutionalism provides an explanation for institutional and policy change (Béland 2005; Campbell 1998; Hall 1993). Hall (1993) identifies different types of ideas to explain institutional change. A shift in the dominant paradigm will fundamentally affect institutions more (“first order change”). Changes in the set of techniques (“second order”) or in the instrument (“Third order”) will have a lesser impact on institutions.

Table 2. Typology of ideas (Based on Campbell 1998).

	<b>Foreground</b>	<b>Background</b>
<b>Outcome-oriented</b>	Programs (or « policy »)	Paradigms
<b>Non outcome-oriented</b>	Frames (or « problem »)	Public sentiments

### 3.1.1. *Paradigm*

According to this typology, a “paradigm” is an elite assumption constraining the cognitive range of possibilities in policy-making. In addition to this direct reference to a policy, a paradigm also has links with problems and public sentiments. Therefore, I would define a paradigm as an elite general preconception that justifies or constrains particular choices. This definition is in accordance to Haas’s definition, a “set of normative and principled beliefs which provide a value-based rationale for the social action of community member” (1992: 3).

Hall’s (1993) definition of “policy paradigm” operates in the same vein but perhaps at a different level of generality. A policy paradigm is a “framework of ideas and standards that specifies not only the goals of policy and the kind of instruments that can be used to attain them,

but also the very nature of the problems they are meant to be addressing” (Hall 1993: 279).

Defining paradigm according to its relationship with other forms of ideas, such as problems and instruments emphasizes the necessity to investigate more specifically this relationship with other types of ideas.

North refers to ideology as “the subjective perceptions (models, theories) all people possess to explain the world around them” (1990: 23). Others use “collective ideas” to refer to “concepts or beliefs held by groups” (Legro 2000: 420). However, in the dissertation, “paradigm” is, more particularly, related to elite collective ideas. Collective ideas held by the public are captured by public sentiments according to Campbell’s typology.

A dominant paradigm will constrain the range of possible options but this is not its only impact of ideas (Béland 2005; Goldstein 1993; Hall 1993). The identification of a problem is based on ideas circulating rendering a situation unacceptable and in need of a solution. A paradigm is also part of the perception of a state’s identity and will influence the perception of its interest (Ruggie 1998).

Nevertheless, it should be stressed that different policies or programs could be supported by the same paradigm. As a result, explaining the adoption of a particular policy by its relevance to the dominant paradigm is incomplete.

### *3.1.2 Public Sentiment*

For Campbell public sentiment refers to public opinions, values, norms, identities, and other “collectively shared expectations” (1998: 96). These “sentiments” will determine which



policies are seen as acceptable by the public, and can create a constraint on the policy-maker's decision.

Some literature has emphasized the impact of public opinion on policymaking (Risse-Kappen 1991; Page and Shapiro 1983; Burstein 2003). While there is a debate about the causal relationship between public opinion, elite or policymakers' preferences and the policy outcome, the theoretical framework suggests that a policy has more chances of being adopted if it is in sync with a dominant public sentiment.

Burstein (2003) has argued that the salience of an issue needs to be considered to explain the relationship with public opinion and that public opinion is more likely to have an impact when salience of the issue increases. In the theoretical framework, public sentiment is related to the level of "politicization" of an issue. When an issue is not "politicized" at all, the role of the public will be reduced, and no public sentiment can emerge from a very limited public debate. For highly politicized issues, there may be more than one public sentiment then, the identification of a dominant public sentiment or of manipulation of public sentiment could add to the explanation. According to Ikenberry's analysis of Keynesian ideas "What ultimately matters in the ratifications of the Bretton Woods agreement was not that it was based on policy ideas advanced by an expert community but that the policy ideas resonated with the larger political environment" (1993: 59).

Very technical and complex issues may limit public scrutiny leading to no dominant public sentiment emerging on the issue. "La construction sociale de certaines questions en termes étroits et techniques occultes d'importantes questions de justice sociale et diminue la participation réelle des non-initiés" (Scala 2003: 86). According to Page and Shapiro, "Foreign policy decisions might be relatively autonomous from the public, or they might involve more leadership and

manipulation of opinion than do domestic policies” (1983: 175-176). A more general public sentiment on an issue such as the environment can exist. However, the complex and technical characteristics of this issue make the emergence of a dominant public sentiment less likely regarding a specific type of policy, unless there is some form of ignition that would gather civil society towards a specific end. Orenstein (2008) also notes that public opinion and coalition building is important in explaining policy choices, particularly for contentious issues such as pension reform.

### *3.1.3 Problem*

A problem is a question or difficulty raised concerning an issue that needs to be solved in order to reach objectives dependent upon the perceived interests and preferences. Campbell (1998) refers to “frame” and “framing”. Framing is the action of constructing a problem. However, the type of idea is more efficiently defined as the problem in the theoretical framework, since we need first to define it along the same axes as the other types of ideas. The seven dimensions of a policy problem, as identified by Peters (2005), show that problems are not easy to determine and the identification is by no means straightforward<sup>6</sup>. Weyland referring to March and Olsen (1989) and Kingdon (1984) mentioned that “The very identification of problems is not purely objective; advocates of policy proposals commonly seek to persuade decision makers that there actually is an important difficulty to resolve” (2004: 12). It is possible that the perception of a problem differs, varies and changes. “Problems do not simply exist out there as objective facts; they are defined as problem by some actors (often an IO) through a process of social construction (Edelman, 1988)” (Barnett and Finnemore 2005: 179).

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<sup>6</sup> The attributes of a problem identified by Peters (2005): solubility, complexity, scale, divisibility, monetarization, scope of activity, interdependencies,

The identification of a problem is linked to interests, and it is dependent upon the establishment of perceived interests and preferences. Therefore, a problem can be perceived as such by a state only if it is demonstrated that the problem is negating interests or preferences. Anything that can influence the perception of interest and then the perception of a problem is a necessary explanatory factor.

#### *3.1.4 Policy*

Policy refers here to what Campbell (1998; 2004) calls “program”. For Campbell (1998; 2004) it is an elite prescription enabling policy-makers to adopt a specific course of action. The program in itself has a better chance of being adopted when it is simple and packaged properly. The format of this type of idea has an influence over its possible adoption. For Weyland (2004), specific policies and programs can become a model. A model “prescribes an integrated solution to a perceived problem.” (Weyland 2004: 7). Therefore, policies can be an instrument (Hall 1993), a specific program or a specific set of policies such as a model.

Different characteristics can be attached to a policy. For example, Dolowitz and Marsh (1996) emphasized that some constrain to policy transfer is the complexity of the policy. The less complex and the more direct a policy, the more easily it can be transferred.

#### *3.1.5 Further distinctions between the types of ideas*

The typology is based on two axes (See table 2). The first axis posits ideas in the foreground or in the background of the policy-process. This determination is useful to comprehend how these types of ideas interact with each other. A paradigm is in the background because it informs and constrains the actions that are considered. Public sentiment is also in the

background because it construes what is seen by the public as being credible and legitimate. These two types of ideas are filters altering the broad views of the policy-makers and their evaluation of the problems and solutions. On the other hand, a policy is a proposition or a suggestion, in the foreground. Problems are also in the foreground, because they identify and circumscribe an issue that may necessitate future actions.

The second axis determines if the idea is more or less outcome-oriented. A paradigm is outcome-oriented because it includes broad views concerning options and alternatives. A policy or program is even more obviously orienting toward an outcome. A problem is not outcome-oriented; the outcome is not the important contribution of a problem. A problem situates the need to act, but not what the action should be directly. Furthermore, public sentiment is not orienting toward a precise outcome, but it is based on a general perception of what is acceptable.

This typology helps to understand the role of ideas. Research based on only one of these types of ideas would only be partial because one type of idea does not exist in a vacuum. It is necessarily linked more or less directly with the other types of ideas. This typology should not be used as an indication that ideas are static and not malleable. Ideas are always evolving and are not determined “once and for all” (Przeworski 1985: 146). In addition, their evolution is connected and simultaneous<sup>7</sup>. For example, the theoretical framework suggests that a policy could be altered through the process of creating synergy with a paradigm or a problem or through its diffusion to make it easier to adopt. A policy could also be modified by the recipient of the idea (for example, a state) to fit with the public sentiment in that particular state.

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<sup>7</sup> Contrary to Kingdon’s view that the solution, problem and political streams evolve separately until a coupling is done.

Ideas in the background realm, paradigm and public sentiment, will be influential if some ideas in the foreground can support concrete actions in accordance with a particular paradigm. As long as policies and problems do not oppose a current paradigm, they will be influential and will constrain further policy adoptions, which will therefore reinforce this paradigm. On the contrary, a paradigm can be rejected when particular policies under this paradigm are not producing the expected results (Hall 1993), or are creating new problems. A problem can also be left aside when no policy is responding adequately to the issue or if a public sentiment makes this problem no longer of a concern.

Ideas in the foreground, program and problem will be constrained by a paradigm and a public sentiment, but they can also set off a paradigm change or alter a public sentiment. Therefore, each type of idea has an influence over the other, whether they are more in the background or the foreground of the policy-making process. In order to be influential, a particular type of idea needs to be in accordance (or seems to be in accordance) with the other three types of ideas.

The framework helps to answer the question asked by Dolowitz and Marsh "...how the definitions of problems and solutions are socially constructed" (1996: 357) and even goes further in establishing the social construction of a problem through the perception of a paradigm, a solution and a public sentiment and vice versa for all types of ideas. To grasp this interrelation among different types of ideas, the dissertation develops the concept of "synergy". Afterwards, the concept of "strategic diffusion" is developed based on explanations from studies of diffusion and mechanisms and incorporates agency.

### 3.2 Synergy

Connection and interrelation between different types of ideas are discussed in the literature but an integrated approach based on the previous typology of ideas helps to better understand these relationships. The synergy existing or created between the four types of ideas can explain why an idea is more influential than another. This synergy could be defined as a harmonious combination or compatibility of different types of ideas and the creation of a synergy refers to the construction of an advantageous conjunction of different types of ideas. Synergy can be created either by demonstrating how the idea conforms to the other accepted or dominant types of ideas, or by altering different types of ideas in order that some consistency is obtained. An idea is then made easier to adopt. One or many actors' involvement will be necessary to create synergy. The actor need not be the source of each type of idea or have total control over these ideas, but he could convince of the existence of this synergy, which could influence the adoption of the ideas. This can be facilitated if he has some influence over one or more of these types of ideas and can alter it in order to facilitate the creation of synergy.

Authors such as Sikkink (1991) and Hall (1993) also recognize some form of relationship between different types of ideas. For Sikkink (1991), ideas are stronger when a form of consensus is reached, especially when the idea fits with the ideological and institutional structure. Furthermore, Goldstein (1993) indicates that ideas vary in their fit and thus their affinity to a political environment. Moreover, the role of agency in creating that "fit" is recognized, "if entrepreneurs do not make these connections even the most functional of ideas invariably will be ignored" (Goldstein 1993: 255-56). Hall (1993) argues that the perception of a problem and its solution depends upon the dominant paradigm. This point of view assumes that a form of hierarchy or at least an interrelation between these 3 types of ideas exists. The role of particular

actors in the promotion of a positive relationship between the types of ideas is underestimated in the literature.

Adding public sentiment to the analysis can help to explain the context in which ideas are at work. Also, instead of trying to work within the constraints of public sentiment, synergy can be created between the four types of ideas by depoliticizing an issue. This would be equivalent to the neutralization of public sentiment so that it is no longer a constraint.

The way the problem is framed can help in creating synergy with the other types of ideas. For (Béland 2005), the frame can help actors to “sell policy choices”. Synergy may influence the identification of interests because a program was promoted in conjunction with the other types of ideas. This makes the program more attractive. The process of coupling in Kingdon’s approach (Kingdon 2003) to agenda-setting is similar to the concept of synergy. However, synergy does not happen randomly, it is a strategic move by an actor who uses different types of ideas to create a movement of adherence to a particular idea. Some actors create a happening around issues to convince others of a need to act instead of waiting for a policy window to open. As Béland (2005) notes, the framing can take place beyond the agenda-setting process. Therefore, the synergy is created among different types of ideas throughout the policy-making process, from the definition of interest, to the identification of a problem, to the development of a public sentiment and finally to the choice of a particular program.

Rose (1993) identified some features that can make a policy less complex and easier to transfer. Among these features is the perception of the relationship between a problem and a solution. In this context, an actor who elaborates and promotes the relationship between a problem and a solution can influence policy choices. More research needs to address how ideas

can influence these perceptions. The theoretical framework can help to focus the research on ideas that may have influenced these perceptions and the role of a particular actor in this regard.

The other characteristics facilitating the adoption of a policy are the focus on a single goal, the simplicity of the problem, the perceived side-effects, the information concerning how a program works in another location and the ease in predicting the outcome (Rose 1993). Many of these characteristics depend upon the perception of a problem, a policy and its consequences and further support the necessity to examine the source of the information on which this perception is based.

The creation of a synergy among different types of ideas corresponds to making each type of ideas less complex and more coherent with the other types of ideas. The role of specific actors in the process of making a policy or a problem less complex is fundamental to the transfer of policy. Before pushing for a policy/program, the ability of an actor to “decomplexify” the policy and linking the policy with a paradigm, a problem and a public sentiment will facilitate the diffusion of the idea.

Policy transfer is also more likely to occur when the process includes a localization process. Acharya (2004) has argued that the process of localization committed by norm-takers at the local (or regional) level is necessary to explain why some norms are adopted and others are not. It also helps to understand the adaptation process of the norm. This author points to the fact that there needs to be some linkage between an international norm and local norms in order for the norm to be adopted upon the promotion by some actor(s). Campbell (2004) also demonstrates that in many instances, diffusion is combined to a process of translation leading to different policy choices given domestic institutions in each country involved. Diffusion does not necessarily lead to convergence.



The concept of synergy, under different forms, exists in many studies concerning ideas and the transfer or diffusion of policy. For example, the analysis of the role of the WB in pension privatization in many countries reveals that the document “Averting the Old Age Crisis” published in 1994 by the WB supported such a synergy (Orenstein 2008). It helped to reshape interest and preferences. This document defined the problem of demographic aging. Moreover, it criticized the relevance of existing pension policies, and it advocated a model of pension privatization as a viable policy option.

The dissertation argues that actors are a necessary condition to develop and promote ideas. The actor developing the idea may not be the one creating the synergy with other types of ideas, and the diffusion might be organized by a third actor. An actor may not act alone in developing the idea, creating synergy or organizing diffusion. The theoretical framework helps to uncover which actor(s) may have been playing a role in the different parts of the idea diffusion.

### 3.3 Strategic diffusion

Diffusion of ideas is used in studies from international relations and comparative research agenda (Acharya 2004; Weyland 2005; Finnemore and Sikkink 1998; Simmons and Elkins 2004; Dobbin et al. 2007; Brooks 2005). Some of these studies and others include the role of international organizations among factors which have to be analyzed in the context of diffusion (Stone 2004; Haas 1992; Finnemore 1993; Dolowitz and Marsh 2000; Orenstein 2008; Barnett and Finnemore 2004).

The relationship of ideas with time and space is directly linked to the notion of agency (Ruggie 1998). Actors involved in the diffusion of ideas are very important in an ideational

approach because “ideas do not float freely” (Risse-Kappen 1994). Furthermore, acknowledging that ideas do not float freely, is a step toward the development of a more systematic ideational approach. The dissertation combines ideas and actors in the process of synergy and strategic diffusion in order to take a step back from other approaches and explain how an idea comes to be known as appropriate (from the logic of appropriatedness) or as the best alternative (from the logic of consequences) (March and Olsen 1984).

Studies emphasizing ideas or mechanisms for idea diffusion or policy transfer vary in the way agency is included in their explanation. Agency has been incorporated in policy transfer literature more than in diffusion studies so far (Marsh and Sharman 2009). However, as Lee and Strang pointed out: “Policy diffusion, we should note, does not imply a world without agency” (2006: 388).

Diffusion can be an observable phenomenon; the spread of an idea. However, diffusion can also refer to a purposeful strategy conducted by an actor. In the theoretical framework, “strategic diffusion” is the proactive and purposeful promotion of an idea and synergy among different types of ideas through direct and indirect means. This action encompasses the use of mechanisms such as learning, coercion, socialization, teaching and persuasion. By direct and indirect means, the concept of “strategic diffusion” includes organized activities around the promotion of the idea itself, the networking to ensure the idea circulates and even the promotion of actor’s characteristics to give their idea credibility. In addition, diffusion does not only refer to formal transfer but also to more informal transfer of policies (Stone 2004) or norms (Finnemore and Sikkink 1998; King 2005). The strategic diffusion can include the promotion of the credibility and legitimacy of the actor himself because the credibility of an idea can be linked to the credibility of the actor who is promoting or developing the idea. The concept of strategic diffusion refers to any mechanism that is used by some actor in a strategic manner to influence

policy-making. Basically, it is assumed that without any such mechanism, an idea has fewer chances of being influential.

Rogers's definition of diffusion "the process by which an innovation is communicated through certain channels over time among the members of a social system" (2003: 5) is interested in a planned process but also in diffusion as a spontaneous phenomenon. The concept of "strategic diffusion" helps to capture, more particularly, planned process of the diffusion of ideas. It includes any mechanisms used to promote directly or indirectly an idea, and it recognizes the strategic use of these mechanisms by some actors. This is similar to the concept of "strategic constructivism" developed by Jabko (2006) to explain how the European Commission strategically used the term "the market" to sell the idea to unite Europe more easily because it could mean different things to different actors. "Therefore, ideas can be crucial resources in the hands of strategic actors who understand their usefulness as rallying grounds for those in pursuit of diverse or even incompatible goals" (Jabko 2006: 8). An idea will be influential if an actor promotes it (Béland 2005). However, not every promoted idea will necessarily be influential, for example. The promotion of an idea for which there is a lack of synergy with other types of ideas can be unsuccessful.

Persuasion is an important feature of the policy process (Majone 1989) at the national level but also at the international level. The presentation of a program will influence its evaluation as an alternative to solve a perceived problem. Persuasion plays a role, and even more so in a context of limited rational decision-making where uncertainty prevails. If the opinion of a particular actor is not asked for directly, this actor needs to push the idea to get the attention of the "audience". Therefore, persuasion will have to occur on many levels. This is where the linkage between different types of ideas is necessary. Diffusion depends on the dominant discourse legitimizing a particular course of action and leaving behind evidence that these actions

could be harmful in order to focus the attention on only the cost-benefit analysis (Lee and Strang 2006). Consequently, diffusion and persuasion are connected concepts.

Sociological institutionalism highlights the ways in which actors take decisions according to what seems appropriate due to the existing rules (March and Olsen 1984). This approach could explain why countries decide to implement a particular policy when there is some form of institutionalized international regime that renders this policy choice appropriate, acceptable and legitimate according to the logic of appropriatedness. This approach could explain why countries, which are non-members of an international organization, follow the rules set by the OECD, even if it does not have any coercive power over national domestic policy-making. Finnemore and Sikkink (1998) have argued that this logic of appropriatedness operates in the second stage of the “norm life cycle”<sup>8</sup> (the “norm cascade”) and can explain why countries will adopt a particular policy. However, this approach does not explain why and how some ideas initially become norms. Why and how does a specific idea become the appropriate norm? What convinces decision-makers that this particular idea is the norm to be followed? Persuasion, learning and other mechanisms need to be considered.

March and Olsen (2006) talk about the dynamics of rules of appropriatedness and recognize that the study of processes such as learning, socialization, diffusion and competitive selection could improve our understanding of how rules are developed and modified. Their argument focuses on the recipient end, but it does not study the role of particular actors in promoting the information to the recipient. The rules seem to evolve in a structural manner. The study should start ahead of the findings of the sociological institutionalism in order to establish the conditions explaining why a particular idea has an influence.

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<sup>8</sup> Finnemore and Sikkink (1998) identify three stages in the diffusion of a norm: norm emergence, norm cascade, and norm internalization.

For ideas to be influential (“usable knowledge”), they need to be salient, credible and legitimate (Haas 2004). An idea is not in itself credible, legitimate or salient. However, depending on the source of the idea, and how it is pushed, it can be perceived as salient, credible and legitimate. Therefore, the inclusion of particular actors, such as the developer and broker of ideas and the diffusion mechanisms in the analysis, helps to understand why the idea was perceived as holding these characteristics. A recent study has demonstrated that the result of the diffusion of ideas depends on who initiated or promoted it, and that ideas which are malleable have a better chance at getting diffused (McNeil 2006). Studies have emphasized the role of networks, policy entrepreneur, epistemic community and experts as promoters of ideas and others have dealt with transnational actors and more specifically international organizations.

Many approaches consider the role of network or policy community, but networks are seen as self-organizing (Rhodes 1997) and dependent upon some structure (Sabatier and Jenkins-Smith 1993; Mann 1999). Hay (2000) argues that network approaches are too structure-driven and too static. While networks can be produced by structural elements in some cases, there may be situations where the actual development, evolution and impact of a network on public policy are caused by the actions of one or few actors. Therefore, these particular actors and the role of ideas become central to the analysis.

The advocacy coalition framework (Sabatier and Jenkins-Smith 1993) explains how learning can take place in a coalition regarding the beliefs that are at the periphery of the coalition’s belief system. Every actor in the network can influence the consensus reached, creating learning opportunities. However, this framework cannot account for the fact that some actors are proactive; some are more organized, some have more resources and are more influential than others. Some may even be influential in structuring the network itself.

Therefore, the dissertation suggests that addressing the organization of a network instead of networks themselves would help to understand the role and the influence of particular actors in the diffusion of ideas. Networking is a strategy used by some actors to diffuse either their own ideas or others. Hay (2000) gives a more agency-driven look at networks in developing a relational theory of networking to explain network formation, evolution, transformation and failure. Hay (2000) also explains how actors are important in determining, through a process of structuration, the expected consequences of actions, and thus influence the choices made by other actors.

The networking activity depends, in part, on the idea promoted and the links made with other types of ideas. If an actor succeeds in creating a powerful synergy between the four types of ideas, a smaller network composed of very strategic actors can lead to a large influence. If the synergy is weak, a supporter of a particular type of idea that is not linked with the other can oppose the idea being promoted. Therefore, the actor needs to create a network which includes a larger segment of actors in order to have an influence. The dissertation argues that addressing diffusion through the importance of particular actors in policy network or policy communities reduces the conceptual ambiguity of these “alternative agents” in the learning process (Bennett and Howlett 1992: 282). Some actors may take a proactive role in the learning process and be more adequately conceptualized as a teacher, such as an epistemic community or international organization. The theoretical framework allows the identification of such actors in the process of idea diffusion.

The window of opportunity can be widened, if not opened, by the information provided relative to a particular problem and solution. Policy entrepreneurs holding knowledge, expertise and credibility are central in the diffusion of specific ideas beyond the agenda-setting process. As

Mintrom and Vergari argued: “Beyond ensuring that their policy ideas are technically feasible, policy entrepreneurs must also strive to demonstrate their own credibility and trustworthiness as sellers of their ideas” (1998: 131).

According to Haas (1992), epistemic communities’ influence originates from their consensual approach which gives their ideas credibility, legitimacy and saliency. These factors transform the idea as “usable knowledge”. However, it does not necessarily explain why and how policy-makers became interested in this idea and recognized the idea as holding these characteristics at a particular point in time.

Rich (2004) explains that different strategies of promotion by think tanks can explain why the ideas of some think tanks are more influential than others. Experts can be part of an organization, such as think tanks or international organizations, or they can be part of a more diffused group of experts, such as epistemic communities. When actors are part of an integrated and consensual group, such as the OECD, they may be heard as a single voice, and it can be argued that it is the organization which is involved in the creation of synergy and diffusion steps highlighted by the theoretical framework. For Barnett and Finnemore (1999), experts or consultants within IO are the missionaries of our time. An international organization more broadly, through the work of its experts as well as its directors or managers can be part of the analysis as a collective actor who plays a role in creating synergy and diffusing an idea. How the international organization perceives its role can result in the organization playing a more or less active role in the diffusion of an idea, as Rich (2006) demonstrated in the case of think tanks.

The dissertation argues that an international organization is a relevant actor, whether it is considered as a policy entrepreneur or as an expert. As Underdal highlights in the case of environmental management, international organizations can play different roles: “... that of being

an arena for the exchange of information, discussion and decision making, and that of being an actor in the policymaking or the policy implementation process. All intergovernmental organizations (...) serve as arenas. (T)o qualify as actor, an organisation must (also) provide independent inputs into the policy process, or somehow amplify the outputs of the process” (1993: 153).

Supranational organizations, such as the EC has been considered as a policy entrepreneur in some studies. According to Laffan, “[t]he Commission is portrayed in this literature as having an important margin of autonomy and capacity to influence outcomes in the policy process” (1997: 423). Savage also referred to public, quasi-public, and private organization as “change agents” “working sporadically or continuously to promote (or discontinue) policy innovations among the states” (1985: 16). Recent studies have emphasized the role of actors, and particularly international organizations in the explanation based on ideas (Finnemore 1993; Barnett and Finnemore 2004; Orenstein 2008).

Two complementary trends of literature provide useful insights into the analysis of international organizations and their role in the diffusion of knowledge. These studies are relevant to explain the reasons for an organization to develop and promote a policy recommendation intensively. First, the literature addressing international organizations as important actors in global governance present their roles in two categories, inquisitive and meditative modes of regulation (Jacobsson 2006). The inquisitive mode of regulation implies a surveillance of states’ action, through peer review and other forms of monitoring and benchmarking. The meditative mode of regulation comprises information production and dissemination, the holding of forum and discussion concerning topics which will then lead to more formal regulation or recommendations.



Mahon and McBride have identified the OECD as “an important node in” transnational networks (2009: 83) and indicated that the organization plays an inquisitive and meditative mode of governance. Similarly, Radaelli (2005) refers to informal and formal governance by the OECD and Webb highlighted the important role played by a “large permanent secretariat of the OECD in developing consensus and mobilizing peer pressure.” (2004: 792). As Djelic and Sahlin-Andersson (2006) noted, these organizations’ own project and interests are reflected within the diffusion processes of their ideas which can occur through the inquisitive and meditative roles in governance.

Barnett and Finnemore (2004) provide useful insights to understand and explain the actions of international organizations by seeing these organizations as bureaucracies. This approach allows understanding the sources of the authority and autonomy of these organizations, their power but also their dysfunction and change.

As a bureaucracy, an international organization has an inherent interest to maintain its status and therefore the actions of the organization are partially dictated by its survival and expansion. To do so, an international organization needs to maintain its authority and autonomy. Barnett and Finnemore (2004) identify three sources of authority; delegated authority, moral authority and expert authority. The delegated authority is the rational-legal authority which the organization can maintain by accomplishing the broad tasks it is assigned. “Mandates need to be interpreted, and even with oversight the agenda, interests, experience, values, and expertise of IO staff heavily color any organization’s response to delegated tasks.” (Barnett and Finnemore 2004: 22)

These international organizations also possess a form of moral authority because they are seen as representing the values generally held by the international community. Furthermore, these organizations are also considered as authorities because of the expertise they hold or develop over specific issues and policy alternatives.

The interests of these organizations are linked to these types of authorities, since to survive and expand, these organizations need to remain an authority and maintain their status as an authority. Therefore, they need to continue to develop their expertise by researching and producing reports on issues relevant to their role and also by ensuring that the policies they develop and for which they are the experts are followed and adopted, otherwise, their authority as experts might diminish.

Furthermore, as bureaucracies, they must ensure they are perceived as neutral and impersonal and not political actor. Depoliticization of issues and recommendations are therefore essential to preserve their status. For example, the UN's secretariat necessitate to be seen as an impartial servant of state members and the IMF's as apolitical technocrats (Barnett and Finnemore 2004: 21). This is also illustrated with the case of the World Bank "Promoting the governance agenda suddenly became much easier within the Bank, now that it was confined to language and modes of argumentation that stripped it of its political content and made it appear a more technocratic task" (Weaver 2010: 57).

This literature confirms that the OECD has some autonomy from its members through the interpretation and implementation of its mandate. It is noteworthy that the OECD has an interest in developing and maintaining its expertise with regard to BTT and to have its standard largely adopted. This would explain why the OECD acted the way it did in promoting BTT to non-

member countries in order to expand the adoption of the idea for which it holds expertise. This ensures the relevance of the organization's expertise which is necessary to preserve its authority in this matter and in tax policy more generally.

The epistemic community approach provides an interesting insight on the role of experts, knowledge and international organizations. An international organization whose work is based on consensus renders its ideas more credible and legitimate and the more states are brought into the consensus the more the ideas supported seem to have value on their own. However, the concept of epistemic community cannot generally explain the process from an idea to a policy adoption. Depending on issues, experts may be part of a more or less organized group, and this group should be included into a broader perspective of the policy process to determine when and how the information provided through an international organization influence policy-making.

It is important to note that any of these actors is neutral and apolitical. They are part of the policy process, and their influence needs to be taken into consideration, especially because knowledge is pluralistic. Furthermore, Stone (2004) highlights the fact that control over knowledge and information is important in policy-making. Therefore, the investigation of information provided by actors such as an international organization is required to understand the policy-making process in an international environment. "Having established rules and norms, IO's are eager to spread the benefits of their expertise and often act as a conveyor belt for the transmission of norms and models of "good political behaviour" (Barnett and Finnemore 1999: 712).

"Epistemic communities and international organizations likely play an especially important role in the efficient diffusion of information because ties that bridge otherwise unconnected communities play a critical role in information dissemination" (Lazer 2005: 56).

Lazer also gives the example of regulatory reform in the 1990s for which the OECD played a critical role with respect to the dissemination of information. In this case, the OECD produced studies about policy options adopted by different countries, putting much emphasis on the case of Japan. The OECD is also seen as an important actor in some other studies (Marcussen 2005; Mahon and McBride 2008; Armigeon and Beyeler 2004).

Following this literature, the dissertation argues that agency needs to be included in the explanation for the influence of ideas. The concepts of synergy and strategic diffusion highlight how agency can be incorporated in an explanation bridging ideas and diffusion. While the dissertation's empirical analysis focuses on an international organization as an actor, it recognizes that other actors can be involved in the spread of an idea and its adoption.

### 3.4 Concluding remarks about theoretical framework and the application to the case of the OECD and BTT

The theoretical framework posits that ideas are central in explaining policy decisions. The dissertation argues that a policy idea influence policy decision when it is in synergy with ideas from the other three types of ideas (paradigm, problem and public sentiment) and when it is strategically diffused. Furthermore, the involvement of actor(s) facilitates the development and maintenance of a synergy and the strategic diffusion. I argue that the theoretical framework provides an answer to the question "What are the conditions allowing an idea to influence policy decision in diverse settings, how are these conditions created and by whom?" Therefore, an idea will lead to a policy adoption if the idea has a synergy with the other three types of ideas, and if it is actively promoted.

The literature review points to some questions to be raised prior to explaining the diffusion of a policy in order to correctly ascertain the dependent variable. These questions will be

addressed in chapters 3 and 4. First, what exactly is spreading and how? Chapter 3 provides an in-depth and exclusive analysis of the BTT spread in non-OECD member countries. Through this analysis, the spread of BTT will be situated in time and in space to support the relevance to address the 1990s spread as a distinct phenomenon as well as to demonstrate that a diversity of countries from different regions have participated to this trend. Furthermore, since BTT is not a one time adoption policy, the substantive dimension of the BTT spread is examined by focusing on specific features of BTT network development by non-members.

Chapter 4 concerns another important point to be made prior to investigating the explanation: the demonstration that there is no unequivocal link between a superior and exogenous interest and the consequences of signing BTTs for non-members. An explanation based strictly on interests is therefore rejected after analysing the consequences and evidences related to BTT for non-member countries. Lastly, it is relevant to consider who is involved with BTT and could have influenced the perception of this idea in order to include these actors in the explanation. Chapter 4 provides a brief overview of the involvement of the OECD with BTT and non-members, to support the necessity to incorporate who may have created the necessary conditions for the idea to be influential in the explanation.

Based on the evidence provided in chapters 3 and 4, the intensity of the spread of BTTs based on a standard developed for OECD member countries in a variety of non-OECD member countries in the 1990s is intriguing. Additionally, any explanation should consider the possibility that the OECD is an important actor since it has been the guardian of the standard form of BTT and has developed some relationships with non-members in the 1990s.



- 2) **The OECD strategically diffused the BTT policy and its synergy to non-OECD member countries in the 1990s.**
- 3) **Given that hypotheses 1 and 2 are verified, non-OECD member countries which had contacts with the OECD concerning BTT in the 1990s are more likely to sign BTTs during that period.**

The OECD's involvement with regard to BTT briefly presented in chapter 4 seems a most-likely case of an actor involvement in these processes. The case of the OECD activities with regard to BTT for non-members is studied in chapters 5 and 6. "Synergy" and "strategic diffusion" as processes are better explored through a case-study (Van Evera 1997). To further test the relationship between the idea, these processes and the actual policy adoption, chapter 7 provides a large N statistical analysis. It addresses hypothesis 3 that is the relationship between the efforts from the OECD and the actual evolution in BTT network in non-members.

Each of the hypotheses will be specifically addressed in the following chapters. The theoretical framework is supported by the argument that focusing on ideas and combining ideas with actors and mechanisms of diffusion is very useful to determine why one idea is influential at a particular point in time.

#### 4. CONCLUSION: ORIGINALITY AND CONTRIBUTION

The dissertation makes two important and valuable contributions. On the theoretical level, the dissertation develops a theoretical framework which provides for a more methodical analysis of ideas. On the empirical level, the dissertation provides a rare in-depth analysis of idea development and promotion from within the OECD and its influence on domestic policy

adoption.

#### 4.1 Theoretical contribution

The dissertation contributes significantly to a constructivist approach focusing on the role of ideas by developing a theoretical framework which allows a more systematic analysis of the role of ideas and agency in policymaking. The mechanisms referred to by diffusion literature complements the analysis of the conditions allowing ideas to be influential particularly when actors are incorporated in the analysis. The combination of ideational arguments and methods with those of diffusion literature permits a triangulation of the findings that ideas explain policy adoption. These approaches are complementary on theoretical and methodological ground. Theoretically, an idea has its own characteristics which can facilitate its adoption but without any mechanism for its diffusion, it is less likely to influence policy adoption worldwide. On the other hand, methodology to ascertain explanations based on ideas, such as a case study can be complemented by quantitative analysis used in diffusion studies.

The theoretical framework allows a more precise analysis of how ideas are developed and how they get diffused, by whom, why and when they get translated into policy. The proposed framework is based on previous studies about the role of ideas, diffusion and actors through constructivist as well as historical and sociological institutionalist research programs. The framework offers an innovative and comprehensive way of addressing the necessary conditions for ideas to be influential. Ideas remain at the center of the explanation, but processes and actors' involvement are included in the explanation through the concept of "synergy" and "strategic diffusion". The framework allows the formulation of a hypothesis which can be empirically tested. Consequently, it responds to critics highlighting the need for a more systematic constructivist approach.



This theoretical framework is useful in many contexts and issue areas, and not only for the international diffusion of ideas. At the national level, it can explain why an idea prevailed in the policy-making process and led to policy adoption. At the international level, it can explain why an idea diffused in some countries at some time. Actors, whether they are from the international or national arena, whether they are experts or not can be incorporated in a systematic analysis based on the theoretical framework. The theoretical framework can explain convergence and divergence. The success of an actor in mobilizing the four types of ideas may lead to convergence. However, if an actor is successful in linking a paradigm, a problem and public sentiment, but does not promote a particular policy or the policy cannot be linked adequately with the other types of ideas; it could explain some form of divergence.

In summary, on the theoretical level, the dissertation constitutes an effort to develop a methodical ideational approach by bridging ideas with processes of synergy between different types of ideas and diffusion mechanisms as well as incorporating the roles of specific actors in these processes.

#### 4.2 Empirical contribution

The empirical analysis provided in chapter 3 is an innovative and exclusive attempt to address the adoption of BTT as a diffusion phenomenon and to evaluate precisely what is spreading, where, when and how. This type of policy cannot be described only on the basis of the signature of the first BTT by non-member countries. The development of BTT network has to be measured and compared in order to ascertain if a diversity of country has adopted the policy in a similar manner. The in-depth analysis of BTT network development in all non-OECD countries provides for a sound description of this phenomenon which allows the development of a reliable dependent variable.

Until very recently, the more direct role of the OECD in national policy making has not been studied in political science research. The OECD has often been seen as a data gathering organization, as a technical assistant to the member countries and as a forum of discussion. Moravcsik (1989) considers the use of the OECD as a forum allowing for regime formation but not as a norm provider. Meltzer (1976) argues that national officials have used the OECD to alter national perception in order to be able to change policies. Aubrey's book (1967) concerns the case of the OECD but at a time when the organization's role was mostly to provide a forum for discussion and exchange, but he pleads for the organization to take a more active role with regard to policy.

In reality, the OECD plays a more autonomous role in the development and diffusion of ideas. Some recent studies have highlighted the importance to address the role of the OECD in international relations (Mahon and McBride 2008; Marcussen 2001; Marcussen 2005; Armigeon and Beyeler 2004). According to some authors, the OECD seems to have attained a certain autonomous status through the work of its experts (Mahon and McBride 2008) and to have developed its own organizational discourse (Dostal 2004). Rinne (2008) has studied the influence of the OECD on educational policies of its members. Based on these studies, the OECD could not be seen only as a means for powerful states to ensure their preferences prevail.

Concerning tax reforms in developing and transition countries, Stewart (2002: 29) has suggested that: "the development of an international "consensus" or "norm" of tax reform and policy, driven largely by the international institutions, among which the OECD has held itself out as a center of expertise for the transition economies, is the key factor." This dissertation furthers this line of research to establish the role of the OECD in the diffusion of ideas that influence domestic policies in the specific case of BTT in non-members.

Constructivist analyses have demonstrated that the OECD's role cannot be explained in rational choice terms, even if the creation of the organization could be explained in these terms. The OECD is an actor actively involved in the creation of the "world we live in" (Porter and Webb 2004). My dissertation contributes to this line of research by analyzing the case of the OECD's activities and work related to BTT for non-members and by using it to enhance empirical evidence through analyses of the impact of ideas upon public policy using a comprehensive theoretical framework.

In recent studies, researchers from other disciplines have begun to analyze the role of the OECD. From a law perspective, Cockfield (2006) studied the OECD as an informal international tax organization and argued that it should be analyzed through a contextual approach in order to provide relevant policies for all countries. From a sociological perspective, it is argued that the OECD is a producer of concepts, which define the discourse around particular topics, such as "knowledge based economy" (Godin 2004).

While rational choice researchers would say that it is in the interest of developing countries to attract foreign direct investment and that bilateral tax treaties are necessary to reach this goal, there is no clear and unequivocal evidence that expanding bilateral tax treaty networks will (or have) bring more foreign direct investments (Davies 2004; Neumayer 2006). Furthermore, there are other solutions to prevent potential double taxation which is seen as the problem or as presenting an obstacle to the attraction of this type of investment.

Studies have looked at tax coordination *per se* and the necessity to have an international organization, who could be the OECD, as an intermediary for coordination (Horner 2001; Kellough 2001; Pinto 2003; Sawyer 2004). Others have attended to the possibility that other

international organizations such as the UN and the WTO could play a role in tax coordination (Spencer 2006; Youngjin 2005). Other studies addressing governance have elaborated on international knowledge institutions, or more particularly, on the OECD. Miller (2007) has questioned the role of international knowledge organizations in global governance to help create a democratic order. Radaelli (2005) deals with the role of the OECD in some form of international tax governance. He argues that the OECD has shifted its mode of tax governance, from informal to more formal governance. The concept of governance at the international level raises questions of legitimacy and accountability. These questions will not be addressed in the dissertation. Consequently, while the literature on international organizations and governance is relevant to nourish the thoughts concerning the role of the OECD in international taxation, the dissertation will focus on ideas and their diffusion by the OECD.

The analysis in the dissertation constitutes an effort to accumulate evidence on the impact of international organizations' ideas, and the diffusion mechanisms used to contribute to the emerging literature on the OECD's role in policy-making and also to the development of a more systematic approach to ideas.

## **CHAPTER 3 – TRENDS OF BTT NETWORK DEVELOPMENT IN NON-MEMBER COUNTRIES**

### **1. INTRODUCTION**

Before addressing the explanation of the puzzling spread of BTT in non-member countries, it is of outmost importance to understand the dependent variable. What is spreading, when, where and how? This chapter describes in more detail the pattern of BTT diffusion in non-members and emphasizes the temporal, substantive and spatial dimension.

BTT is not a one-time adoption policy. Therefore, the diffusion of the BTT idea is intrinsically linked to the diffusion of the idea of BTT network development. In answering the question “How can the spread of BTTs in non-OECD member countries in the 1990s be described?” the analysis needs to address the features of BTT networks in non-members. The data analysis will help in answering questions such as: Which countries participated to this trend? Have many countries signed a few BTTs or have a few countries signed numerous BTTs? What are the similarities or divergences among BTT networks developed by non-OECD member countries? Is there any regional pattern to BTT signatures? Who were non-OECD member countries signing treaties with (OECD member partner and/or regional partner)?

The first part of this chapter addresses the “temporal dimension” of the BTT diffusion involving non-member countries. The date of first BTT signature is analyzed to compare it with the normal distribution of the first adopters from the diffusion literature. Since the first adoption does not tell the whole story, BTT network development is also situated in time through the consideration of the total number of BTTs in the global BTT network involving non-members. The study demonstrates through mapping the cumulative numbers of all BTTs involving non-

members, that BTT signatures are clustered in time differently than first BTT signatures only. Furthermore, BTT networks are considered through mapping the time when a considerable number of BTTs (set to 10 BTTs) is reached by each non-OECD member country. The findings support the identification of a distinct pattern of BTT signatures in the 1990s.

In the second part of this chapter, the analysis turns to the substantive terms of BTT networks in order to understand if the development of a BTT network by each country presents the same features. As Weyland (2005: 265) expressed, diffusion is “commonality among diversity”. It is impossible simply to say that all BTT networks are the same. BTT network characteristics are presented and examined to understand what makes BTT network development similar or different from one country to another. These characteristics are the relationship between first treaty signed and the development of a BTT network of at least 10 BTTs, the intensity of network development over time and the identity of partners.

The third part of the chapter is concerned with the spatial dimension of BTT diffusion. It describes the geographical dispersion of non-members, which have signed BTTs and developed a network. Furthermore, a comparison of the diffusion patterns between regions is presented to determine if the geographical spread of the idea of BTT network development is adopted differently from one region to another.

The study of these three dimensions leads to the identification of five specific patterns of BTT network development. The patterns which are responsible for the 1990s spread are more relevant at this point. This analysis leads to the conclusion that the global evolution of BTT signatures in the 1990s in non-members is due to two particular BTT network development paths, one (Path 1) according to which non-member countries started to sign BTTs in the 1990s and did so very intensively and another (Path 2) according to which countries had started to sign BTTs

prior to 1990 but have done so more intensively in the 1990s. While European and Asian countries are associated respectively with the first and second development paths, countries from other regions are also part of these paths. The variance observed in the countries which are part of the two principal paths, further supports the diversity of settings in which the idea was adopted. This diversity of settings emphasizes the need to address external variables such as contacts with the OECD in order to explain the evolution of BTT networks, which will be done in chapter 7.

## 2. TEMPORAL DIMENSION: BTT DIFFUSION SITUATED IN TIME

The literature on diffusion has demonstrated that the normal pattern of a policy's diffusion can be illustrated with an S-shaped pattern (Gray 1973; Weyland 2005). According to Rogers: "The S-shaped adopter distribution rises slowly at first, when there are only a few adopters in each time period. The curve then accelerates until half of the individuals in the system have adopted. Afterwards, it increases at a gradually slower rate as fewer and fewer remaining individuals adopt the innovation" (2003: 272). An S-Shaped curve represents the normal distribution of cumulative adopters over time. In Finnemore and Sikkink's term (Finnemore and Sikkink 1998), the S-curve is produced by three distinct phases of norm diffusion; emergence, cascade and internalization. On a frequency basis, the number of adopters by year is represented by a bell-shaped curve.

### 2.1 First adoption

Seeing this process through the normal distribution can lead to questions such as why does a process of diffusion take off at a particular time or what explains for variance in the speed of adoption. The analysis begins by mapping the adoption of the first BTT by non-members. The

cumulative number of non-members which have signed their first BTT per year from 1950 to 2007 (figure 3) present a relative linear distribution over the entire period. However, two S-Shaped curves can be distinguished in this figure. The first one takes off around the mid-1960s up until the late 1970s but instead of tempering down, the spread of first adopters continues at a regular pace until the end of the 1990s. Around 1990, another wave can be identified, which seems to have reached a tipping point in the early 2000s.

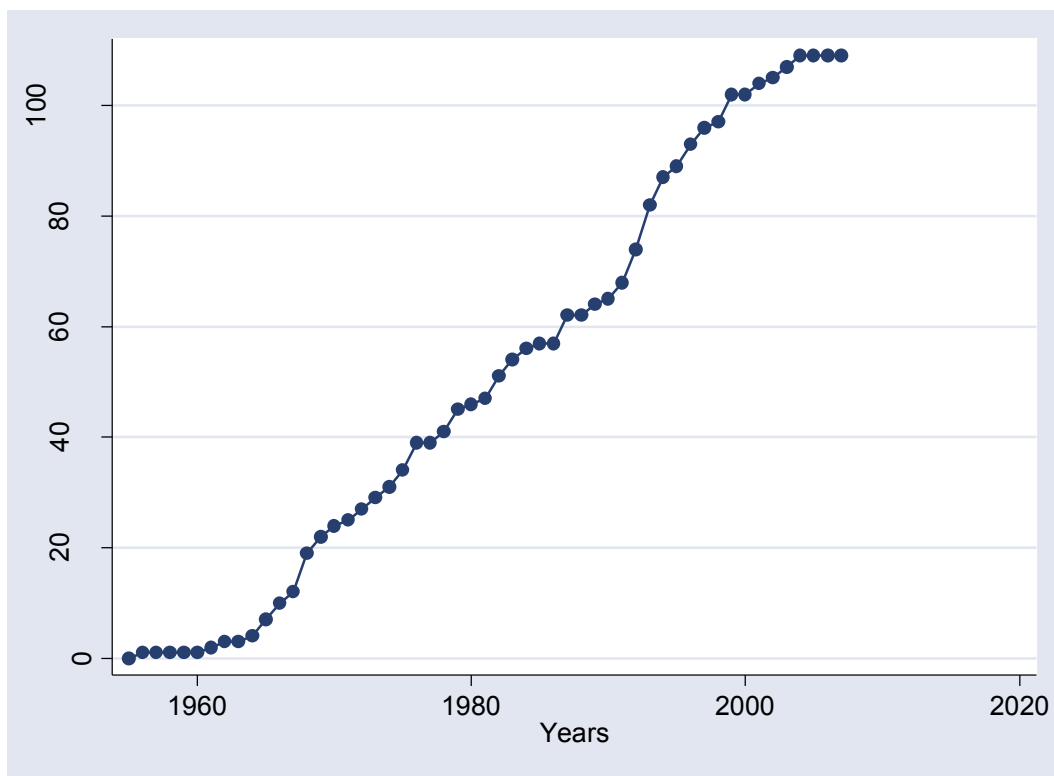


Figure 3. Number of non-OECD member countries signing their first BTT by year (cumulative).



While the analysis of first adopters is interesting and somehow supports the need to address the 1990s as a distinct diffusion process, it does not tell the whole story. BTTs are not a one-time adoption policy. Therefore, each country can sign one or many BTTs. The diffusion pattern must take this fact into consideration to understand fully the spread of these agreements.

## 2.2 BTT signed by non-OECD member countries

Figure 4 shows the cumulative number of BTTs signed by year over the period 1950 to 2007<sup>9</sup>. This distribution resembles more the normal distribution but with a very steep hill from the early 1990s. There seems to be a turning point in the early 1990s which has launched a major increase in the speed of BTT signatures up until the mid-2000s. This rapid increase in the number of BTTs signed by non-members in the 1990s begs the question why and what accounts for this accelerated pace.

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<sup>9</sup> Treaties are rarely renegotiated before 15 to 20 years of existence. Most often, treaties are modified to update the wording and occasionally the modification is more substantial. Dates of modification of treaties are not relevant for the purpose of the dissertation because the purpose of the dissertation is to address the adoption of the BTT solution. Five countries have accessed OECD membership after 1994. Because the main object of the dissertation is the expansion of BTT network in non-member countries since 1990, these countries have been taken out of the analysis of the study at this point. These countries are Czech Republic (accession in 1995), Hungary (1996), Korea (1996), Mexico (1994) and Slovakia (2000).

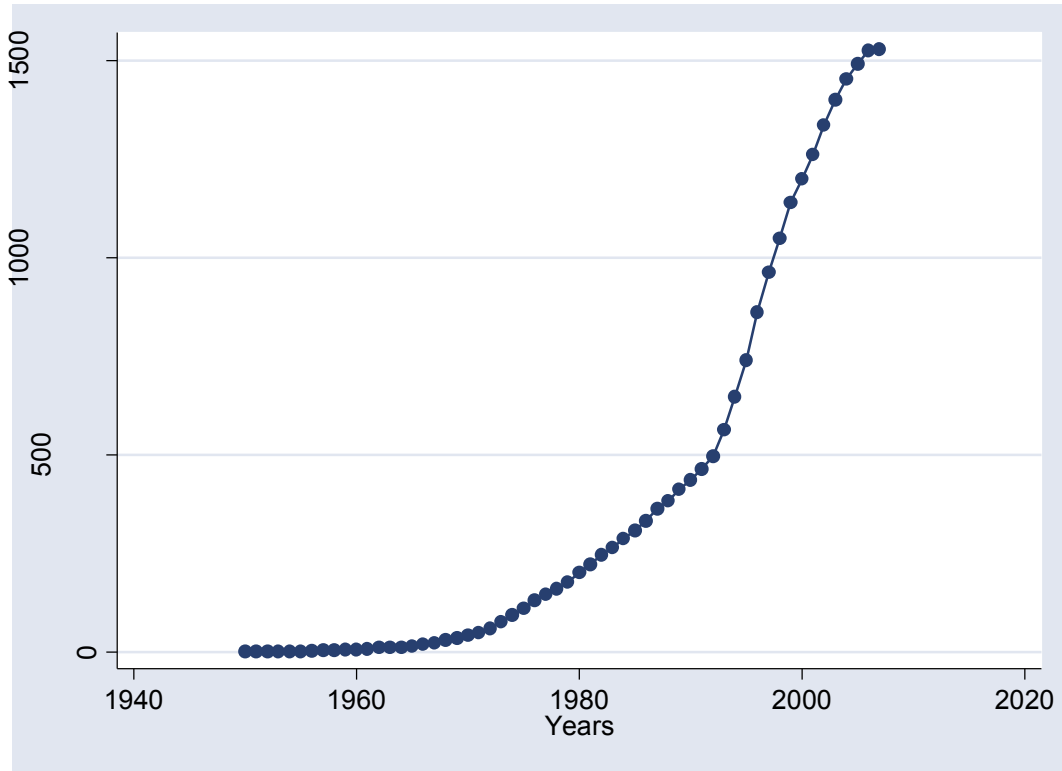


Figure 4. Number of BTTs with at least one non-OECD member countries as a partner by year (cumulative).

Still addressing the global BTT network, figure 5 maps the frequency of BTTs signed by non-members by year during this same period. As illustrated, in the 1950s, only seven treaties were signed by non-member countries and all except one with OECD member countries. In the 1960s, 28 BTTs were signed by non-member countries, the majority having signed just one BTT. Some had entered into two agreements and only one country (Zambia) had signed 3 BTTs. In the 1970s, 170 BTTs were signed by non-member countries. This number was increased by the addition of 275 agreements in the 1980s. As the data shows, some non-member countries were using BTTs before 1990. BTTs were used mostly in specific circumstances such as between a colony and its colonial state or, in the 1980s by Asian countries (Easson 2000). A brief analysis of possible reasons for the 1970s and 1980s wave can include the fact that Asian countries used

BTTs to protect the effect of their national tax incentives implemented to attract foreign investment. While the number of treaties signed by non-member countries was increasing steadily and quite significantly from 1950 to 1989, this number almost exploded in the 1990s.

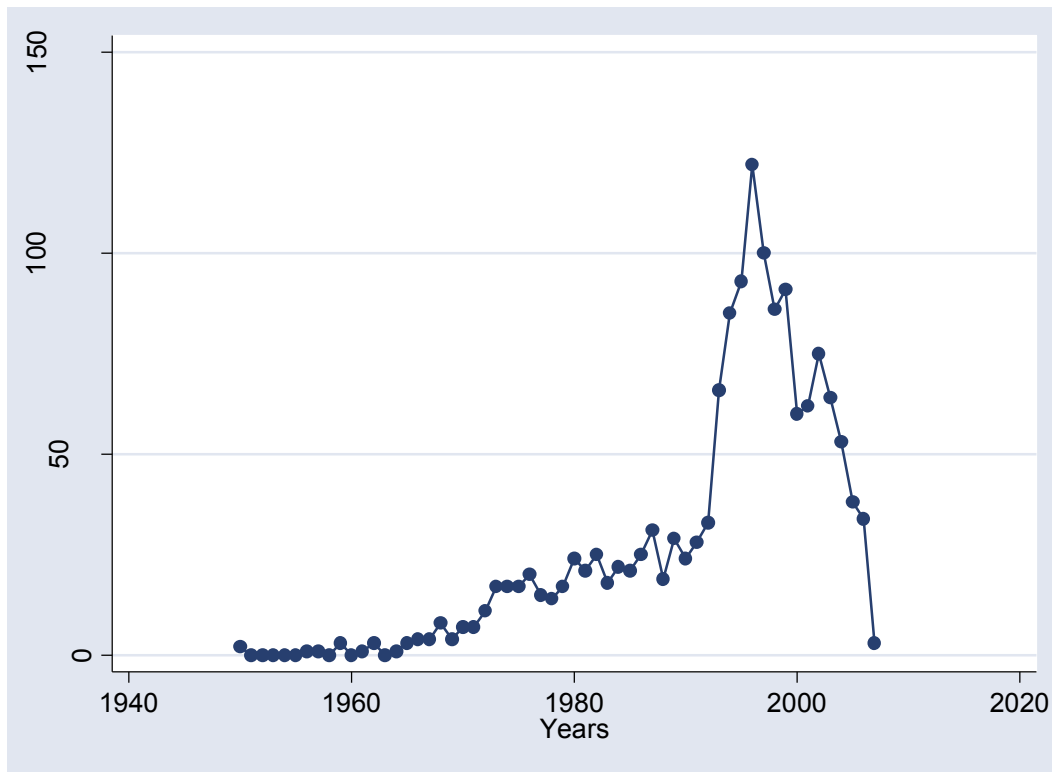


Figure 5. Number of BTTs with at least one non-OECD member country as a partner by year (frequency).

### 2.3 BTT network by country

A country can sign multiple BTTs and the idea of BTT is intrinsically linked to the concept of BTT network. As demonstrated in chapters 5 and 6, the idea promoted by the OECD to non-members is that a BTT network should be developed indicating that entering into numerous BTTs is preferable. The spread of the BTT idea should then be analyzed through the adoption of a

significant number of BTTs by non-members. For the purposes of the dissertation, this number has been set at 10 BTTs (tests have been done with 6 BTTs, and results were significantly similar.)

The analysis of the data reveals that the number of non-members, which have signed a tenth BTT has also been increasing from 1970s to 1990 but from 1990 the speed at which non-OECD members reached a network of 10 BTTs has increased at a significantly greater speed up until the early 2000s, where it seems to have reached a tipping point<sup>10</sup>. This data leads to the conclusion that the increased number of BTTs in the global BTT network is related not only to more countries signing a first BTT in the 1990s but also to more countries developing a significant network during that period.

Figure 6 shows the cumulative number of non-members, which have signed their 10<sup>th</sup> treaty by year. This analysis demonstrates that the number of BTT networks reaching 10 treaties is increasing much more intensively in the 1990s. Comparing figures 3 and 6 reveals that the increase of BTT networks developed in the 1990s is relatively more intense than the number of first treaty signed in this period.

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<sup>10</sup> Analysing descriptive statistics based on BTT networks comprises a bias. BTT signed between two non-OECD member countries, country A and country B, are taken into account in each country's BTT network. Therefore, there are some BTTs which are counted twice in the data. Nevertheless, BTT network is a relevant unit of analysis to explain the spread of BTT in non-OECD member countries. The adoption of an idea by countries is correctly measured with a unit of analysis developed on a national basis.

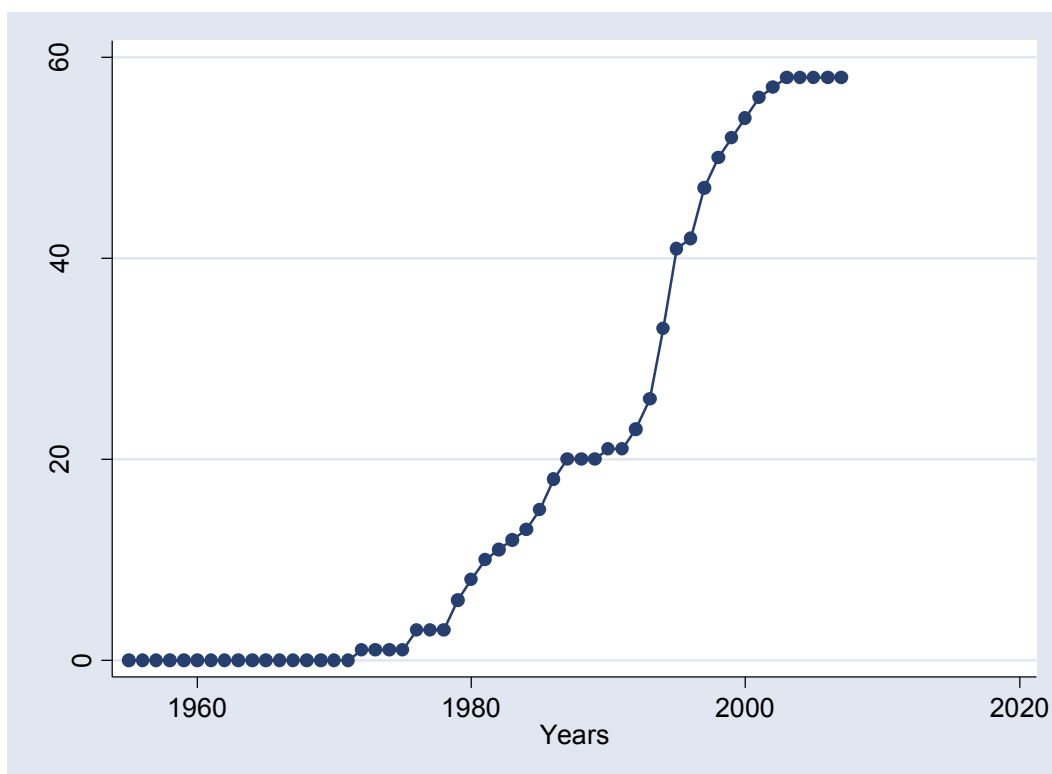


Figure 6. Number of non-OECD member countries reaching a network of 10 BTTs (cumulative).

Among non-member countries which have signed BTTs, the majority has a BTT network comprising between 5 and 35 treaties (mean 19). Before 1990, 70 countries had signed at least one BTT and among this number only 24 countries (34 %) had a network of 10 treaties or more. In 2007, 58 out of 109 countries had a network of more than 10 treaties.

Taken all together and considering non-member countries only, BTTs have been signed mostly between 1990 and 1999 and networks have been growing predominantly in the 1990s. Therefore, it is useful to talk about BTT development in the 1990s, because most networks have been developed during these years. This explosion in the number of BTTs in the 1990s and the

fact that not only more countries signed BTTs but also that countries which have signed BTTs have done so more intensively in these years is an interesting phenomenon. While the reference to BTT networks prior to 1990 was only relevant for a few countries, in the 1990s it is possible to see that more countries were developing BTT networks.

As Gray (1973) demonstrated, the diffusion pattern does not always fit the normal S-Curve and one of the reasons why the speed of state adopters for some policy areas is increased may be a federal government intervention. On a similar basis, it could be hypothesized that the increased speed of non-members signing their first BTT or increasing their BTT network in the 1990s is attributable to a supranational intervention, such as the OECD's involvement and promotion of BTT. Chapter 7 tests this hypothesis.

### 3. SUBSTANTIVE DIMENSION: CHARACTERISTICS OF BTT NETWORK DEVELOPMENT

The characteristics of national BTT networks refer to the way the networks have been developed to understand how, when and with whom non-members signed BTTs and with what intensity did the network develop. As defined in chapter 1, a BTT network is a set of BTTs signed by a specific country. In this context, a treaty signed by two non-OECD member countries is part of both these countries' networks.

Diffusion means that many countries with diverse settings adopt a similar policy. In their analysis of social security diffusion, Collier and Messick (1975) note that it is important to see if the first adoption of a social security policy is a valid indicator of overall social security development. In the case of BTT, it is relevant to explain the characteristics of BTT network development to determine what the relevant indicators of the development of a BTT network are.

The analysis of BTT network development is also necessary to determine if BTT network development is similar among diverse non-members. First of all, BTTs are intrinsically linked to the notion of developing a BTT network and signing only one BTT does not represent a major commitment to the idea of BTT. Because the date of the first treaty signed would only provide a portion of the story, other characteristics of BTT network development must be analysed to ascertain the similarity in BTT network development. The analysis must demonstrate how the development of BTT network by non-members is similar across countries and this demonstration can only be done by addressing specific characteristics of BTT network. These characteristics are; the date of first BTT signature, the date of signature of the tenth BTT and the growth rate of the network. The region and status as OECD members of treaty partners will also be considered. The relationship between some of these features will be analyzed to improve the understanding of this evolution and to identify development paths in order to be able to ascertain if the development of BTT network is similar across a diversity of countries.

### 3.1 First treaty and intensity of BTT network development

Countries can decide to sign a BTT for many different reasons. The first treaty signed can be the first step towards the intended development of a BTT network as it is the case for Chile<sup>11</sup>, whereas for some other countries, the first treaty signed can be the only one, as it is the case for Malawi<sup>12</sup>. The information related to the first treaty is not intrinsically valuable for the present study, but it constitutes a supplement of information that can be addressed in combination with other features of a country's BTT network. As illustrated in figure 3, the date of the first is spread

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<sup>11</sup> Chile indicated its intention to the OECD to sign many BTT. Chile signed only 3 treaties in the 1990s but 11 treaties were signed between 2000 and 2007 (WP1 1996b)

<sup>12</sup> The intention to develop a BTT network can exist but if no partner wishes to sign BTT with this country, this country's network will not be expanded. The fact that a country does not have a wide network does not necessarily mean that it did not have the intention to develop a network.

over a period of 40 years (mean: 1983). Therefore, prior to the large wave of BTT network expansion, many countries had signed their first treaty.

In 2006, 57 non-member countries had BTT networks of 10 treaties or more. The number of ten treaties certainly reflects a purposeful adoption of the idea<sup>13</sup>. Countries which signed very few treaties could have done so for different reasons, as it is the case between a colonial state and its colony. Figure 3 shows that the number of BTT networks reaching the considerable number of 10 treaties is the largest in the 1990s. It is also important to specify that the growth in the number of countries reaching a BTT set of at least 10 treaties was somehow stable in the first years of 1990s, but from 1994 to 2000 this number raised considerably.

The analysis of the relationship between the date of the first treaty and the signature of the tenth treaty is important to determine if countries which have signed their first BTT early in the period 1950 to 2007 then experienced similar BTT network development. Therefore, is the development of BTT network similar notwithstanding the time of first adoption? A correlation would mean that when a country signs a first treaty it is usually (or not) followed by the development of a BTT network reaching 10 BTTs over the period 1960 to 2000. The relationship between the date of first treaty signed by a country and the number of years before reaching a network of 10 treaties seems to support the fact that countries which signed treaties before 1990, tended to have a slower and less expansive network development whereas countries that started to sign treaties after 1990, tended to develop a set of BTTs more dynamically.

To illustrate the relationship between the date a country started to sign BTTs and the intensity of network development, figure 7 shows that earlier adoption of the idea of BTT resulted in a less intense BTT network development. There is a strong negative relationship between the

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<sup>13</sup> Tests have been done with networks of 6 treaties and conclusions were similar.



year the first treaty is signed and the number of years to reach 10 treaties (Kendall's tau correlation factor  $-0,5523$ ,  $p < 0,0001$ )<sup>14</sup>. The later a country started to sign BTTs the more concentrated the development of its BTT network, culminating with countries, which have started to sign BTTs in the 1990s and reached 10 treaties very rapidly.

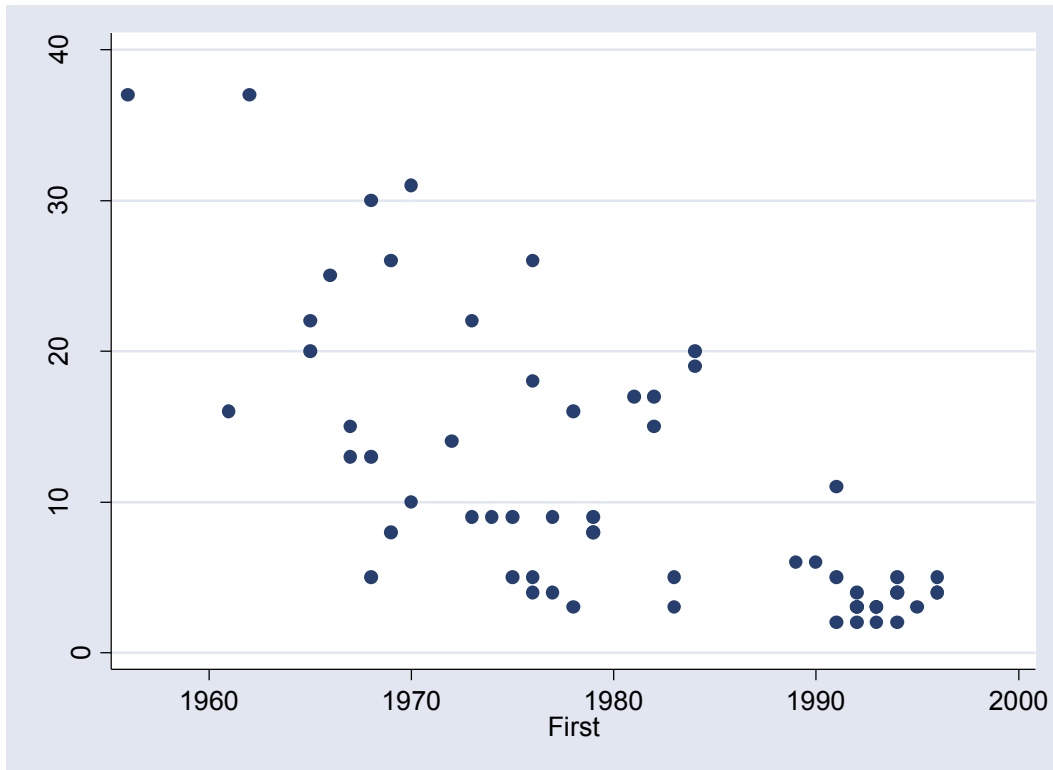


Figure 7. Relationship between year of first BTT signed and number of years to reach 10 BTTs.

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<sup>14</sup> Number of obs = 57  
 Kendall's tau-a = -0.5282  
**Kendall's tau-b = -0.5523**  
 Kendall's score = -843  
 SE of score = 144.379 (corrected for ties)

Test of Ho: First and timereach10 are independent  
**Prob > z = 0.0000 (continuity corrected)**

The analysis of network growth rate and the year of signature of the first BTT allows distinguishing specific layers of network development. There is a regular evolution in network development in the 1960s until the mid-1970s. The countries which entered into BTT network in the mid-1970s and early 1980s have had a wide variety of development and there was a halt of new countries entering BTT network in the second part of the 1980s. Countries which signed their first treaty after 1990 tended to have a similar development with a higher growth rate.

The analysis of these characteristics of network development supports the fact that the increase in the number of BTTs in the 1990s is due to a different way in developing BTT networks, which was much more intense than before 1990s and therefore, indicates that it is useful to address distinctively the BTT signatures in the 1990s.

### 3.2 Annual average number of BTTs

The annual average number of BTTs signed by a country highlights the intensity and the growth rate of network development. This measure allows the comparison of the evolution of BTT network development in non-member countries. Some countries have signed numerous BTTs in a short period of time; others have the same number of treaties but have done so over a much longer period.

In order to highlight the principal path of network development three different measures have been used. The annual average of BTTs signed before 1990 and during the 1990s, as well as the differential between both, has been calculated. Data are provided in Appendix 4. A comparison demonstrates that among the countries which had an annual average number of BTTs of over 0,50 before 1990 and have at least 10 treaties, only 5 have slowed down BTT network

development after 1990 (Brazil<sup>15</sup>, Zambia, Zimbabwe, Philippines and Sri Lanka). Since 1990, many countries have experienced a considerable growth rate among which new independent states decided to develop dynamically a network of BTTs. In this group, Russia has the highest annual average BTTs in the 1990s. China had the highest annual average before 1990 and continued to expand its BTT network intensively in the 1990s. The mean of annual average BTTs in the 1990s is four times higher than the mean of annual average BTTs before 1990. This data shows that non-member countries which have expanded their BTT networks or, which have started to sign BTTs after 1990 have done so much more intensively than before 1990. This information complements the increase in the number of treaties illustrated in figure 3 demonstrating that not only more non-members signed BTTs in this period but also that these countries have been signing BTTs more intensively.

### 3.3 Characteristics of treaty partners

While the characteristics of treaty partners do not in themselves alter the intensity of BTT network development, it is relevant to understand who the partners in each BTT network are and the variance among networks in this regard. Partners can vary among national BTT network. Data concerning BTT partners is provided to understand with whom non-member countries sign an agreement. Do non-member countries sign BTTs just with OECD countries or among themselves and also do they sign a treaty only with regional partners or with countries from around the globe? If BTTs are signed strictly with OECD countries, it could mean that the diffusion by OECD countries is more important than the diffusion by the organization. If a non-member country signs BTTs only with OECD member countries, it could be explained by OECD countries pressuring them to do so. Furthermore, signing BTTs only with regional partners could be explained by a phenomenon of regionalism.

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<sup>15</sup> Brazil has signed 6 more treaties between 2000 and 2007.

Based on figures 8 and 9, it is possible to argue that before 1990, non-member countries signed relatively more treaties with OECD member countries and then continued to expand their network by entering into agreements with other non-member countries. Comparing the period of 1970 to 1990 in both figures, more treaties were signed with OECD member countries than with non-member countries by non-OECD member during this period. This would mean that OECD countries could have been an important factor for the diffusion of the idea to explain the adoption of BTTs prior to the 1990s' expansion. A comparison of the 1990s in both figures shows that the level of BTTs signed between two non-OECD members has risen relatively more in the early 1990s to approach the level of BTTs between a non-OECD member and an OECD member in the 1990s.

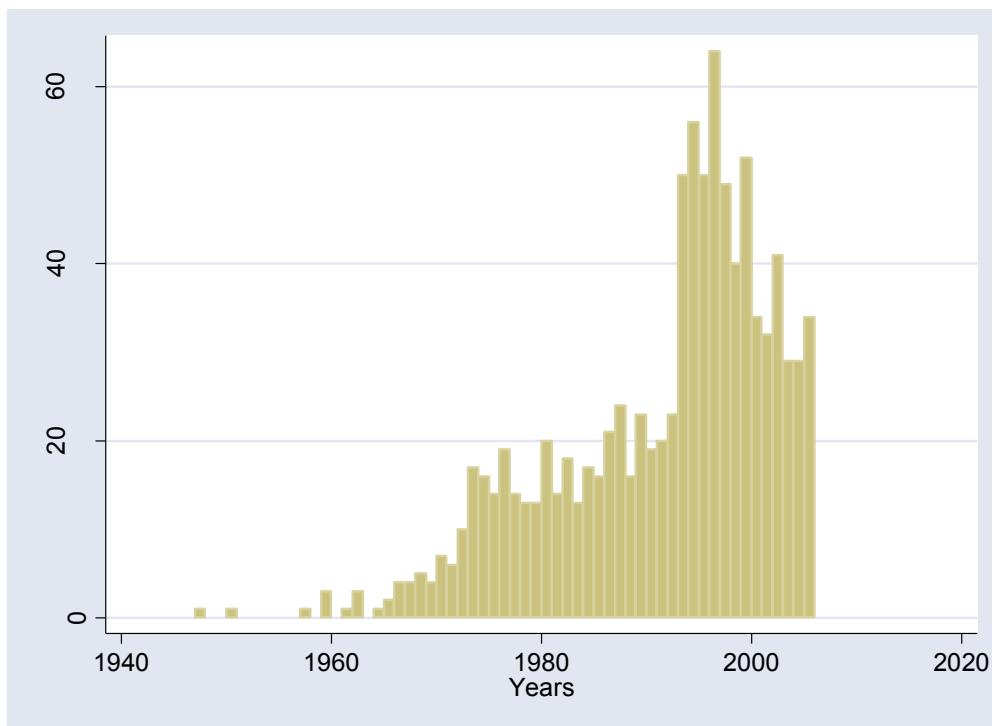


Figure 8. Number of BTTs with OECD partner per year.

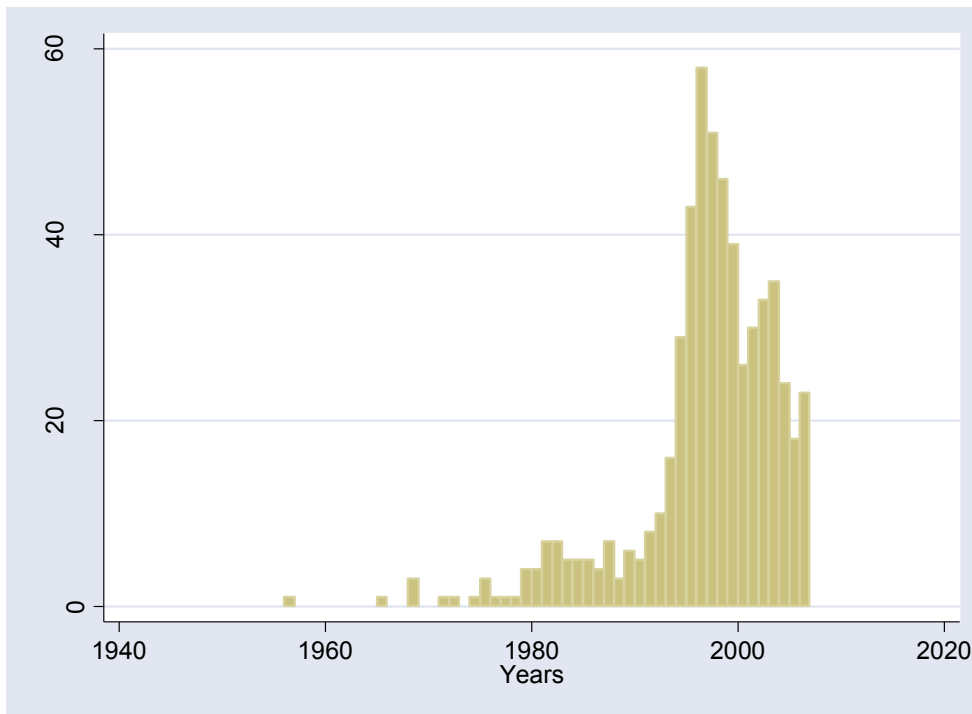


Figure 9. Number of BTTs with non-OECD partner per year.

On the other hand, the percentage of treaties signed with partners in the same region increased since 1970. In the 1990s wave, countries signed more treaties with regional partners. This is probably related to the fact, at least in part, that many new European countries have entered into BTT and signed many among themselves. However, these countries are not the only countries concerned with signing BTT with regional partners.

Table 3. Percent of the global BTT network of treaties signed with same region partners.

Period	1950-60s	1970s	1980s	1990s	2000s
%	29%	17%	29%	34%	39%

#### 4. SPATIAL DIMENSION: GEOGRAPHICAL SPREAD OF BTTs

This part of the analysis described the geographical dispersion of the idea of BTT network development. One distinction is important to make from other literature. Often, an idea is expected to spread among countries from the region where the idea originates, based on the assumption that “proximity prompts imitation” (Weyland 2005: 266). In the case of BTT, the idea is not attributable to a specific country but the idea has been around for a long time, and it is fostered by an international organization. Geographic clustering could, nevertheless, be observed but this clustering could involve one or many regions simultaneously. Before focusing on a possible explanation for BTT (the OECD’s involvement and promotion of the issue), it is important to know the geographic dispersion of the idea to consider emulation within regions. If the increase in the number of BTTs signed in the 1990s is attributable only to countries from a specific region, the explanation needs to take this into consideration.

The analysis of network would not be complete if it only amounted to identify the general features of the global trend among non-members. It is necessary to understand where and how BTTs spread internationally. What is the worldwide dispersion of the idea? Are non-OECD member countries responsible for the expansion of the global BTT network all from the same region? From the characteristics observed previously, are BTT networks developed by countries in a region different than BTT networks developed in another?

Countries have been grouped in geographic macro regions. The purpose is to establish the geographical spread of BTTs and not to explain the reasons why a region has been more or less active in BTT network development. Regions have been identified using the *World Macro Regions and Components* of the UN (UN 2000). However, an adjustment has been made to have

a distinct Middle East and North Africa region (Eken and al. 1997). Furthermore, since the dissertation is concerned only with non-members, Northern America has been left aside, and Bermuda has been included with Central and Latin America and the Caribbean. The six regions are Africa (Sub-Saharan), Central and Latin America and the Caribbean (CLAC), Asia, Europe, Middle East and North Africa (MENA) and finally Oceania. Further tests could be done to see if more detailed or relevant findings would be revealed if more than one region was identified for Asia as well as CLAC. Appendix 5 presents the list of countries by region.

Table 4 shows that BTTs are signed worldwide but the percentage of countries involved varies from region to region. Furthermore, the percentage of non-members which signed at least one BTT, and of countries which have signed 10 treaties or more varies from one region to another. Europe has the highest percentage of countries with at least one treaty and of countries with a network of at least 10 BTTs, followed very closely by Asia. In comparison, only 20 % of countries in Central and South America and 9 % of countries in Africa have developed a network over the years.

Table 4. Countries signing BTT by region.

<b>Region</b>	<b>Total nb of countries</b>	<b>Nb and % of countries &gt;1 BTT</b>	<b>NB and % of countries &gt;9 BTTs</b>
Africa	44	27 (61%)	4 (9%)
CLAC	41	15 (37%)	8 (20%)
Asia	33	29 (88%)	20 (61%)
Europe	20	18 (90%)	15 (75%)
MENA	23	18 (78%)	11 (48%)
Oceania	12	2 (17%)	0 (0%)

Table 5: Characteristics of networks by region (MEAN by region considering countries with at least one BTT only)

<b>Region</b>	<b>NB of BTTs</b>	<b>Yr first BTT</b>	<b>Yrs to reach 10 BTTs</b>	<b>% of OECD (1)</b>	<b>% with OECD (2)</b>	<b>% with region (3)</b>
Africa	8	1980	17	13 %	56 %	17 %
CLAC	11	1981	20	23 %	70 %	10%
Asia	27	1985	8	34 %	35 %	44 %
Europe	35	1991	5	41 %	39 %	73 %
MENA	17	1981	17	20 %	29 %	7 %
Oceania	8	1981		1 %	41 %	25%

(1) Percentage of OECD countries with which non-member country has a BTT (Mean)

(2) Percentage of BTT network signed with OECD member partner (Mean)

(3) Percentage of BTT network signed with countries from the same region (Mean)

Table 5 provides information with regards to the characteristics of BTT network by region. The average number of BTTs in networks varies in each region. Europe and Asia are leading the way with the two highest average numbers of BTTs by network, and Africa is the region with the lowest average of BTTs by network. Furthermore, for Africa this average is less than 10 BTTs and the number of years for countries to reach 10 treaties is also very high (17 years). This information highlights the fact that network development is very different in Africa than in Europe and Asia. Central and Latin America countries also have on average a very slow and restricted BTT network development. Middle East countries have a network development in average that is more extensive than the one in Africa and Central and Latin America but the growth is also slow. Regions that have the less intensive BTT network development are regions that have started to sign BTTs on average before Asian and European countries.

Regarding the treaty partners, there is a great variation among regions. Central and South American as well as African countries which tend to have a less developed network, have a large portion of their network signed with OECD countries. However, BTT networks in the Middle East have a limited portion of their network signed with OECD member countries. Asian and



European countries have on average a similar portion of their network signed with OECD member countries, because their network is generally extensive.

The portion of treaties signed with countries in the same region varies enormously, due in part to the number of countries in each region. The interesting point is that Asian and European countries, which have similar networks on many features, differ drastically on that one. Whereas more than two thirds of European countries' network comes from treaties signed with European partners, the Asian countries have only one third of their network among themselves.

Countries from different regions have signed BTTs over the years but the analysis of the characteristics of the network development by region reveals that on average, the development paths have been different. The emergence of new independent states around 1990 probably partially explains the number of treaties signed and the growth rate in Asia and Europe. However, it does not say why these countries signed BTTs in the 1990s.

## 5. BTT NETWORK DEVELOPMENT PATHS

The previous examination identified features of BTT network development paths to demonstrate and understand the 1990s wave of BTT signatures in order to support better the explanation of this wave. Pushing the analysis of the “commonality amid diversity” (Weyland 2005: 264) it is relevant to address specific patterns of BTT network development to establish if different countries had similar BTT network development. Then, the analysis could allow determining what the common factor among these countries explaining this BTT network development is. From the characteristics, it is possible to bring forward the explanation through the identification of BTT network development paths and non-members associated with these

paths. Five paths are identified: (1) very intense BTT network development from 1990; (2) BTT network development began slowly before 1990 and gained intensity in the 1990s; (3) atypical BTT network development of at least 10 BTTs; (4) no BTT network development of more than 9 BTT; and (5) no BTT.

The purpose of this section is not to explain at this point why countries have followed different paths. This section aims at demonstrating that different paths of BTT network development are observed. Furthermore, a variety of countries have followed each of these paths, primarily those of interest to the dissertation which have created the global BTT network to grow so intensively in the 1990s.

#### 5.1 Categories of network development paths

The significant increase in the number of BTTs in the 1990s is related to two development paths, Path 1, which concerns countries starting to sign BTT in the 1990s and doing so intensively and Path 2, which concerns countries, which had signed treaties before 1990 but accelerated the rate of BTT signatures in the 1990s. Appendices 6 and 7 contain data on non-members in Path 1 and 2 and their BTT network.

##### *Path 1: Very intense development since 1990*

This group of countries highly contributed to the increase in the number of BTTs in the 1990s specifically addressed in this dissertation. The features of this path are an interest in BTT since 1990 and a rapid and consistent growth in the number of treaties signed. Some of these countries had signed a marginal number of BTTs prior to 1990. Thirty countries have experienced this development path; they are from every region but mostly from Europe and Asia. In this

development path, BTT partners vary among networks and there is no clear trend of signing BTTs with OECD members or with same region partners. The list of countries is presented in Appendix 6. Intuitively, we could expect new independent states from Asia and Europe to constitute this group, since they could not have signed BTTs before they reached independence around 1990. This group includes many new independent states from Asia and Europe, which developed intense BTT network since 1990. However, the group in Path 1 is not only constituted of new independent states. Furthermore, even if new independent states could not have signed BTT before 1990, it does not explain why they did so intensively in the 1990s.

*Path 2: Intense development started slowly before 1990 and gained intensity after 1990*

This group is also of interest for the dissertation but the network development in these countries is different than the one in the first path described. The increased growth rate after 1990 makes this path of particular interest for the study. Countries in this group had started to develop a network prior to 1990 but the expansion has increased since 1990. Therefore, the differential between the annual average BTTs after and before 1990 is positive and these countries have a high total annual average BTTs. This group includes 15 countries from Asia, Europe and Middle East. The list of countries is presented in Appendix 7.

Appendices 6 and 7 also provide information with regard to each country's GDP per capita and population demonstrating a variance among countries which have experienced BTT network development paths 1 and 2. In the chapter 7, a quantitative analysis addresses the relationship between increased levels of BTTs in non-members and contact between these countries and the OECD. Even if countries in Paths 1 and 2 are mostly responsible for the growth of the global BTT network, all non-member countries is part of the analysis. The statistical analysis will include every country to account for the fact that some countries might have been in contact with

the OECD regarding BTT but did not sign any BTT or signed some BTTs but at a slower pace than paths 1 and 2. Three other development paths can be identified.

#### *Atypical development path*

Countries in this group have experienced a network development which started before 1990 and present a slower growth rate that remained stable or decreased after 1990. This group includes countries, which have developed a network of at least 10 treaties but in no particular path, with peaks at certain times and lows at other times. It is impossible to describe any clear trend of BTT network development. Countries in this group all have had an atypical network development. These countries are from different regions excluding Europe.

#### *No development (less than 10 treaties)*

This group includes 52 non-members that have signed treaties, at any time, but have not exceeded nine treaties and does not demonstrate a consistent growth rate. Therefore, some treaties were signed over a longer time period. This group includes 28 countries, which have signed their first BTT before 1990 among which many from Africa, including Benin, Congo, Nigeria, Ethiopia and Kenya. Furthermore, 24 countries from this group have signed their first BTT after 1989, including Turkmenistan and Tajikistan.

#### *No treaties*

This last group includes 64 non-members, which did not sign any treaty. Of course, the fact that a country did not sign a treaty does not necessarily mean that it did not want to; it could also be because no countries had an interest in signing a treaty with them. That being said, this

category helps to understand the diffusion of the idea by demonstrating the negative cases.

Countries which have not signed any treaties are mainly from Africa, Central and South America, Pacific Ocean and Indian Ocean. This information is the corollary of all the information presented so far as to countries, which were active in developing their BTT network.

## 6. CONCLUSION

This chapter has analyzed the diffusion of BTT network development through the characteristics of policy diffusion identified in the literature; the temporal dimension, the geographical dispersion and the substantive dimension. This tailored analysis is essential to determine the dependent variable, since BTT has not been studied as a diffusion phenomenon before and it is not a one-time adoption policy.

Concerning the “temporal dimension” of the BTT diffusion involving non-member countries, the analysis has revealed a distinct pattern of BTT network development in the 1990s which could not be captured only by the date of signature of the first BTT. Globally, much more BTTs were signed in the 1990s and individually, more non-members have signed their tenth BTT. The number of 10 BTTs has been used a benchmark for network.

Addressing the substantive terms of BTT network development, the analysis has demonstrated that not only is the number of BTTs relevant to understand if the diffusion is similar across countries, but other features give relevant information. The correlation between the date of the first treaty signed and the signature of the tenth BTT reveals that the intensity of BTT network development is related to the time of signature of the first treaty. BTT network development which began in the 1990s tended to take less time to reach the number of 10 BTTs. The identity

of BTT partner has varied over time. The portion of BTTs signed before 1990s tended to be higher with OECD member countries than in the 1990s. Furthermore, the portion of BTTs signed with same region partner has increased over time. Nevertheless, when comparing BTT network, there is much variance in the portion of agreement signed with OECD member countries and same region partners.

Turning to the geographical dispersion of non-members which have signed BTTs and developed a network, it is possible to conclude that there are many countries from Europe and Asia. However, countries worldwide have signed BTTs or developed a network. On average, BTT networks present some variation regarding the number of BTTs signed by countries in each region, the intensity of BTT network development as well as the portion signed with OECD member and same region partner.

This analysis has led to an accurate and detailed understanding of the spread of BTT in non-member countries. It also resulted in the observation of a variance in the countries which relied on the idea of BTT in the 1990s, particularly. This diversity of settings emphasizes the need to incorporate external variables to explain the spread of the idea. The next chapter establishes the reasons for rejecting an explanation based solely on interests and also the reason for suspecting that the OECD may have influenced non-members. While chapter 2 has established how this influence can be dealt with theoretically, chapter 4 will briefly illustrate why the OECD may have played an important role in this diffusion. Chapters 5 and 6 provide a case study to verify if the OECD created the necessary conditions for the idea to explain policy adoptions. Chapter 7 examines specifically the link between this work by the OECD and the actual signature of BTTs by non-members, which have been in contact with the organization.

## **CHAPTER 4 – THE PUZZLE: BTT, THE OECD AND NON-OECD MEMBER COUNTRIES**

### **1. INTRODUCTION**

This chapter presents facts about BTT to understand the context of the puzzle and to support the study of the role played by the OECD in trying to explain this puzzle. First, the origin of the idea of BTT and its evolution are exposed. Secondly, to fully understand why the development of the global BTT network which occurred in the 1990s is intriguing and cannot be accounted for through a rational explanation, it is necessary to explain the objectives and consequences of BTT in general and for non-members in particular. Thirdly, the relationships between the OECD and non-members are briefly presented to support the relevance to further investigate what has been the role of the OECD in the spread of BTTs in the 1990s in non-member countries.

### **2. HISTORICAL OVERVIEW OF BTT**

The beginning of the 20<sup>th</sup> century was a period of rapid industrial growth and internationalization of trade. Also, after World War I, countries were creating income taxation systems or increasing their tax rates to finance the expenses incurred during war. This situation brought the League of Nations to identify a growing problem of double taxation caused by the taxation in two countries of capital flowing from one country to another. The League was then eager to solve the problem of double taxation to encourage economic recovery (Kolm 2005). At this time, the League of Nations was to work on solving two different but connected problems, double taxation and tax avoidance and evasion. A group of technical experts was established to

address these issues and to recommend solutions to facilitate international trade and commerce. The group of technical experts was constituted of heads of national revenue departments from France, Switzerland, Belgium, the Netherlands, Great Britain, Czechoslovakia, and Italy (Kolm 2005). Other members were added in 1925, Germany, Poland, Argentina, Japan, Venezuela and the United States on an informal basis (McIntyre 2003). The technical experts proposed models for a BTT convention based on a report from the “four wise men”, which were professors in economics from the United States, United Kingdom, Italy and the Netherlands (Avery Jones 1999; McIntyre 2003). At that time, the possibility of a multilateral treaty was put aside for solving double taxation because it would have been practically impossible to draft a suitable general convention taking into account the diversity of national tax systems (Committee of Technical Experts on Double Taxation and Tax Evasion 1927). As for alleviating tax avoidance and evasion, the committee of technical experts officially stated that a consensus on a multilateral treaty could have been reached, but it would have taken much more time and that a bilateral solution would provide an equivalent solution in a more limited time frame (Committee of Technical Experts on Double Taxation and Tax Evasion 1927). Even if tax evasion was considered a distinct issue from double taxation, it was noted that countries are generally willing to help other countries to enforce their tax rules to prevent tax evasion and avoidance once both countries have solved the potential problem of double taxation among them (Carroll 1939). The issue of double taxation was therefore intertwined with the issue of tax avoidance and evasion. The experts, therefore, recommended the creation of a network of bilateral agreements that could eventually form the basis of a single multilateral convention eventually.

A very limited number of countries had signed BTTs in the early 20<sup>th</sup> Century (Kolm 2005). In 1928, the League of Nations published the first model treaty. This model treaty is the ancestor of all the OECD models and its original structure is still used in the contemporary BTT networks. Experts from Belgium, Czechoslovakia, France, Great Britain, Italy, The Netherlands,



Switzerland, Germany, Poland, Japan, Austria, Bulgaria, China, Danzig, Denmark, Estonia, Greece, Hungary, Irish Free State, Latvia, Norway, Romania, South Africa, Spain, Sweden and the USSR had previously participated in the discussion about the model (McIntyre 2003). This model is based on the identification of the sources of income and the attribution of the taxing rights to the residence or source country for each type of income.

Further work was done on the model and in 1943, the Mexico Draft was agreed to by representatives from developed and developing countries within the League of Nations. Representatives from Argentina, Bolivia, Canada, Chile, Colombia, Ecuador, Mexico, Peru, the United States, Uruguay and Venezuela were present at this regional conference. Because of their status of capital importers, developing countries argued for more taxing rights to source countries, to ensure more tax revenues to their governments. In 1946, the Mexico draft was reviewed and the League's Fiscal Affairs Committee produced the London draft which continued to generally attribute taxing rights to the residence country and limit the rights of the source country (McIntyre 2003). According to Irish, the fundamental reason is that "the emphasis on residence represents the more favourable alternative for the country with the stronger bargaining position" (1974: 294). Even if the world economy has evolved since then, the OECD's BTT model has the same structure as the League's models and continues to limit source countries' taxation rights.

After the League of Nations, the UN and the Organization for European Economic Cooperation ("OEEC") replaced by the OECD were involved with BTT. This section will summarize their participation in the development of the BTT idea.

## 2.1 The OECD<sup>16</sup>

The OECD has developed an undeniable and considerable expertise concerning BTT resulting from a long involvement with regard this idea. Before the OECD's involvement in this matter, the UN had founded the Fiscal Committee in 1947 to continue the work of the League of Nations, including the BTT model. The objective of the UN was to reconcile the interest of developed and developing countries. This organization was trying to find a common ground between the residence-principle and the source-principle, which was never achieved by the League. This committee did not have much success and was dissolved in 1954 (Kolm 2005) and the OEEC took up this role and became the leader in this matter (McIntyre 2003).

In 1956, the Fiscal Committee of the OEEC was created specifically to work on BTT. After the conversion of the OEEC into the OECD, the OECD was assigned this task (Aubrey 1967). The responsibility for taxation policy was taken on by the Fiscal Committee of the OECD with a clear mandate to facilitate the expansion of BTT networks between member countries. In 1963, the OECD published the first OECD Draft Model Double Taxation Convention on Income and Capital. This model resulted from four earlier drafts, the first one being prepared in 1958. It is interesting to note that the OECD model relies heavily on choices made by the League of Nations, even if the decisions reached in the League of Nations were not uncontested and unanimous overtime (Easson 2000). The OECD model was designed to address a developed country's double taxation problem due to the usual general structure of its tax systems. It ensures that the source country will reduce the tax payable on income earned locally and also, that for the portion of taxes paid to the source country, the resident country will provide for an equivalent tax credit or an exemption on the same income.

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<sup>16</sup> See Appendix 3 for a list of OECD's relevant bodies.

In 1971, the OECD replaced the Fiscal Committee by the Committee on Fiscal Affairs (“CFA”) and gave it the “responsibility for investigating the methods by which taxation can be used to promote improved allocation and use of economic resources, both domestically and internationally and for proposing ways of increasing the effectiveness of taxation as a policy instrument for achieving Governmental objectives, but excluding work on the use of fiscal policy for demand management purposes.” (CFA 1971) Permanent staff appointed to the CFA would then look at tax issues and particularly BTT related technical matters.

A group of experts in the OECD worked on emerging tax problems and on the appropriate application of BTT and in 1977, the first OECD (official) model was published to address these issues. The structure and fundamentals of the model remained the same as in the 1963 draft model. The same year, working party no.1 (“WP1”) was formed with a group of OECD member countries acting as a forum to discuss issues related to the negotiation, application and interpretation of tax conventions, and to propose modifications or recommendations for improving the model. Acknowledging that issues with regards to BTT were numerous, particularly because of new technology, a steering group was established in 1991 to specifically address and screen new issues to be considered that could lead to the modification of the BTT (WP1 1991b).

The OECD decided in 1992 to reform the updating process of its model. A group of OECD experts had been working on a continuous basis to improve the model ensuring constant emerging international taxation issues were addressed. The organization acknowledged the necessity of updating the model regularly and chose to make the model an “ambulatory model”. The OECD model was then published in a loose-leaf format that could be updated whenever necessary instead of waiting for a comprehensive revision after many years. Since then, the model has been periodically revised to address emerging issues. The OECD model contains not only the treaty

itself but also commentary from the OECD on the application and interpretation of the treaty and opinions of some countries on the application or the interpretation of the treaty. As some authors have indicated, it can safely be said that “[t]he OECD Model treaty is practically the infrastructure of the current bilateral treaty-based system” (Brauner 2003: 301).

Not only did the OECD develop a model, but it has dedicated resources and time to continually work on BTT and make its model the most comprehensive and adapted product dealing with every emerging issue that was brought to its attention. The worldwide reputation of the OECD with regard to BTT matters is based on this expertise developed over the years and its assistance is often requested with regard to questions related to BTT.

## 2.2 The UN

The OECD is not the only international organization to work on BTT but no other organization has devoted equivalent resources in this area. The UN also worked on this issue and developed a model that would be more relevant for developing countries. The Fiscal Commission of the UN worked on BTT in the mid-1900s but the organization stopped being involved in this issue because its work “became bogged down in the problems of the East-West Cold War, the North-South divide and the fledging UN’s financial problems” (Vann 1991a: 103). After its aborted work in the mid-1900s, the United Nations came back to the issue of double taxation in 1967. The Economic and Social Council of the United Nations established the United Nations Group of Experts on Tax Treaties between Developed and Developing Countries (UN Group) in order to look into this issue (Surrey 1978). This Ad Hoc group based its analysis and discussion on the OECD model to see what changes could be made in order to better represent the interests of developing countries.

After twelve years, the UN published its BTT model in 1979, which has the same format as the OECD model and has much fundamental resemblance with it. The main difference between both models is the emphasis in some situations on source-based taxation for the UN model rather than on residence-based taxation. The UN group has produced much information on the particular topic of treaties between developed and developing country (reports, guidelines and so on) at that time. The UN Group of Experts on Tax Treaties worked on a consensus basis which did not mean that unanimity was always reached on every issue; dissensions were publicly reported (Surrey 1978). Some UN experts were even of the opinion that BTTs could never be advantageous for developing countries and unilateral measures for relieving double taxation would be better (Figueroa 1990).

Not every developing country was involved in the UN process and the UN did not organize a systematic promotion of its model. It was hoped that officials from developing countries would inform themselves of this model. “It is, therefore, of immense importance for the tax officials of all developing countries, and especially the officials engaged in international tax relationships and treaty negotiation, to inform themselves of the work of the UN group. This work clearly should be made a part of their background and preparation” (Surrey 1978: 65).

The committee which developed the model was an ad hoc group that met a few times a year and did not work on a consensual basis. The UN developed an alternative that is not in contradiction with the OECD model, in fact, it is based on this model. Furthermore, whenever the OECD model is modified, the UN often makes a corresponding change which makes the UN model grow even closer to the OECD model over time (Baistrocchi 2008). It could be said that the UN model is not a competing standard but a proposition for adjustment of an existing one. As Vann indicated, “The UN’s re-entry into the field since the late 1960s, has been very much on the coat tails of the OECD” (1991a: 103 note 15).

Without the same involvement and dedication to this issue, without any permanent staff to manage issues related to BTT, it is impossible to see the UN as the central actor with regards to BTT. Unlike the experts from the OECD, for which recommendations are based on a consensus, there is no clear cohesion among the UN's experts who are a group of independent actors from different countries. This lack of cohesion may have hindered the diffusion of its model and its ideas.

### 3. PURPOSES AND CONSEQUENCES OF BTT

This section provides relevant background information to understand the context of BTT, its objectives and its consequences.

#### 3.1 BTT in general

In summary, two countries sign a BTT to allocate taxing rights particularly on income that is earned by a resident of a country in the other country to avoid taxing this income twice, once in the residence country and once in the source country. Appendix 1 provides an example of double taxation and relief provided by a BTT based on the OECD model in symmetrical and asymmetrical capital flow situations.

Developed countries usually have a residence-based tax system, providing for the taxation of the resident on its worldwide income. These tax systems also have a source-based component which provides for the taxation of income earned within the country by non-residents. By allocating taxing rights in priority to the residence country and restricting or denying taxation

rights to the source country, double taxation is avoided. When some form of restricted source taxation is allowed, usually the residence country will either exempt the income from taxation or provide for a credit for the taxes paid in the source country in order to alleviate double taxation. BTTs provide for an agreement among two countries to ensure such a treatment will exist to prevent from double taxation. However, it will also generally allocate the taxing right to one or the other country. Often because BTTs are based on the OECD model the taxing rights of the source country will be restricted. Tax revenues given up by the source country are compensated by taxes collected on the income earned abroad by its resident. When the flow of capital between the two countries is symmetrical, this allocation of taxing rights is adequate because the loss in tax revenue is offset by taxing foreign income earned by residents.

Tax systems in developing countries have possessed many different features over time, some are or were based on a territorial or source basis instead of a residence basis, mostly because a very limited number of their residents earn income in other countries. This type of tax system is based on the taxation of all income earned in the country irrespective of the residence status of the income recipient. In more recent years, few states tax on the basis of the source principle alone (so-called territorial system). The number of states using a territorial system has diminished<sup>17</sup>, because countries have recognized that the failure to tax residents on income derived from foreign activities undermines the fairness of the tax system and provides residents with a tax incentive to invest abroad. Such an incentive is almost certainly contradictory to the national interests of a state in need of capital for domestic investment. Nevertheless, if only a tiny percentage of the population of a country derives any foreign source income, the residence principle may have little practical importance to that country.

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<sup>17</sup> Taxing jurisdictions continuing to use the territorial system include: Bolivia, Costa Rica, El Salvador, Guatemala, Hong Kong SAR, Kenya, Malaysia, Nicaragua, Panama, Paraguay, Singapore and Uruguay. (United Nations 2003: 10)

Furthermore, when the flow of capital between two countries is asymmetrical and capital flowing into a developing country is much larger than the capital going out; allocating taxation priority to the residence country restricts the tax revenues that can be collected from the developing country. The example in Appendix 2 illustrates this situation. Many developing countries have modified or adopted new tax regimes since 1980. However, even for developing countries that have aligned their tax system with the residence principle complemented by a source-basis component, the asymmetries of capital flows with a developed country make the restriction of taxing rights for the source country less favourable to developing countries. The surrendering of tax revenues by developing countries was a major obstacle for these countries to enter into BTTs with other countries in the mid-1900s (Surrey 1965).

Generally, BTTs are negotiated by officials from national tax administrations or finance department and the treaties are ratified by government. These agreements deal with very technical and complex issues of international taxation, requiring a considerable expertise in the field from officials involved in the process. Each type of income is dealt with in different articles of the BTT and the particularities of national taxation systems need to be considered. Once signed and ratified, BTTs have priority over any national tax legislation, and they cannot be unilaterally modified.

### 3.2 Effectiveness of BTT in achieving its purposes and alternatives

The elimination of double taxation is the most known purpose of BTT, but it is relevant to note that other purposes such as facilitation of international commerce and countering tax avoidance and evasion have been associated to BTT. When assessing the objectives and consequences of BTT it is necessary to consider these different purposes. Since it has been working on BTT, the OECD proposed a unique BTT model which in 1963 called the “Draft



Double Taxation Convention on Income and Capital”. The reference to the avoidance of double taxation remained in the title of the model convention until 1992, when the OECD decided to take it out of the title “in recognition of the broader scope of the model tax convention” (Matthews 1993: 348).

According to Easson (2000), BTTs are usually said to have three purposes: allocation of tax jurisdiction, international commerce facilitation, and countering tax avoidance and evasion. From a more cynical point of view, BTT’s purpose is to transfer tax revenues from the richest countries to poorest (Dagan 2000) since the restriction on source taxation is less favourable to capital-importer countries. Even if BTTs can create a loss of tax revenue to capital importer countries to the benefit of capital exporter countries, the dissertation will not address this as a purpose in itself and the analysis will focus on the most frequently stated purposes.

### *3.2.1 Preventing double taxation and allocation of tax jurisdiction*

Double taxation situations can occur for some items of income included in the treaty but also, double taxation can be a mere possibility in cases where no actual taxpayers suffer from this double taxation at a particular point in time. Consequently, countries will often use BTTs to solve or prevent the occurrence of double taxation. BTTs allocate the taxing rights between countries for all types of income that could be earned from the resident of a country in the other country.

If double taxation is a problem that needs to be solved, it can be prevented by means other than a BTT. A country could modify its domestic tax legislation, provide for a special tax relief (credit or exemption) or adopt a multilateral approach. Countries could decide to solve double taxation problems unilaterally, providing for relief in their domestic tax legislation for income earned abroad. Some experts argue this approach is more cost-effective for developing countries

(Dagan 2000). Of course, allowing a taxpayer to deduct taxes paid in another country against the taxes to be paid to its residence country means that the residence country surrenders part of its tax revenues. Unilateral measures may not always solve double taxation because other countries may decide to do nothing. It has been noted that the problem of double taxation is prevalent because developed countries tax their residents on their worldwide income. If source-based taxation was globally adopted, the problem of double taxation could be less salient as each state would tax income earned within its border and consequently the income would be taxed only once (Figueroa 2005)<sup>18</sup>. Evidently, this alternative would only be viable if international cooperation among states was reached.

Over the years, non-members with similar tax systems as in Latin America have created a regional multilateral tax treaty to prevent double taxation. In 1971, Bolivia, Colombia, Ecuador, Peru and Venezuela have signed a multilateral tax agreement and produced a BTT model to be used when signing BTTs with other countries. Some countries (Brazil, Argentina, Paraguay and Uruguay) have become associated members of the treaty which means that the treaty only applies between associated members and actual members and not between associated members. This model recognized exclusive taxing rights to source countries, it has never been used in treaties with developed countries and it was even almost completely ignored in treaties with developing countries (Baistrocchi 2008). Vann indicates that “The Andean preference for exclusive assignment of taxing power does represent some departure from current norms but the idea simply has not taken hold outside the region and in practical sense may be regarded as stillborn” (1991b: 152).

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<sup>18</sup> It could be argued that the source of income is not always easily determined. Nevertheless, it is beyond the purpose of the present dissertation to analyse the impact of different taxation systems. Also, the international taxation concepts, such as capital-export neutrality and capital-import neutrality are not discussed here.

### *3.2.2 International commerce facilitation*

Uncertainty can be an obstacle to FDI (Davies 2004). BTT could be seen as providing some form of certainty to investors and facilitating international commerce. As Easson indicated, BTTs are “often regarded as a “signal” that a country welcomes foreign investment” (2000: 623). Easson also notes that this signal is however only given to investors from the countries with which treaties are signed. It could also be added that such a signal is only partial and if the domestic legislation and administration related to investment are not in accordance with the expected signal, capital may not be invested as expected. A general signal could be more useful in attracting investors from any country. As expressed by Easson (2000), the characteristics of a tax system and tax administration, as being fair, reasonable and honest can be much more effective than a network of BTTs.

Because the OECD model is the standard known by the business community from developed countries, using this model can ensure potential investors that the international taxation rules are similar to what they are used to. Nonetheless, because BTT can contain some particularities, a potential foreign investor needs to carefully analyze the BTT to fully understand the details in its application in a specific situation, for that reason, uncertainty may remain.

Furthermore, facilitating international commerce does not necessarily mean more investment in countries with BTT networks. There is no empirical evidence on the impact of BTTs on FDI (Baistrocchi 2008; Davies 2004; Figueroa 2005). BTTs could be negotiated between two countries, for example Country A and Country B, because a corporate resident from Country A wishes to invest in Country B and persuades Country A to negotiate a BTT with Country B. This might bring a relative investment in Country B but no empirical research has

been done on the attraction of other FDI and also on tax revenues surrendered by Country B due to a BTT.

### *3.2.3 Countering tax avoidance and evasion*

While countering avoidance and evasion was one of the goals of the League of Nations it has reappeared in the 1970s as one of the most important concerns about international taxation. More intense work has been done at the CFA of the OECD since 1977 to address avoidance and evasion and notably by using tax treaties to counter avoidance and evasion. The UN had also indicated that the matter of international tax evasion and avoidance should be addressed. First, UN experts stated that situations involving avoidance and evasion should be identified in order to recommend particular changes to domestic tax legislation and issues to be treated through bilateral negotiations (Surrey 1978). Surrey indicates that the desire to prevent tax avoidance is more recent in many countries than the one to prevent double taxation. “Also, though this is a more recent and still evolving development, those countries concerned with reducing tax avoidance are beginning to use these treaties as mechanisms to coordinate international administrative attacks on such avoidance” (Surrey 1978: 5). He names Brazil, India and Pakistan who began to be concerned with international tax avoidance and evasion in the 1970s.

Taxpayers are taking advantage of increased capital mobility, differences between domestic tax regimes, many complex and gray areas in international taxation and the difficulty for countries to share information with other countries to avoid and even sometimes evade the payment of their taxes. It has been suggested to incorporate a clause in BTTs concerning the exchange of information between countries for the purpose of having access to useful information to deter avoidance and evasion. Some observers say that BTTs themselves created double non-

taxation that countries are now trying to solve. BTTs biased taxpayer's strategy (Vann 1991a; 1991b) and they are seen as not relevant for stopping avoidance and evasion (Rixen 2008).

In summary, as presented, BTT is not the unique way to achieve the objectives discussed in this section, double taxation, commerce facilitation and tax avoidance or evasion. Furthermore, there is no empirical evidence of the results and consequences of BTTs. In 1991, Vann was already advocating that "despite the achievements of the 1977 OECD Model treaty, the Model is increasingly inefficient, irrelevant and inflexible, but a worldwide replacement regime is not yet on the horizon" (1991a: 100).

### 3.3 Prevalence of BTTs and tax autonomy

While adopting a bilateral solution may preserve de jure sovereignty over taxation policies (Genschel and Rixen 2006), the BTT solution has implications on a state's autonomy with regard to taxation policies. BTTs prevail over domestic taxation rules. Even if domestic rules provide for the taxation of income earned in the country, BTTs usually limit the tax rate applied to such income.

The general impact of globalization on state autonomy has been the object of many studies (Boyer 1996; Drezner 2001; Mann 1999; Simmons and Elkins 2004; Kahler and Lake 2003; Garrett and Rodden 2003; Held and McGrew 2003; McNamara 1998; Genschel 2002; Hirst and Thompson 1996; Keohane and Nye 2001; Rosenau 2000). While many scholars recognize globalization's impact on domestic policymaking, they do not agree on the degree of autonomy preserved at the state level. Polanyi (1944), addressing economic globalization in the mid-1950s, indicated that the economy is not deterministic because there will always be pressures to protect individuals from self-regulated market ("double movement"). According to Katzenstein (1983),

states remain autonomous in regard to the implementation of policies to alleviate the consequences of globalization. More recently, McNamara (2003) and Garrett and Rodden (2003) argue that despite global capital markets and international trade integration, states' autonomy is maintained to some level. There are also some researchers who are more sceptical about the existence of globalization and argue that the phenomenon is not "global" even if it is international (Kahler and Lake 2003; Weiss 1998). For some authors (Ohmae 1993; Strange 1997; Wallerstein 1979) globalization results in an autonomy loss for countries. Other authors argue that states still have the power to decide to be part of a global economy, and they have the final word on their policy decisions (Gourevitch 1986; Kahler and Lake 2003; Katzenstein 1983; Weiss 1998). The fact that many states may deliberately choose to go along with a particular policy would lead to convergence not necessarily imposed by structural argument of globalisation. When such a policy deliberately adopted has a direct impact on a states' autonomy, it becomes interesting to try to explain why and in what circumstances a country is ready to tie its hands for the future in a particular area, such as through the use of BTT.

Since the early 1920s, a multilateral tax treaty has not been achieved presumably in part because states are reluctant to surrender part of their sovereignty especially with regard to tax policy (Genschel and Rixen 2006). History also shows much reluctance from international taxation specialists to support the development of multilateral tax treaty for many reasons, including the difficulty to sell the ideas to countries because of the loss of autonomy (or sovereignty according to Genschel and Rixen (2006)), to negotiate and to implement due to different national tax systems (Carroll 1939: 3). However, a considerable BTT network which would include BTTs with every economic partner of a country could have an important effect on a country's autonomy. BTTs override domestic tax legislation and cannot be modified unilaterally. This creates a lock-in effect (Avery Jones 1999). Therefore, these agreements reduce the control of states on their international tax policy. The extension of BTT networks may cause

national taxation policies to be less flexible and less adaptable. The reliance on the OECD model for these BTTs approximates a multilateral agreement. As Vann expressed: “In a broader sense, the OECD Model (and the UN Model) can be regarded as having multilateral elements in substance which may be more important than the formal bilateral nature of the tax treaty network” (1991b, 152).

Furthermore, when applying the provision of a BTT, it is necessary to interpret it through international rules. The OECD publishes commentaries to guide the interpretation of treaties. The use of the OECD model or a portion of it could mean that the OECD’s wider interpretations and recommendations concerning the implementation of a bilateral tax treaty have to be followed. As an illustration, a recent decision from an Indian Court referred to the “international tax language” developed by organizations like the OECD in interpreting the Indo-Canada tax treaty and indicated that when a BTT uses the same words as the OECD model, the OECD’s commentary should be used to determine the meaning and connotations of the words<sup>19</sup>. While this decision was reached by an Indian Court, there are many factors that hint at the possibility that other national courts would arrive at a similar decision. Some authors (Slaughter 1999; Pichhadze 2008) refer to a form of “judicial globalization” or “global judicial dialogue” to explain how courts from one country increasingly tend to look at judgment by other countries’ courts before reaching a decision. In case of contradictions between the treaty and domestic tax legislation, the provision of the treaty, as interpreted in light of the OECD’s commentary, will apply. Furthermore, the impact of changes in the commentaries on existing treaties is not clear. As Avery Jones (1999) noted, to apply modified commentaries to existing treaties would be similar to accepting that officials from a finance ministry who participate in the adoption of

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<sup>19</sup> *Metchem Canada Inc. v. Deputy Commissioner of Income-tax*, (2006) 100 ITD 251 (MUM.) The ITAT Mumbai Bench “F”, par. 6.

commentaries in the OECD could change the rules of the game without having to go through Parliaments.

Signing a BTT makes the national tax system less flexible with regard to the possibility to tax residents of the partner country. The signature of few bilateral tax treaties may not threaten the autonomy related to taxation policies, but a country that has a large BTT network is certainly restricted in areas related to international taxation. Changes to taxation rules affecting non-residents and/or residents earning income abroad are constrained by the BTT network. If these changes are in contradiction with the application of a BTT, then the BTT will prevail. Consequently, having only a few BTTs do not deprive a country of its autonomy except if the treaties signed are with major economic partners. Suppose residents from Country A represent more than 50% of non-residents earning income in Country B. A BTT signed between country A and B would prevail in the determination of taxes payable in each country and therefore limit the possibilities for Country B to unilaterally modify its tax system to collect more tax revenues from non-residents.

Analyzing a case that can result in a form of sovereignty (or autonomy) loss, such as BTT, could highlight the mechanisms in operation to understand what causes a country to partially surrender their autonomy on a piece by piece approach.

### 3.4 Unknown benefits for non-members

According to many authors, asymmetrical capital exchanges between developed and developing countries make BTT, and more particularly the OECD model, a solution that is unfavourable to the developing countries (Easson 2000; Figueroa 1990; Dagan 2000; Irish 1974). Appendix 2 illustrates this argument with an example. If developing countries surrender more



potential tax revenues than tax revenues they gain from BTTs, it could be assumed that they sign it because they expect other benefits from it. BTTs are often presented as a tool to help attract more foreign investment. If this is the case, then it could explain why developing countries are going along with this idea. First, I will explain why BTTs, and particularly the OECD model, are not favourable to developing countries, and then I will look at the argument of using BTT to attract foreign investment.

Easson's explanation illustrates the problem:

In the typical OECD-base tax treaty, the source country agrees to restrict its withholding tax rates, relinquishes the right to tax most capital gains, and agrees to tax business profits only where permanent establishment exists in that country. In return, the residence country gives up virtually nothing, since granting relief from double taxation is something that it normally does in any event. Both parties agree to make corresponding adjustments in transfer pricing cases, which may benefit the enterprises of either country, and to exchange information, which will usually be of greater benefit to the residence country. It is true that, where the income flows between the two countries are relatively equal, what a treaty party gives up as a source country it recoups as a residence country. Where, however, the flows are in one direction only, as is usually the case between developed and less developed countries, it is the source country that makes all the concessions and gains little if anything in return, except for the enhanced sense of security that a treaty gives to potential investors. (2000: 624)

An argument has been made that developing countries agree to adopt a standard in asymmetrical situations because this standard is the one that has the most potential to lead to more foreign direct investment (Baistrocchi 2007) since it is supported by developed countries, the main capital exporters. Baistrocchi (2007) assumes that the emergence of an asymmetrical tax treaty network can be explained by the prisoner's dilemma. Elkins and al. (2006) also argue that the competition for investment among developing countries can explain the signature of many bilateral investment treaties by these countries. For BTT networks based on the OECD model, Baistrocchi (2007) argues that they have the features of a network market: positive externalities to

the countries included in the network, expectations with regard to foreign investment from developed countries supporting the model and lock-in effect.

However, there are reasons to believe that this approach cannot explain the entire puzzle because it gives too much weight on the role of taxation in the investment decisions and also on the impact of BTTs on investment. First, it has been widely accepted by experts that taxation is only one of the factors considered in the decision for investing abroad, and it is not a decisive factor in itself (Campos and Kinoshita 2003; Morisset and Pirnia 1999). Secondly, if taxation and signal to investors are the main issues, it assumes that the only way to reduce double taxation is through tax treaties. However, as previously exposed, other alternatives, such as unilateral measures, exist.

Furthermore, as Baistrocchi (2007) recognizes, there is no evidence that signing bilateral tax treaties results in an economic advantage for developing countries (Davies 2004; Neumayer 2006). For Figueroa (2005: 385), “It should be added that experience and the actual data show that an OECD model type treaty does not have the effects attributed to it as a driver of investments. Indeed, experience demonstrates categorically that investment depends on a propitious climate for business. This is a blunt denial of the idea that such treaties are significant instruments for promoting foreign investment.” If it is not proven that BTT networks will bring more investment in the country, why do developing countries sign BTTs with developed countries when it is not to their advantage to do so from a tax revenue perspective?

Also, Figueroa (2005) notes that the arguments according to which developing countries would benefit from treaties because it grants political partner status or that it provides for a desired certainty and stability for investments are weak. According to Figueroa, “the status of political partner is not acquired through a tax treaty – in the same way that juridical and legal

certainty and greater stability are, to a large extent, part of the climate a country should create or maintain to foster investment, and they do not depend on the existence of a tax treaty” (2005: 386).

The possible downsides of signing BTTs, such as the loss of tax revenues have never been investigated. Therefore, is it possible to support the argument that developing countries can benefit from signing BTTs and that this is the reason for creating large BTT networks with developed and other developing countries? To make the case that developing countries act upon their interest is therefore flawed if it is based on the assumption (never empirically demonstrated) that signing BTTs results in positive externalities that have never been supported empirically. The question, “How did these non-member countries arrive at the conclusion that the BTT solution is the best one for their perceived interest?” is fundamental.

In summary, BTTs are not unproblematic particularly for non-members and these problems were known in the 1990s which makes the increase in the number of BTTs among these countries in the 1990s even more intriguing.

#### 4. OECD’S RELATIONSHIPS WITH NON-MEMBERS

Before studying the influence of the OECD on non-members’ BTT network development, we first have to address if the facts suggest the existence of a relationship between the OECD and these countries. In this section, some important steps taken by the OECD to develop linkages with non-members are briefly presented. This section strictly aims at pointing out some facts to support the relevance of further examination of the role of the OECD in the BTT network development in non-members. The more precise role will be analysed in further detail in the

empirical analysis provided in chapter 5, 6 and 7 based on the theoretical framework presented in chapter 2.

Before 1990, the links between the OECD and non-member countries were scarce. The relationship amounted to OECD countries supporting less developed countries with financial assistance and opening of their market. The Development assistance committee of the OECD was created in 1962 with the mandate to coordinate cooperation on the aid provided to developing countries. The OECD Development centre was also established in 1960 with the mandate of undertaking research activities to transfer technical knowledge from advanced to less developed countries (Aubrey 1967). At that time, the relationship with developing countries about BTT more particularly was only made through some OECD countries negotiating treaties with few countries (often their colonies) and using the OECD model as the basis.

Since the late 1980s and more particularly in 1990s, the OECD developed more specific linkages with many non-OECD countries, on a general basis and also regarding tax policies and tax treaties more specifically. The work of the OECD is supervised by the Council which includes representatives of member countries and of the European Commission. Appendix 2 provides a list of OECD bodies. Before 1990, a very limited role for the OECD is documented with regards to countries outside the OECD, besides financial or humanitarian aid to the less developed countries. The OECD countries were considering their role in the global economy, particularly through the opening of their market but no direct responsibility was attributed to the organization. The OECD started an informal dialogue with six Dynamic Asian Economies (“DAE”) in 1989 (Taiwan, Thailand, Korea, Hong Kong, Singapore, Malaysia). OECD countries constantly asked the OECD to deepen this dialogue since then<sup>20</sup>.

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<sup>20</sup> From the analysis of the summaries of meetings of the Council at the ministerial level for the period 1989 to 1996

The major changes in the world political economy in the late 1980s brought the council to reconsider the OECD's role. Member countries started to ask the OECD to develop linkages with non-member countries in order to support their transition to a market economy. Since then, the OECD council mandated the OECD to work closely with different non-member countries in different regions to support the global market economy. The OECD first established relationships with European economies in transition and with newly independent states. This association then expanded to include other countries.

In order to respond to the many requests for technical assistance to facilitate the economic transition, the OECD established the Centre for Co-operation with the European Economies in Transition ("CCEET") 1990. Along with providing support and assistance to emerging market economies, the Centre coordinated and monitored the resources of the OECD, its member and other organizations in order to avoid duplication. In 1991, the OECD initiated the "Partner in Transition" program to help specific countries in their economic transition. Through these programs, experts from the OECD or from member countries provided assistance in many areas to establish the required institutional foundation to move to a market economy.

About taxation more specifically, multilateral tax training centres were implemented in Copenhagen, Vienna and Budapest in 1992 to provide tax technical training to officials and experts of countries in transition. Representatives from various countries were invited to participate in different training sessions in specific locations. In 1993, the Ankara multilateral tax training centre was launched and another International Tax Centre was established in Moscow as a joint initiative of the Russian Tax service, the EU, the OECD and its members.

The dialogue with dynamic non-member economies was expanded to include not only dynamic Asian countries but also some countries in Latin America (Argentina, Brazil, Chile and Mexico). In 1994, the CCEET was replaced by the Centre for Co-operation with Economies in Transition (“CCET”), therefore not referring only to European economies in transition or newly independent states. The CCET constituted the Steering group on Taxation and Tax Training whose mandate, specifically concerned tax training for these countries to help them structure their tax system and address any tax issues including international tax issues, which comprised tax treaties. This group supervised the multilateral tax training centres and also provided specific technical tax assistance to countries. Relationships developed with specific countries also provided the opportunity to monitor the progress made in the implementation of a market economy.

The CCET launched the Baltic Regional Program in 1995 to address the needs of specific countries (Estonia, Latvia and Lithuania) in adopting a market economy system. In addition to the other international tax centres already in operation, a Korean Multilateral tax centre was established in 1997. The CCET became the Centre for Co-operation with Non-Members in 1998 (“CCNM”). The CCNM developed a regional approach focused on Latin America in 2001. Since 2001, the CCNM mandate revolves around Global Forums operating in eight areas; sustainable development, knowledge economy, governance, trade, international investment, international taxation, agriculture and competition policy.

In all these initiatives to build relationships between the OECD and non-members, including in-country technical assistance or tax training in a multilateral tax centre, much attention was given to the negotiation, interpretation and application of BTT. This brief summary emphasizes the major steps in the evolution of the relationships developed by the OECD with

non-members, more details and evidence will be provided through the empirical analysis in chapter 6.

## 5. CONCLUSION

In summary, this chapter provided some context for the puzzling spread of BTTs in non-members in the 1990s. The first part of this chapter has briefly explained the origin of the idea which goes back to the early 1900s and the work of the League of Nations. The origins of BTT has demonstrated that some countries which are referred to in this study as non-members have worked with other countries in the elaboration of the BTT strategy in the first part of the century. Nevertheless it seems that the preferences of developed countries have prevailed and that since the mid-1900s the OECD is the guardian of BTT and fosters any development around this idea. Efforts have been made by the UN to take into consideration non-members in developing a more favourable BTT for these countries but these efforts have always been made in the shadow of the OECD.

Also, from the information presented, it would be impossible to argue that non-members have started to sign BTTs simply because it was in their interest to do so since the consequences for these countries to sign BTTs are, at best, uncertain. It has been mentioned that there can be a negative impact for non-members to sign a BTT based on the OECD Model with other countries with whom capital exchanges are asymmetrical. Furthermore, there is no straightforward study which demonstrates that by signing BTTs these countries do attract more foreign direct investment.

Chapter 2 presented theoretical foundations that better help to tackle the role of the OECD in explaining the spread of this idea and also the theoretical framework that will be used to develop the empirical analysis done in the following chapters. Chapters 5 and 6 verify if the processes expected by the theoretical framework unfold as predicted in the case of the OECD's involvement with regard to BTT and non-members. Finally, chapter 7 tests the relationship between the conclusions from chapters 5 and 6 concerning the role of the OECD with the findings of chapter 3 concerning the countries involved in the 1990s spread of BTTs.



## **CHAPTER 5: THE OECD CREATING AND MAINTAINING SYNERGY WITH BTT**

### **1. INTRODUCTION**

The theoretical framework presented in chapter 2 focuses on the importance of ideas and their diffusion in explaining policy decisions. The theoretical framework helps to answer questions such as: “What are the conditions allowing an idea to influence policy decision in diverse national settings, how are these conditions created and by whom?” Furthermore, I argue that the theoretical framework offers the best approach to ascertain theoretically the influence of the OECD in the explanation of the BTT spread.

The theoretical framework emphasizes conditions under which ideas are expected to influence policy adoption and more particularly, the necessary involvement of actors in making the idea more attractive by combining it with other relevant types of ideas, but also in promoting the idea. The theoretical framework is based on a typology of ideas, which identifies four types of ideas; policy, problem, paradigm and public sentiment. A policy option is expected to be more influential if a synergy is created with a paradigm, a problem and a public sentiment. The intervention of a single or many actors is necessary to develop an argumentative discourse to support this synergy. Furthermore, a policy is more likely to be widely adopted if the policy and its synergy are strategically diffused. Therefore, in explaining policy adoption worldwide, it would be expected that an actor (or actors) create a synergy and promote the idea.

Specific characteristics of ideas can explain why some ideas are influential while others are not. Policy characteristics are important to explain why some policies diffuse more quickly than others (Busch and al. 2005), and these characteristics have been neglected in diffusion

literature (Bennett 1997). The theoretical framework, therefore, complements the diffusion literature in specifically incorporating the necessity to address the policy characteristics in the explanation for the diffusion of a policy. Furthermore, the literature emphasizes the importance of the “fit” of an idea to explain its adoption (Goldstein 1993; Sikkink 1991). The theoretical framework captures this “fit” with the concept of synergy. Synergy is defined as a “harmonious combination or compatibility of different types of ideas”. Incorporating agency into the framework, a synergy can be created either by demonstrating how the idea conforms to the other accepted or dominant types of ideas, or in altering the other types of ideas in order that some consistency is obtained.

Chapter 4 has demonstrated the relevance of analyzing the OECD’s role with regard to a BTT and non-members by indicating that the OECD was involved in the issue of a BTT, also developing particular relationship with non-members in the 1990s. This chapter consists of a case study to deepen the analysis and examine if and how the OECD created the synergy expected under the theoretical framework regarding BTTs. The case study will help in answering the research question: “What has been the role of the OECD in the spread of BTTs in non-members in the 1990s?” focusing, more particularly, on the first hypothesis:

- 1) The OECD created and maintained a synergy between the BTT policy, a paradigm, a problem, and a public sentiment in the 1990s.**

## **2. THE CASE OF THE OECD’S INVOLVEMENT IN BTT FOR NON-OECD MEMBER COUNTRIES**

The facts briefly described in chapter 4 suggest that the organization may have been an important actor in the diffusion of the idea of BTT, and this supports the need to perform a case

study to understand fully this role and situate it with the spread of the idea. The development of the case study is presented in two parts. Firstly, in this chapter the case study allows determining if this international organization developed a synergy between BTTs and a paradigm, a problem and a public sentiment. Secondly, chapter 6 provides further evidence from the case study focusing on the mechanisms used for the promotion of BTTs to non-members by the OECD, the concept of “strategic diffusion” of the theoretical framework. Of course, this does not mean that evidence from chapter 5 arrived prior to evidence in chapter 6. The OECD’s involvement in creating a synergy and organizing the diffusion are simultaneous. The theoretical framework addresses both concepts separately to better explain the process at work and the necessary conditions for an idea to be influential.

As defined by Creswell and Maietta:

A case in a case study is a bounded system, bounded by time and space, and the case may be a program, an event, an activity, or individuals. .... The “case” may be a single individual, several individuals separately or in a group, a program, events, or activities (e.g. a teacher, several teachers, the implementation of a new math program). The “case” may represent a process consisting of a series of steps (e.g. a college curriculum process) that form a sequence of activities.  
(2002: 163)

Chapters 5 and 6 conduct a case study about the OECD’s BTT program for non-members. This research strategy is appropriate to answer the explanatory question “How was the OECD involved in BTT for non-OECD member countries?” (Yin 2003) The dissertation argues that the theoretical framework provides a comprehensive and systematic analysis of idea diffusion incorporating agency into the explanation. The case of the OECD’s involvement with BTT for non-members seems a likely case of idea diffusion to demonstrate the potential explanatory power of the theoretical framework. As expressed by Yin, “According to Campbell, the search for an explanation is a kind of pattern-matching process. The process can be applied, even if there is only a single case because the pattern must fit multiple implications derived from an explanation

or theory” (1981: 61). Furthermore, Odell argues that case studies are “generally better than the alternatives for documenting processes” (2001: 170) and he refers to many such processes in the world political economy, among which influence, communication and learning.

In the dissertation, mixed method is used. First a case-study strategy will help explain how the OECD dealt with the BTT idea for non-members in the 1990s, through applying the theoretical framework to emphasize potential mechanisms at work to create a synergy among different types of ideas related to BTT and also to promote BTT to non-members. Secondly, once chapters 5 and 6 have determined that the OECD did create a synergy and strategically promoted BTT, a large N quantitative analysis in chapter 7 will be undertaken to test the hypothesis that the OECD’s efforts explain the spread of BTTs in the 1990s. While many studies would have focused only on the large N analysis, combining it with the case study allows answering more adequately the question: “...whether the causal mechanism suggested by the theory was actually responsible for connecting the measured cause with the measured effect variable...” (Odell 2001: 164).

The dissertation has developed a hypothesis predicting the outcome that should be observed through the case study if the theoretical framework correctly explains the case studied. The case study analysis in this chapter could reveal that there was no evidence of linkages created by the OECD with one or any other types of ideas and then the hypothesis would be rejected to explain the case under study. However, the result could not lead to reject the more general hypothesis about the synergy being important to explain a policy decision. It could only mean that synergy was developed and supported by another actor. Further testing, perhaps with other methods would be necessary. If evidence revealed by the case study show that BTTs are never presented in combination with other types of ideas, such as a paradigm or a problem and no reference is made to the other types of ideas in the OECD documents, it only means that no such synergy was fostered by the OECD. Then, it would imply that the OECD may not be an

important actor in the explanation. Other methods would have to be relied upon to totally reject the importance of synergy.

## 2.1 Data collection and analysis

In doing this case study, numerous documents from the OECD archives have been studied in order to detect how the idea of BTTs was handled within (or by) the OECD in the late 1980s and the 1990s particularly with regard to non-members. A list of OECD official documents analyzed for the case study is presented in Appendix 8. Appendix 3 provides a list of relevant OECD bodies and their acronyms.

The analysis considers BTT generally as the policy and not only BTT based on the OECD model or the OECD model. BTT is the solution or the policy, and the OECD model is a package. The analysis establishes if and how this program has been linked to the other types of ideas (paradigm, frame and public sentiment) within and by the OECD's work. The case study aims at determining if a paradigm, a problem and a public sentiment could be identified throughout the OECD's work with regard to BTT and then how these were linked to BTT.

The case study is based on three sources of evidence; documentation, archival records and interviews. To collect appropriate documentation published by the OECD, the first step has been to systematically search on the OECD website as well as in the database SourceOECD and through the OECD publications available in libraries (UQAM and Concordia). The strategy was to collect data concerning the OECD's work with regard to BTT and also concerning the relationships with non-members. From these sources, the main lines of the case study have been traced and the areas in need of further data collection have been identified. The activities and the work of the OECD with regard to BTT and also the evolution of the development of relationships

with non-members could be distinguished in order to focus the case study on specific OECD bodies which have been involved in these matters and also to determine the appropriate period for the case study.

The analysis of these publicly available documents allowed identifying relevant archival records. The second step of data collection comprised a series of requests to the OECD archives in Paris to access meeting proceedings, reports and other documents not publicly available. The documents examined include minutes of meetings of the council at the ministerial level, minutes from a meeting of the Committee of fiscal affairs and its working party no.1, which is the working party involved specifically with BTT issues. The analysis also includes reports from the Centre for Cooperation with European Economies in Transition (“CCEET”), the Centre for Co-operation with Economies in Transition (“CCET”), and the Centre for Co-operation with Non-Member (“CCNM”). Reports from conferences and workshops dealing directly or indirectly with BTT were examined as well and other reports have also been obtained which contained among other things lists of activities and participants for the period under study.

Data collection has been completed with five interviews with OECD officials, either from the Committee for Fiscal Affairs or the Centre for cooperation with non-members. These interviews have been held in Paris in October and November 2008<sup>21</sup>. The information gathered with these semi-structured interviews has allowed corroborating the information obtained by the documentation analysis and also to understand better the internal dynamics within the OECD. Because of the restricted number of high OECD officials involved in these matters, the dissertation does not refer directly to the content of these interviews to preserve confidentiality.

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<sup>21</sup> Except one interview conducted in Toronto.

The use of these three sources of evidence (public documentation, archival documents and interviews) allowed triangulation of the relevant information for the case study analysis.

After going through the documentation a first time, the period of 1988 to 1997 has been identified as a distinct period for the development of relationships with non-members. Each document relevant to the matter within this time frame has been analysed. A coding system has been developed on the basis of the theoretical framework. In each document, anything that could be related to a paradigm, a problem, a policy (particularly BTT) and a public sentiment have been attributed a distinct code. Furthermore, anything relevant to linkages among any of these types of ideas or to a diffusion strategy was coded distinctively and references to specific non-member countries were also coded appropriately. To further address rival explanations, any information relevant to the role of OECD countries or to specific requests from non-member countries were identified separately. Each document referred to in Appendix 8 has been analysed and relevant paragraphs or sentences have been coded manually according to this system.

The coded paragraphs or sentences were then incorporated into a spreadsheet to analyze each coded item separately and also to better see the evolution of the activities with regard to these items. The analysis of the content of the spreadsheet allowed organizing appropriately the information for the case study provided in chapters 5 and 6 around the expectation from the theoretical framework.

The analysis in this chapter shows that the explanation of the involvement of the OECD can be adequately provided by applying the theoretical framework and that by creating and maintaining a synergy among the four types of ideas the OECD facilitated the adoption of the BTT idea.

Chapter 6 emphasizes the “strategic promotion” of BTTs by the OECD.

### 3. PARADIGM: MARKET ECONOMY

As defined in the theoretical framework in chapter 2, a “paradigm” is an elite general preconception that justifies or constrains particular choices. This definition is in accordance with other definitions from the literature (Haas 1992; Hall 1993). A dominant paradigm will constrain the range of possible options (Béland 2005; Goldstein 1993; Hall 1993) and also the identification of a problem.

Therefore, a paradigm is an important concept and the relationship it has with specific policies can be determinant in the policy’s adoption. A range of policies can be adopted under the same paradigm. To explain the adoption of a policy with the fact that it fits with the dominant paradigm is incomplete because it is impossible to affirm that there is only one policy option, which is in accordance with a paradigm. Within each paradigm, there are many policy options. Policies perceived as being important components of a dominant paradigm may be easier to adopt, whereas policies, which do not fit as easily into a paradigm may be less influential. The more the linkages between specific policies and a dominant paradigm exist the more supporters of the dominant paradigm may rely on this specific policy. A dominant paradigm will determine the acceptable policy options and for a policy to be adopted it is necessary that it be perceived as part of this dominant paradigm. A country’s paradigm will shape policy-making decisions and will



allow the maintenance of stable purposes and the justification of actions taken to concretize these purposes.

Therefore, what explains that a particular set of tools succeeds and influences decision-making in many countries at a particular point in time? It is relevant to address how policy-makers were convinced that this specific policy fit into a particular paradigm. The possibility for an actor to demonstrate that a specific policy is totally in accordance with a paradigm can alter the way policy-makers think about an idea or how they assess the merits of an idea. The argument that a policy option fits well with a paradigm can help policymakers justify their policy choices.

“Ideological cues are a critical piece of information” (Grossback and al. 2004: 526) for explaining policy diffusion. This author’s analysis indicated that diffusion of specific policies, such as state lottery, academic bankruptcy laws and sentencing guidelines are affected by the ideological proximity variables, supporting the hypotheses that states are more likely to emulate other states, which have the same ideological stance. This supports the necessity to include a paradigm in the analysis of policy diffusion.

The case study demonstrates how the OECD’s mandate and work are associated to the global market economy paradigm. The organization promoted the global market economy as providing growth and development. This global market economy paradigm then directed to the identification of specific problems, particularly in the case of taxation (double taxation) and promoted the solution to solve this problem, BTT. In the late 1980s and early 1990s, the Council of the OECD constantly formulated the basic values of the organization and its members and the necessity for the organization to further promote and be proactive in collaborating with non-members to establish and maintain the prevalence of the global system.

### 3.1 The OECD representing and promoting market economy

The OECD was created based on liberalization and market economy, and its mandate is to support and further the adoption of worldwide policies in accordance with this paradigm. Based on article 1 of the OECD convention signed in Paris in 1960,

the Organization for Economic Co-operation and Development (OECD) shall promote policies designed:

- to achieve the highest sustainable economic growth and employment and a rising standard of living in Member countries, while maintaining financial stability, and thus contribute to the development of the world economy;
- to contribute to sound economic expansion in Member as well as non-member countries in the process of economic development; and
- to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations. (OECD 1960)

Therefore, the OECD has been created for the promotion and support of the market economy and the liberalization of exchange (trade and investment). “The OECD symbolizes the market-economic philosophy...”(Group of the Council on Non-Member Economies 1993a: Chapter One Section VIII, 4.a). The OECD’s ministerial council is of the opinion that democracy, human rights and market economy “have proved to be the best possible basis for long-term economic and social development” (OECD 1991a). The organization aims at promoting policies, which support a market economy. The organisation’s work is based on the belief that freedom of capital movement, transfer of technology and exchanges of goods and services are essential elements for economic development (CFA 1989a). Therefore, this paradigm points to specific problems and solutions. Double taxation is identified as an obstacle to international movement of capital and this problem needs a solution. As early as in 1988, Working Party no.1 indicated that if the OECD is to address tax obstacles to international capital movement, this should include the consideration that tax treaties have a positive effect on international flows of capital (WP1 1988a)

The collapse of communism led to the adoption of a more promising market economy paradigm by former communist countries. In the early 1990s, many countries were therefore trying to develop a market economy. This paradigm shift operated a “third order change” (Hall 1993). Theoretically, it can be expected that these transition economies looked for the implementation of alternative policies in accordance with this new paradigm. To be successful, the transition required a reconsideration of all policies and “established thinking” (OECD 1991a). The council of the OECD took note of the paradigm shift or what was referred to as the change in the “intellectual climate” (OECD 1991b).

OECD ministers welcome the historic changes taking place in Europe, particularly in Germany. These developments, together with the recent evolution of a number of the developing countries, represent a movement toward the basic values which are common to the OECD countries: pluralistic democracy, respect for human rights, and a competitive market economy. They improve the prospect of a truly integrated global economic system. (OECD 1990a)

According to the OECD, these countries needed assistance to operate the transition. The OECD argued for its comparative advantage in assisting countries in their transition (Group of the Council on Non-Member Economies 1993a).

Once this transition is accepted at the political level, policy-makers look for policies that would help in implementing policies and institutions in accordance with this new paradigm. Because they were looking for policies within the economic liberalization paradigm they were open to ideas that were perceived as part of this paradigm. It was therefore recognized by the organization: “In the worldwide move towards pluralistic democracy, respect for human rights and a competitive market economy, an increasing number of countries which recognize the validity of these basic principles of OECD member countries wish to establish contacts and develop relations with the Organisation” (OECD 1992a).

Because of the OECD's direct association and expertise with market economies, it is not surprising that countries transiting to a market economy referred to the work of this organization for advice in implementing policies. While the OECD was open to dialogue and cooperation with countries, which embraced the basic principles it supports, the transition economies were also interested by the OECD's expertise in this regard.

Collaboration with non-member countries was based on three principles, which are pluralistic democracy, respect for human rights and market economy. The OECD indicates countries must share its objectives and modus operandi - pluralistic democracy, respect of the right of the law and development of a market-based economy - to work with the organization (OECD 1991a). The OECD specifically mentioned that "These values have proved to be the best possible basis for long-term economic and social development" (OECD 1991a). Even if the principles supported by the OECD are threefold, the paradigm which drives its work, particularly with regard to taxation is the market economy.

Once the OECD focuses on the promotion of specific policies, such as BTTs, then the paradigm to which the idea is attached is solely the market economy. Democracy is even sometimes seen as an impediment to the implementation of major reforms for the transition to a market economy. This kind of reform needs political stability for its implementation in order to materialise the economic recovery (OECD 1991a). The OECD recognizes that market economy systems can be successfully implemented under authoritarian regimes. Democracy is almost never brought up in the activities specifically dealing with BTT. This paradigm seems to have less importance for the promotion of this idea and so does the respect for human rights. The OECD never relates BTT with either democracy or the respect for human rights.

At the 1993 ministerial council meeting, it was stated that because the Organisation “symbolizes the market-oriented economic philosophy” (OECD 1993), it needed to develop a strong relationship with Russia, otherwise, it would send the wrong signal at the global level. The organization was perceived as holding keys to good policy-making with regard to the market economy, but it also wanted to maintain this image and ensured to be associated with efforts to develop market economy systems. This is quite a strong statement indicating just how the OECD sees the importance of its role in the diffusion of the market economy paradigm. The OECD’s policy suggestions are perceived as part of this paradigm and the reliance of a country on OECD recommendations is an indicator of this country’s willingness to be part of the global market economy.

The adoption of the market economy system relies on an assumption that when capital and trade are liberalized, it creates economic development and increases the global wealth (CFA 1989a). Therefore, foreign direct investment (FDI) is a central element of market economy and the OECD’s work with non-member countries was based on the “crucial role” of FDI in the transition process. The organization highlighted that FDI contribute to the emergence of the private sector, assist in the restructuring and privatization of state-owned enterprises and is a significant source of external financing in the CEECs and NIS (Group of the council on non-member economies 1992; General Secretariat Liaison and Co-ordination Unit 1992; CCET 1995a). This assumption is the filter through which policies are seen as appropriate and problems for non-members in transition are defined within the OECD. FDI is seen as a vital contribution that OECD countries should promote and facilitate toward non-member countries. More specifically, the Group of the Council on Non-Member economies in 1993 stated that signing BTTs was of crucial importance to encourage FDI (Group of the Council on Non-Member Economies 1993b).

The OECD needed to convince both members and non-members that its cooperation and promotion of OECD ideas were beneficial to all countries because it increases global wealth. Member countries want the OECD to be involved in the promotion of ideas that can be beneficial to them. The OECD then takes action to promote ideas that are in accordance with a market economy and argues these ideas increase global wealth, both for non-member as well as members in order to get adherence to its policy recommendations. The argument has to go both ways because the organization has to justify the use of its resources to its member countries (OECD 1994a). Over the years, the OECD attributed the success of some non-member economies in playing a more active and relevant role in the global economy to the fact that they based their development on market economy, pluralistic democracy and respect for human rights.

### 3.2 Taxation as a component of a market economy system

The creation of the CCEET in 1990 was to provide help in many different areas to countries that were operating a transition to a market economy. The Group of the council on non-member economies stated that “The OECD/CCEET, in recognising the importance of foreign direct investment, has given priority to activities that facilitate and promote the flow of foreign direct investment to the CEECs and the republics of the NIS. FDI policies and trends are monitored and evaluated, forming the basis for policy advice” (CCET 1994a: 36) Taxation and particularly tax treaty were a major component of this program for policy advice to transition economies. “The training courses prepare the ground for policy advice and legislative development by introducing the officials of the countries to the concepts of taxation in market economies” (CCET 1994a: 36).

More particularly, the goal of the CFA’s outreach program was to “promote the free flow of capital, goods, services and technology, to avoid unfair tax competition for cross-border

activities between member and non-member countries to promote acceptable tax regime for inward investment in non-member countries and an equitable sharing of taxing rights between countries” (CFA 1994a). The CFA argued that the achievement of these goals could be supported if its “international tax rules” were adopted. In promoting this program the committee also indicated that the benefits would be beyond the tax area and could help increase FDI flows and therefore global world trade (CFA 1994b). As will be highlighted in the next chapter concerning the strategic diffusion of the idea, BTT was an important component in both the CCEET program and the more specific outreach program of the CFA, both of which had very wide objectives towards the promotion of a global market economy.

In the summer of 1992, a separate unit within the Fiscal Affairs Division was created with the objective in areas of OECD comparative advantage, to assist each country in transition, build the treaty, legislative, administrative and statistical framework for a tax system which is compatible with the development of a democratic market economy and yields a stable stream of revenues with a minimum economic distortion. (CCET 1996a: n.d.)

“To date a major effort has been made to help the countries establish tax treaty networks that would facilitate international investment and provide a basis to minimise conflict between the countries” (CCET 1995b: 5).

The OECD is a symbol of market economy and the policies it supports are linked directly and indirectly with the liberalization of market and the free flow of capital. Evidence from the case study (more particularly addressed in chapter 5) supports the fact that countries in transition to a market economy in the late 1980s and early 1990s, turned to the OECD for policy advice to implement policies in accordance with this new paradigm.

Through the work of the OECD, BTT is an integral part of a system based on market economy. “The harmful effect of unrelieved double taxation on the exchange of goods and services and movements of capital, technology and persons, are so well known that it is not necessary to stress the importance of removing this obstacle to the development of economic

relations between countries” (OECD 1992b: 1). The OECD’s recommendation to develop a tax treaty network is therefore a strong signal that tax treaties are a necessary component of a market economy system. The association between BTT and market economy is produced by the image of the OECD and maintained through its more specific policy advice and recommendations to non-members. As will be addressed in the following paragraphs, the link is also made more direct through another feature strongly associated with market economy, the importance of FDI.

#### 4. PROBLEM: DOUBLE TAXATION

A problem is a question or difficulty rose concerning an issue that needs to be solved in order to reach objectives dependent upon the perceived interests and preferences and this perception may be altered or influenced over time. Anything that can influence the perception of interest and then the perception of a problem is a necessary explanatory factor.

The theoretical framework has posited that the link between a policy or program and the problem that needs to be solved is important for the policy to be influential. The identification of the problem relies upon the perception of interest and preferences. Perception of a problem differs, varies and changes. The case study illustrates how the OECD focused on the fact that countries which liberalize their economy necessarily have a problem of double taxation which limits the FDI these countries need to attract and that BTTs are the most relevant solution to this problem. To give even more support to the policy, BTTs were also combined with other types of problems such as international tax avoidance and evasion (Group of the Council on Non-Member Economies 1992a; OECD 1995b; CCET 1996b)



As the first section of this chapter has highlighted, the market economy paradigm is associated with the OECD's work, and it has been spreading in the late 1980s early 1990s. Problems will also constrain the policy option but the problems are not outcome oriented, therefore the identification of a problem will not lead to action unless a policy alternative is associated with it. According to the theoretical framework, an idea (BTT) is more likely to be influential if it is related to a particular problem. The involvement of the OECD with regard to BTT and non-member countries is interesting in this regard. The OECD always argued that BTT (and BTT network) is necessary to solve a problem of double taxation. When the 1992 revision of the OECD model was launched, the press release stated that:

It has long been recognized among OECD member countries that it is desirable to clarify, standardize and guarantee the fiscal situation of taxpayers who derive income or own capital in other Member countries, through the application by all Member countries of common solutions to identical cases of double taxation. This is the main purpose of the OECD model Tax Convention on Income and Capital,... (OECD 1992b: 1).

However, through the documents analyzed for the period 1988 to 1996, they never supported the identification of this problem with specific research or presentations addressing this problem for non-members and the consequences of not solving this problem.

The subjective element in the determination of a problem and the proper solution highlights the importance that some actors might have in policy transfer. Actors who can persuade that there is a problem can have more influence on the policy-making processes (Dolowitz and Marsh 1996). Rose (1993) argues that the simpler the problem seems to be and the more direct the relationship between a problem and a solution, the more likely the transfer of policies will occur. The OECD served as a catalyst for the identification of a problem and promoting a solution for this problem, allowing for policy transfer to occur in many countries in the 1990s. The OECD played a major role in "anchoring" (Weyland 2005) a problem within a particular context and the solution that went with it. One of the recurrent objectives of OECD's

events for non-members is to increase the awareness of non-member countries regarding specific problems and the means to solve them. In designing its activities, the OECD considers that the multilateral activities provided for non-member countries facilitate the identification of common problems, and then the in-country missions provided by the organization help to take action to solve these previously identified problems (CCET 1996a).

BTT is a policy option linked by the OECD to major aims of the dominant economic liberalization paradigm, increasing living standards by bringing higher level of FDI into a country. BTT and the OECD model were promoted as the best solution to reduce double taxation and attract FDI but the OECD never produced a detailed study that support the argument that signing a BTT with a country leads to more FDI or that having a large BTT network leads to more FDI. As Weyland (2005) expressed, an idea can be influential for the promise it holds and not necessarily based on hard evidence of its successes.

#### 4.1 Identification of a problem

The market economy paradigm and liberalization of capital movement are the foundations of the OECD's recommendations. This paradigm supports the need to let capital flow freely, by removing any obstacles, in order to let market forces lead to an efficient and productive use of capital, which will then increase global wealth. Throughout the OECD's work, FDI is seen as a central condition to support national and international economic growth (CFA 1994b). For developing countries, the argument is that FDI is preferable than debt, because it does not only bring money to the country, but also expertise and technologies. Particularly, for transition economies, FDI can contribute to the emergence of the private sector and the conversion of state-owned enterprises and be a significant source of external financing (Group of the Council on

Non-Member Economies 1993b); CCEET 1991a). Therefore, removing obstacles to FDI is one of the areas on which the OECD's work is concentrated.

In a market economy system, countries wish to attract the most FDI to increase national wealth. According to the OECD's argument, not only do non-members need to ensure that there is no barrier to capital movement but also that their policies attract FDI in order to increase their standard of living and their level of development. "The OECD/CCEET in recognising the importance of FDI, has devised activities that facilitate and promote the flow of FDI to the CEECs and the republics of the NIS" (Group of the Council on Non-Member Economies 1992). This paradigm and the argument that it supports alter the cost-benefit analysis in national policy-making. If a possible barrier to free trade is identified, the cost for a country to do nothing is perceived as high, maybe higher than the cost of adopting a policy, even if the problem is not demonstrated or quantified. This is even more so if there is no counter argument to support that the cost of adopting a policy could be higher than the cost of doing nothing.

Even if the desire of many countries to attract FDI can create a competition climate, the OECD expresses its intention to ensure that there is no harmful tax competition among countries. The OECD claims that countries should develop a favourable environment for investment and that this can be done through their recommendations without creating harmful tax competition. "The January meeting of the SGTT [...] looked at the taxation of FDI. The conclusion resulting from the meeting was that a standard and stable tax structure was more important to foreign investors than tax concessions and that the CCET has an important role to play in preventing the development of tax competition between participating countries" (CCET 1994a: 36). In this perspective, the OECD's recommendations are seen as the best solution, even if the objective of attracting FDI necessarily implies a form of competition among countries.

In this context, identified barriers to free movement of capital are problems, which need to be solved. The OECD argues that free movement of capital is restricted because of a global problem of double taxation potentially affecting international investment, which would be taxed in the source country as well as in the country of residence. The problem of double taxation has been identified among developed countries in the early 1900s because of the interaction of similar national tax systems. The work of the OECD with regard to non-member countries in the 1990s began on the premises that these countries were facing the same potential problem regardless of the particularities of their tax systems. In fact, even for countries which were redesigning their tax system in these years, the same potential problem of double taxation was highlighted by the OECD.

While the OECD regularly acknowledges that taxation is not the only determinant factor for FDI and may even be less important than other factors, tax obstacles are a concept often used as an introduction for discussion or conference on topics such as tax incentives, tax rates and BTT. The potential for double taxation is identified as a major problem by the OECD. Usually, throughout the organisation's documents, the recognition that the impact of taxation is uncertain seems to be sufficient to look for ways to reduce tax obstacles. Hard evidence of the existence of a problem and the necessity to solve it through BTT is not presented. The fact that the OECD is seen as the expert with regard to market economy policies seems to give support to the identification of this problem. The organization includes non-member countries in the perceived and promoted consensus on the existence of a worldwide double taxation problem.

The OECD indicated to non-member countries the potential for double taxation problems and the organization maintained a consensus about this problem by convincing non-member countries that this problem applied to any country. The combination of other problems to the BTT solution also increased the practicality of the solution. One other problem was also related to FDI;

uncertainty. The argument is that national tax systems vary among countries, and complicated or unique rules may dissuade investors from investing capital because of the uncertain tax treatment. Therefore, it is necessary to bring certainty in the tax treatment of investment by adopting rules that these investors, mainly from developed countries, already know. Investors are looking for certainty when they invest abroad. First, because investors from the OECD member countries are more familiar with BTT, this solution is the most appropriate to reduce uncertainty. Second, this solution should prevail because it guarantees that a country cannot unilaterally change the rules, providing for even more certainty.

The argument in favour of certainty is often referred to by the OECD and also by the Business and Industry Advisory Committee (BIAC). The BIAC is a consultative body representing the private sector interest within the OECD. According to the BIAC:

Les investisseurs potentiels ont fondamentalement besoin d'un code de fiscalité clair et stable qui s'applique à tous les contribuables (nationaux et étrangers) de façon cohérente afin de fournir un environnement plus prévisible où l'on peut effectuer les prévisions valables pour le moyen et le long terme, nécessaires pour déterminer la viabilité des investissements étrangers. (OECD 1990b: 138)

Following this argument, investors would usually consider the signature of a BTT as a signal that this country wants to create a stable environment for investors, even if the BIAC recognizes that taxation factors are significant but not determinant for investment decisions.

The OECD also indicates that opportunity for tax avoidance and evasion are created because of the lack of information national tax authorities have with regard to transactions outside its borders. It is very difficult for country A to access information concerning income earned from its resident in other countries. This situation can facilitate evasion by taxpayers wishing not to declare income earned in other countries. Furthermore, international planning can be used to design a transaction to benefit from different national tax regimes to globally avoid paying taxes,

and it is almost impossible for a single national tax authority to obtain an accurate picture of an international transaction. Lack of information is therefore, another problem that needs to be solved and allowing for exchange of information between tax authorities can be achieved through a special provision in a BTT. As early as in 1991, the OECD was promoting to non-member countries the fact that not only did BTTs solve double taxation and attract FDI, it also facilitated co-operation between tax authorities.

#### 4.2 Problem associated to a solution

When attention is brought to a potential problem of double taxation and other ancillary problems and if policymakers are persuaded that this problem needs a solution, then they are looking for one. Identification of the problem coupled with a specific solution increases the probabilities of the adoption of this solution. In the case of BTT, the case study reveals that the OECD did not provide a specific demonstration to non-member countries concerning problems of double taxation hindering FDI. This problem was taken for granted as the foundation for the promotion of the BTT solution. Other problems were also presented by the OECD to point to BTT as the best solution to all these problems.

The OECD always presented BTT as the solution to limit double taxation and increase FDI, which is a necessary component of economic development. The OECD consistently argued that liberalization of capital movement leads to problems of double taxation, which are better solved by BTT. Through its discourse, the OECD makes causal claims about the benefit of BTTs (and particularly the OECD model) and the creation of BTT network to solve the double taxation problem and to attract FDI. More than signing only one BTT, the OECD encourages countries to develop considerable BTT network to attract FDI. The OECD often reiterates that there is a consensus on the positive impact of BTTs (OECD 1992b) but does not present hard evidence to

this effect. This argument, more than evidence, helps non-member countries to legitimize their decisions to sign BTTs. Therefore, even if non-member countries were aware that BTTs can lead to a loss in tax revenues, the OECD justified the recourse to BTTs by the promise of attracting more FDI. The OECD provided this frame to policy-makers and never really opened the discussion on other impacts BTT might have, such as the loss of tax revenues for capital-importing countries. Some conference participants brought this up from time to time, but the wrap-up comments of these events by the OECD were always leaning towards the need for more BTTs.

Early in the 1990s, the OECD affirmed that BTTs, following the OECD model, were an essential element to attract FDI (Group of the Council on Non-Member Economies 1992a). The OECD refers to the extension of the global BTT network (which took place before the 1990s, mainly in member countries) as a demonstration that countries agree on the positive impact of BTTs on FDI. Later, in 1996, the OECD argued that many non-member countries had recently engaged in BTT signatures because they recognized that these treaties created a favourable investment climate to attract FDI. No demonstration that BTTs effectively increased FDI in these countries was brought in as support for this affirmation.

In events concerning precisely FDI, there is usually only a brief mention addressing the necessity to have double tax treaties with other countries. Furthermore, in events concerning the concepts for transition to a market economy, BTTs were briefly alluded to as something that is self evident. On the other hand, when specifically discussing tax principles or tax reform, or more precisely BTT, the OECD usually introduces the subject by referring to its link with increased FDI.

At the beginning of the CCET program, the influence of BTT on the FDI among countries is a topic presented as needing more studies and the possibility of asking a consultant to do such a study is raised, (CFA 1989a) but no study has been produced or published by the OECD afterwards. Usually, the OECD indicates that the impact of tax treaties on FDI flows is difficult to determine. The OECD recognized that taxation was not a decisive factor for FDI but that BTTs probably contributed to a stable regulatory environment. Also, the argument is that because other barriers to investment were taken down, tax obstacles would become more prominent (OECD 1995b: 9).

It is also interesting to see that there exist cases where non-member countries, and the example of Chile is interesting in this regard, attracted a high level of FDI before it started to sign BTTs (WP1 1996a). While in some forums organized by the OECD, some participants were trying to highlight the need for evidence that BTT increases FDI, the OECD usually refers to a form of consensus about the need to increase reliance on BTTs and develop wider BTT network.

## 5. PUBLIC SENTIMENT

In the theoretical framework, public sentiment is related to the level of “politicization” of an issue. When an issue is not “politicized” at all it is possible that no public sentiment would emerge because of a very limited public debate. For highly politicized issues, there may be more than one public sentiment. In this case, the identification of a dominant public sentiment or of the manipulation of public sentiment, could add to the explanation. Concerning the role of the OECD in framing EU welfare and labour market policies, Dostal has argued that “The organization aims to depoliticize issues of economic and social policy-making into questions of “pure” expertise to be dealt with from the position of “best practice” and without too much institutionalized



interference from interest groups” (2004: 446). In the case of BTT, the OECD promoted it as a technical issue only. The OECD never opened the discussion to political features that could have been associated to BTT, such as the impact on countries’ sovereignty or consequences on national tax revenues or tax equity issues. Therefore, no political debate was fostered within the organization concerning BTT and this could have insulated the idea from public scrutiny. The case study reveals how the OECD always controlled the discussions around BTT and maintained it at a technical level. A reconsideration of the idea of BTT for non-member countries was never discussed as a possibility within the OECD’s work. The organization in no way had to address public pressures with regard to BTT.

McNamara (1998) also argues that uncertainty with regard to the distributional effects of some policies (such as the exchange rate regime) can hide issues from the public and therefore, depoliticize it. This process can allow for some ideas and actors to be more influential, since they do not have to justify their policy choices to the public. Because a BTT does not have any direct impact on the taxes paid by a resident (either individual or corporate) who earns income locally only, there is not much attention paid to BTT at the domestic level. Furthermore, BTTs are complex and address very specific situations in international taxation. These treaties are detailed sets of rules, mostly to ensure residents from member countries do not suffer double taxation on investment or activities in another country. When capital flows are asymmetrical, residents from the non-member countries are not personally exposed to problems of double taxation. It is therefore, less likely that residents from non-member countries would be interested in BTTs and their consequences. For residents from member countries, they may be the ones benefiting from BTTs if they have international operations. They will therefore, support and most probably encourage their government to sign agreements with non-member countries.

The case of BTT can be distinguished from the harmful tax competition project of the OECD; this harmful tax competition program aimed at preventing some countries from developing into tax havens. The use of offshore tax shelters has made great front page news, which raised public awareness in this regard. The promotion of the fact that wealthier people or companies use strategies to avoid paying taxes by using offshore bank accounts in countries without taxation and with high standards of banking secrecy can be expected to cause a reaction in taxpayers. The public knows about this issue and welcomes everything that is perceived as help in stopping tax evasion. This is not the case for BTTs because the perceived purpose is to avoid double taxation and not to create non taxation. Even if, in fact, BTT may create problems of non taxation (Rixen 2008), this impact is not known from the public in general.

Another enlightening case is the MAI (multilateral agreement on investment) failure. The OECD presented this agreement as a necessary set of rules to liberalize and govern international investment. According to Woodward (2004), civil society groups were virulently opposed to this agreement because they saw it as a protection to the investors to the detriment of consumers, workers and the environment. The anti-MAI campaign brought many groups to disturb an OECD meeting in Paris. This opposition has been identified as one of the factors causing the MAI's failure in 1998. It is interesting to see that the MAI and the Harmful tax competition program brought more public attention to this organization.

The case study of BTT and non-member countries exposes the fact that with regard to this issue, the OECD mostly intervened with government officials specialized in finance or economic ministries from these countries. The OECD's interlocutors were more government officials than politicians who might have helped in the depoliticization of the issue. A non-member country's government mandate to reform the country's economy to adhere to market economy lead governmental representatives to find policy options that fit with this wide objective. In 1996, the

CCET mentioned the fact that in order to convince politicians from these countries to go along with signing BTTs, the OECD could be useful and suggested in-country assistance in some countries to help “sell” the idea (CCET 1996b).

Very early on, in 1991, it was clear that the OECD wanted to keep the matter very technical. It briefly presented the general purpose and benefit of BTTs and then once it promoted that a consensus about the policy was there, it got down to a matter of negotiating treaties, applying treaties and interpreting treaties. Presentations concerning BTT in conferences, seminars and workshops were always kept at a very technical level, discussing what and how to include specific provisions and how to deal with particular issues, through these agreements. There never was any “remise en question” of BTT or any in-depth analysis of its impact for specific countries. It was presented in such a technical manner that the one size fits all approach was seen as the only one, although the malleability of the OECD model was often promoted. Non-member countries could try to alter the model to fit their need and the OECD even helped some countries produce their own model (based on the OECD model) to fit better their tax system.

The CFA’s working party no.1 is the group most involved in BTT and works on technical issues to refine its model in order to address all issues raised in relation to the international system. Whenever a representative of this group was part of any conference, workshop or seminar it was to present the model or to make modifications to it. Whenever an OECD BTT expert is participating in an event, it is not to discuss the “why” BTT but mostly the “how” BTT. The activities concerning tax treaties held by the OECD for non-member countries were therefore, called “technical assistance” or “technical training”.

In the early 1990s, the organization was insulated from civil society. The lack of contact with civil society particularly in the 1990s may have helped to push its ideas without having to

convince civil society. The image of the OECD also contributed to keep the issue out of any public debate. The OECD often reiterates that its role is different than the IMF's role and the reliance on the OECD by policy makers is not related to any form of conditional financial aid. The next chapter will also highlight how the organization promoted its role as a neutral expert, which also influenced its public image.

## 6. POLICY: BILATERAL TAX TREATY (BTT)

Previous paragraphs have highlighted the linkages created by the OECD between the BTT solution and the global market economy paradigm as well as the problem, i.e. domestic tax system creating an obstacle to the free movement of capital because of double taxation potential. The absence of any dominant public sentiment with regard to BTT was also discussed. The reasons that could explain this absence are the highly technical nature of the topic and the fact that the OECD kept it from public scrutiny by promoting it as a technical solution to a technical problem in an uncertain context.

As expressed with the presentation of the theoretical framework in chapter 3, a policy can be an instrument, a specific program or a set of specific policies. The literature on policy characteristics (Rose 1993; Campbell 1998) indicate that simpler and properly packaged programs have a better chance of being adopted and the format of the policy will influence its adoption. The case study allows highlighting how BTTs, and the OECD model, were developed by the OECD and how they held these characteristics. The dissertation refers to BTTs but as the evidence will demonstrate, this idea is intrinsically associated to the idea of BTT network. Therefore, the advantages promoted by the OECD are said to be increased by the development of a BTT network.

Tax treaties have always been a priority for the OECD, and it is part of the OECD's work since its creation. The OECD capitalizes also on the fact that the OECD model is already the basis of the global BTT network before 1990s.

A first point to make is that any new initiatives should build upon the existing instruments and existing institutions. There is now a large network of tax treaties ...and the vast majority of these treaties follow very closely the OECD model convention.

Also,

It is unlikely that countries would accept replacing the existing bilateral treaty network with a series of multilateral treaties. Most commentators, including the author, would also question the desirability of such a goal. There are, however, a number of measures which could improve the operation of the existing bilateral treaty network, either by providing for more uniform provision or for a more uniform interpretation. (Owens 1993: 41)

When assistance programs were put into place in the early 1990s, BTT was one of the most recurrent topics covered at conferences, seminars and workshops. During these years, the documents analyzed do not show signs of official discussion within the OECD concerning a multilateral agreement. Bilateral agreements were presented as the only relevant possibility to solve many taxation issues arising in a global market economy. The OECD always addressed BTT through the lenses of its model, either directly or indirectly. The case study exposes that

both BTT as a general idea and the OECD model, more particularly, cannot be distinguished. It is probably fair to say that the history of BTT can only be told in connection with the OECD model.

The OECD constantly reminds non-OECD countries of the benefit of BTTs in facilitating international transactions and therefore, increasing investment. It is noteworthy that throughout the documentation analyzed, the OECD does not foster any real discussion about the consequence or the possible revenue loss for non-member countries in signing BTTs in general and according to the OECD model, in particular. Again, this is not surprising since the OECD is mandated by its members, and, even if it is largely autonomous in its work, it needs to render accounts to its members. How could resources be used to study issues that could undermine the influence of BTT or the OECD model? According to the OECD, the increase in tax revenue by countries should not be the only criteria upon which countries make policy decisions. It notes that in certain cases, emphasis should be on taxpayers' rights and on reducing conflict between tax authorities, even if these priorities can result in tax revenue losses for the participating countries. (CCET 1996a)

Non-member countries wish to attract FDI and BTTs are described as a way to do so. The OECD model is promoted as the best way to develop a BTT network because it is the international standard that is most widely used, and it is the model to which multinational enterprises are most familiar with. By becoming familiar with this model, its updates, its application and interpretation, it was easier for non-member countries to consider signing BTTs with other countries. The analysis demonstrates that the OECD model served as the basis of the BTT network development and as the benchmark with regard to such development.

#### 6.1 Complete, updated and packaged idea

The OECD model was published for the first time in 1963. At this time, the mandate of the OECD was to develop a model that would facilitate the enlargement of BTT networks in developed countries. The model adopted mainly the concept of residence based taxation that had been accepted, though not without any reluctance, by the League of Nations in the 1920s. The conceptual foundation was not challenged within the OECD before 1990 and neither in the 1990s when the OECD began to develop relationships with non-member countries. The organization saw the potential to expand the use of BTT and its model beyond member countries. As long as the OECD remains the principal policy entrepreneur for the idea of BTT and the OECD model, the evolution of this idea is path dependent and a reconsideration of the concept upon which the idea is based is less likely to happen. The OECD is the guardian, the expert and the promoter of this idea and this role is facilitated because the OECD developed a model. The more BTTs are signed and the more the OECD model is used, the more the OECD's role as an international norm setter is supported.

To facilitate the adherence to the OECD model, the OECD has elaborated a whole set of materials to explain how the OECD model should be applied and interpreted. Domestic tax courts even rely on the commentaries for the interpretation of tax treaties. Since the model is so widely used, the OECD prefers to modify its commentaries rather than the model itself. As an illustration, a recent decision from an Indian Court referred to the “international tax language” developed by organizations like the OECD in interpreting the Indo-Canada tax treaty and indicated that when a BTT uses the same words as the OECD model, the OECD's commentary should be used to determine the meaning and connotations of the words<sup>22</sup>. While this decision was reached by the Indian Court, there are many factors that hint at the possibility that other national courts would arrive at a similar decision. The extensive commentaries (over 700 pages)

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<sup>22</sup> *Metchem Canada Inc. v. Deputy Commissioner of Income-tax*, (2006) 100 ITD 251 (MUM.) In The ITAT Mumbay Bench “F”, par. 6.

are regularly updated by the OECD to offer insights as to the application and interpretation of the model with regard to new issues.

The 1963 OECD model was occasionally updated and in 1992 it became an ambulatory model with yearly updates, which facilitated the promotion of this model. Every update in the model or the commentaries of the model has been an event used to promote the model. It is also interesting to note that the fact that the OECD updates the model and its commentaries regularly supports its reputation as being at the fore front of this policy development. The OECD is always making sure that new issues are discussed and dealt with through a modification to the OECD model or the commentaries if necessary.

## 6.2 The OECD model a benchmark and an international standard

The OECD often provides analysis of countries' treaties in comparison with the OECD model. The OECD model is referred to as the benchmark. The organization reviews some countries' treaties to examine the divergences with the OECD model. For countries which became members of the OECD during the 1990s, such as Mexico, Slovak Republic, Czech Republic, Hungary and Korea, the demonstration of their reliance on the OECD model was an important step in the accession to member status. The OECD evaluated their BTT networks and made recommendations as to how to be closer to the OECD model. These countries were also asked by the OECD to host meetings which promoted BTT and the OECD model, Korea in 1994 and Mexico in 1995.

Furthermore, all discussions about issues that can be solved by a BTT are centered on the solution provided by the OECD model. All new taxation issues are presented through a



discussion as to how the OECD model could deal with it. When discussing the application and the interpretation of BTT, the OECD model and expertise provides for more detailed analysis.

Other issues are also given priority by the CFA, such as transfer pricing, exchange of information to counteract international tax avoidance and evasion and administrative dispute resolution. These other issues are generally linked or incorporated with BTT. This gives even more power to BTT. The OECD model's name was changed in 1992 to drop the reference to the elimination of double taxation and opted for a "more neutral" title. The model's title was changed to "Convention between (State A) and (State B) with respect to taxes on income and on capital" "in recognition of the broader scope of the model tax convention" (Matthews 1993: 348).

A citation from the head of the CFA is notable in this regard in 1993: "Tax treaties provide an effective way of limiting tax competition and encouraging co-ordination. They provide guidelines for the sharing out of taxing right, for reaching agreement on sourcing and jurisdictional rules, for avoiding discrimination and also put in place mechanism for resolving dispute" (Owens 1993: 41).

As I will present in further detail in the next chapter, the CFA's strategy for the development and pursuit of contacts with non-member countries is to promote a potential wealth increase for participating countries. The objective is also to allow the implementation of a tax system acceptable for investment in non-member countries and the fair sharing of tax revenues (considering that many non-member countries were becoming net exporters of capital) which could be attained by using international tax standards defined by the OECD. These rules also needed to be understood and applied correctly, and the CFA was considered as the relevant forum for regular contact between member and non-member countries (CFA 1995a).

The OECD model is elevated to the status of an international norm by the organization itself. The organization indicated that their activities with regard to BTT resulted on its model being considered as an acceptable norm by non-members. “Une reconnaissance, par les pays non membres, que les conventions fiscales établies sur le modèle de l'OCDE créent un environnement favorable à la promotion des flux transfrontalières de capitaux, de main d'oeuvre, de biens et de services et constituent un cadre au sein duquel il est possible de résoudre les conflits” (CFA 1995a: 5). Also, studies outside the OECD also support this statement: “At the heart of the institutional setup of international taxation, are the bilateral tax treaties, and the OECD MC, which was developed in a multilateral setting. Basically, all bilateral tax treaties follow this convention, with some deviations in crucial provision” (Rixen 2008: 99). Referring to Argentina’s tax treaty position, an expert (OECD consultant) said “The more recent treaties with OECD countries, while incorporating substantial source country taxation rights in UN model type terms, do not contain source only tax rules and this seem to represent a policy shift towards international norms...” (Vann 1996: 78)

The OECD model solves uncertainty for investors because it is the model they know. BIAC is a supporter of the OECD model and encouraged non-member countries in the 1990s to develop BTT networks based on the principles of the OECD model. The OECD often made the argument that multinational enterprises in developed countries are the potential investors in non-member countries, and they are more familiar with the OECD model. This familiarity helps to plan their affairs correctly and to understand the impact of their investment abroad. Because it reduces uncertainty, the investments in countries, which have signed a BTT with the home country of the multinationals based on the OECD model would therefore, be facilitated.

The OECD demonstrated openness toward the treaty policy of non-member countries, but this openness aims at getting to know where there is divergence with the OECD principles and

then to ensure that work is done to get these countries more aligned with the OECD model. Not only does the OECD ensure that its model is diffused but that all its modifications are also diffused. For the use of the model to remain current, non-member countries have to be made aware of the changes punctually.

### 6.3 Is the UN model a competitor standard?

The OECD is the most active promoter of BTT, and of course its model is central to any discussion about tax treaties. In fact, the case study and the analysis of literature on tax treaties lead to the conclusion that it is impossible and probably irrelevant to dichotomize the relationship between the UN and the OECD model. First the UN model was developed based on the OECD model, and it is now being updated to take into account any modification to the OECD model. Basically, the UN model only offers alternatives to the OECD model. Second, it is difficult to ascertain the impact of the provision of each model in treaties by non-member countries. It is fair to say that both models are used at a different level by different countries and in the negotiation of different countries. Often, a BTT involving a non-member country will result in a compromise between the provisions of the UN and the OECD model and other specific provisions to take into account the particularity of a country's tax system.

In the 1990s, the OECD indicated that the use of either the OECD or the UN model was better than no BTT at all but said that the use of the OCDE model “a pour avantage d’encourager l’utilisation de concepts et de terminologie normalisés et d’énoncer des principes fondamentaux” (OECD 1990b: 112). The OECD’s sees an integration of both models as a possible alternative in the future; “As to future international co-operation the OECD and UN models largely coincide though the UN model gives more emphasis to source taxation. The two models can coexist in

harmony and gradually integrate. Efforts should be made to avoid duplication of work between the OECD and the UN ECOSOC group” (OECD 1995b: 210).

At an OECD symposium in 1990, it is noted that the UN work on BTT developed a compromise which would explain the expansion of BTTs among developing and developed country in the period 1976 to 1984. At this symposium, a reference is made to an admission by the OECD in 1965 that the application of the residence principle supported by the OECD model may not be appropriate for developing countries, “car son application impliquerait un sacrifice de recettes fiscales de la part des pays en développement dont les flux d’investissement et de revenus connexes ne sont pas équilibrés” (OECD 1990b: 306). Throughout the entire documentation analyzed for the period 1988 to 1996, this was the only direct and public admission by the OECD (referring to 1965) of the potential problems of its model for developing countries. The organization then actively promoted BTT and its model to non-members as will be more explicitly exposed in chapter 5. However, the OECD admitted in 1992 (Group of the Council on Non-Member Economies 1992a) that the recourse to the UN model is due to the concern for revenue in developing countries.

The UN model was similar to the OECD model, and it was developed based on the OECD model. It can be argued that the UN model served only as a stepping stone to adhere to the OECD model because this model is seen as the international standard. The UN model was therefore, a compromise that led some countries to enter the world of BTT but once in there, the UN model did not offer a real alternative. It was always a simulacrum of the OECD model and could have been condemned to align with the OECD model from the beginning.

A representative of the ECOSOC who is from Indonesia (a country that has signed many BTTs prior to 1990) promoted the use of the OECD model at an OECD conference and presented

the UN model as offering a punctual alternative for treaty negotiations but the foundation remains the OECD model:

By using the OECD model as a base, it can be easily understood that Indonesian treaties with OECD countries would facilitate inward investment into Indonesia from OECD countries. One obvious reason is that taxpayers from OECD countries are familiar with the provisions of the OECD model. The similarity of the provisions of their tax treaty with Indonesia to those of treaties with other OECD member countries helped provide certainty and predictability to business and investment in Indonesia. (Conference by R. Mansury (ECOSOC) in OECD 1994a: 146)

Furthermore, in the 1990s, the OECD insures its participation to the development of the UN model, and the organization points out that it is not necessary to have a global revision of the UN model. The OECD wished to exercise some form of control over the evolution of the UN model or at least be informed and participate in the evolution as illustrated by this extract:

Il est convenu, toutefois, que le Groupe de travail cherchera à jouer un rôle dans un réexamen limité du modèle des Nations unies et tentera d'assurer une coordination avec le Secrétariat des Nations-Unies et le Groupe d'experts proposé. Plusieurs propositions concrètes sont examinées et approuvées, et le Groupe de travail charge le Président de rédiger et d'envoyer au secrétariat des Nations-Unies une lettre décrivant ces propositions, qui sera distribuée pour information aux délégués. (CFA 1995b: 10)

The organization argues that efforts with regard to BTT should not be duplicated and that both models should coexist and gradually integrate. Because the UN model is very similar to the OECD model, and the fact the UN does not actively promote its model or develop an expertise on this topic for developing countries, the OECD model is not threatened by the UN model. The organization has an interest in countries entering the BTT world by including features of the UN model than countries not signing any treaty.

## 7. CONCLUSION

The first part of the case study provided in this chapter has demonstrated empirically how the OECD has been central in creating and maintaining linkages among BTT and a market economy paradigm and the problem of double taxation creating an obstacle to attract the necessary foreign investment and other ancillary problems. Furthermore, while the case study did not allow establishing a public sentiment with regard to BTT, there is evidence that the OECD kept the discussion at a very technical level which may have inhibited public scrutiny of this issue.

The OECD is a symbol of the market economy, a policy supported and even developed by this organization may be associated indirectly with the liberalization of market and the free flow of capital. The OECD also promoted through its work and activities that the development of a BTT network is a necessary component of a market economy system.

The OECD argued that double taxation is a major obstacle to investment in every country, and investment is necessary for the development in a global market economy. While the OECD did not provide studies or researches measuring the potential double taxation problem for non-members, it based its recommendation to non-members on the consensus among developed countries concerning the problem of double taxation. Other problems were also identified; the need to provide certainty to investors and the lack of information for tax authorities about international transactions. These problems have also been combined with the BTT solution.

By keeping the matter of BTT technical and targeting an audience of senior level officials for this idea, the OECD kept the matter insulated from public scrutiny. In his study about the role of the OECD in creating and disseminating liberal welfare reform and labour market policy

proposals between 1994 and 2001, Dostal mentioned: “The organization aims to depoliticize issues of economic and social policy-making into questions or “pure” expertise to be dealt with from the position of “best practice” and without too much institutionalized interference from interest groups” (2004: 446). The technical nature but also the fact that a BTT is a bilateral agreement, brings much less attention to these agreements than on multilateral agreements such as the MAI, the negotiation of which can become a media event (Woodward 2004).

The case of the OECD’s involvement with BTTs and non-member countries in the 1990s does not allow the establishment of a link between the policy idea and an existing public sentiment, but it highlights the fact that some matters may be depoliticized and kept from public scrutiny. Depoliticization of an issue may make the development of linkages with public sentiment not relevant for an idea to be influential. As for any bureaucracies, depoliticization is necessary to preserve the organization’s expert and moral authority (Barnett and Finnemore 2004; Weaver 2010).

As the analysis demonstrates, the “BTT” program had the OECD model as a benchmark and therefore, both the BTT idea and the OECD model are inseparable, particularly in the work of the OECD during the 1990s with regard to non-member countries. The OECD offered a one stop solution for a complete model offering the key to solving many problems such as double taxation, international avoidance and evasion, transfer pricing, settlement of administrative dispute and so on. This model was promoted together with a complete set of commentaries for its interpretation. All these features improved the packaging of the idea and made it easier to adopt. The OECD refers to its model as an international standard and as such helps to justify the reliance on BTT and the OECD model, more particularly.

The case study therefore supports the following hypothesis:

**1) The OECD created and maintained a synergy between the BTT policy, a paradigm, a problem, and a public sentiment in the 1990s.**

The case study analysis considers each type of idea separately but these are all related to one another. Addressing separate ideas eases the analysis, but throughout the case analysis all these types of ideas are blended and the relationship between them evolves simultaneously.

The OECD is a symbol of the market economy system, and it maintained this image for non-member countries in the 1990s. Policies, such as BTTs, supported and developed by the organization are therefore, presented as the best taxation prescription for the liberalization of market and the free flow of capital. The fact that many countries were transiting toward a market economy in the early 1990s produced a specific audience for ideas associated to this type of economy. The OECD recommendation to develop a tax treaty network is therefore, a strong signal that tax treaties are a necessary component of a market economy system. The synergy between BTT and market economy has been built by the OECD through the need to relieve barriers to FDI, which is an integral part of a system based on the market economy.

While these findings are relevant to explain the characteristics that allow an idea to be influential, it is important to address the mechanism through which the idea was diffused to policy-makers. The next chapter will establish how the information about the synergy and the characteristics of BTT was promoted and strategically diffused by the OECD to non-members. Chapter 6 will focus on the “strategic diffusion” part of the theoretical framework which complements the analysis of the concept of synergy.



## **CHAPTER 6: THE OECD AND THE STRATEGIC DIFFUSION OF BTT**

### **1. INTRODUCTION**

Chapter 5 has demonstrated how the OECD has connected the idea of BTT and the OECD model with the market economy paradigm which was adopted in the early 1990s by many countries in transition. The organization also maintained the relationship of BTT and the OECD model with the problem of attracting FDI when double taxation can occur by presenting BTT and the OECD model as the best solution. The organization also kept the matter at a very technical level and never opened discussions to the reconsideration of the role or consequences of BTT for non-members, which probably kept it from public scrutiny. Through the first part of the case study, chapter 5 provides evidence of a synergy as expected by the theoretical framework confirming hypothesis 1 elaborated for the case of BTT and the OECD.

How did this idea and these arguments for synergy become to be known to non-members remains an important part of the explanation and the theoretical framework? It is one thing to say and demonstrate that an idea was promoted as the best policy solution but if this idea is not supported by a strategy for convincing policy-makers, then it will less likely influence policy-making. As Rich (2006) demonstrated with think tanks, those who are more successful in diffusing their ideas are those that perceive their role as including the promotion of ideas. Policy diffusion as defined by Rogers (2003) is driven by an information flows and communication channels and the theoretical framework allows capturing this communication channel through the concept of “strategic diffusion”. As the evidence in this chapter will show, the OECD definitively understood its role as including the proactive promotion of its ideas and particularly BTT. This chapter focuses on the second part of the case study to explore the “strategic diffusion”. This

chapter demonstrates how the OECD has communicated the information about BTTs it produced, to non-members.

It is undeniable that the collapse of communism at the end of the 1980s and the emergence of many newly independent states have created a window of opportunity where a policy entrepreneur could promote ideas. The OECD took on this active role in the promotion of market economy ideas and particularly BTT. During the 1990s, the OECD consistently increased the number of non-members to which it offered assistance. The strategy undertaken converged and expanded to include other non-member states. From Central and Eastern Europe, new independent states, economies in transition to dynamic Asian economies and dynamic non member economies, the OECD created contacts with more non-members and targeted some more specifically during this period.

This chapter emphasizes the diffusion under which an idea can spread globally through the action of a pivotal actor with regard to a specific idea. Diffusion approaches, such as a regional influence or leader-laggard influence (Berry and Berry, 1990) demonstrate how external factors such as proximity can determine the diffusion of a policy. Learning approaches are also interested in highlighting how policy-makers can learn from success, communication or cultural reference groups (Simmons and Elkins 2004). However, these approaches do not allow understanding the role of a specific actor providing learning activities and convincing targeted countries at the international level. For many diffusion approaches, the fact that an idea spread among neighbouring states for example is explained by the emulation among neighbouring states. Bennett (1997) indicated that the adoption of a policy in a country can be attributable to policies adopted in other countries only if it is demonstrated, among other things, that “policy makers are aware of the policy adoptions elsewhere”. A case study focusing on explaining the process

through which the idea caused the outcome is a relevant and valuable methodology to test the theoretical framework.

The theoretical framework addresses the diffusion from within the actions of an international organization per se to complement the diffusion literature by adding agency to the explanation. The role of a policy entrepreneur is made clear in many studies (Kindgon 2003; Béland 2005; Mintrom and Vergari 1998; Radaelli 1998b) but they do not address directly how specific actions by an actor can be important for the diffusion of an idea and how this actor can act strategically. Policy entrepreneurs are the link between an idea and its diffusion and such actor needs much more attention, especially when the policy entrepreneur is an international organization whose influence has been overlooked, such as the OECD. Marsh and Sharman (2009) argue that insights from policy transfer literature can enlighten the diffusion literature and vice versa. They indicate that while diffusion literature is generally more structure-driven, the important question “who transfer policy?” is overlooked. Furthermore, Mintrom and Vergari explain that the role of network in diffusion can be better considered if the “networking activities of policy entrepreneur” (1998: 130) are analyzed. While their study is about American state politics, nothing prevents from applying the same reasoning to other settings: “we contend that policy entrepreneur who can manipulate the resources in policy networks will be the most able to make convincing arguments on behalf of the policy innovations they are promoting” (1998: 130). Stone also recognizes that some actors are more “visible, persuasive, or powerful than others” (2008: 21). Orenstein (2008) argues for the necessity to include transnational actors in explaining a domestic policy decision. His argument is that study should be inclusive and consider any transnational actors that could have influenced a policy decision. However, his study of pension reform emphasizes mostly the role of the World Bank.

It cannot be argued that the case study focusing on the BTT program for non-members in the OECD will allow determining that no other actor has been involved in the diffusion of BTT with certitude because the documentation analyzed comes from the OECD. Nevertheless, throughout the documentation there is some information about other actors which support the fact that the OECD is an important and central actor in this process.

The present chapter analyzes the strategy put forward by the OECD for the diffusion of its ideas and the specific importance of BTT and the OECD model in the contacts developed with non-members in the 1990s. The theoretical framework includes a specific process to explain the creation of the conditions under which an idea is influential, the “strategic diffusion”. As the approach of “strategic constructivism” (Jabko 2008) and the concept of “constructivism strategy” (Best 2010), the dissertation argues that ideas can be used strategically which recognizes that some actor are purposive and can use ideas in accordance with their perceived interest. Because the OECD seems a most-likely case of the involvement of an actor in creating these conditions it allows testing this theory. The second part of the case study addresses the following hypothesis:

**2. The OECD strategically diffused the BTT policy and its synergy to non-OECD member countries in the 1990s.**

Organized diffusion is the proactive and purposeful promotion of an idea and synergy among different types of ideas through direct and indirect means. The case study allows determining if the OECD organized the diffusion of BTT and the means for that diffusion to non-members. If the case study reveals that the OECD’s promotion and diffusion efforts were limited or not directed towards non-members in these years or that its efforts were combined with other actors or subordinated to the work of other actors, then the hypothesis will prove wrong. Hypotheses 1 and 2 could be more appropriately referred to as “study proposition” (Yin 2003). A

study proposition helps to point in the direction expected by the theory and it structures the case study. Therefore, the rejection of the hypothesis would not mean that the theoretical framework and the theory on which it is based should be rejected because this hypothesis is tailored to address the actions of a specific actor. The rejection of the “study proposition” would support the conclusion that the OECD was not acting on its own and/or was part of a wider group of experts and was not central in the diffusion strategy. Further investigation would need to address the case more globally and include any other actor who could have been involved in the diffusion of BTT.

The relevance of a case study in testing a hypothesis is criticized (Flyvbjerg 2006). However, as Van Evera expressed: “Hence a thorough process-trace of a single case can provide a strong test of a theory” (1997: 65). However, if the hypothesis is confirmed through the case study and the OECD did play an important role in the strategic diffusion of BTTs to non-members further investigation will be necessary. The case study cannot support a causal claim that the synergy or organized diffusion by the OECD explains why non-members signed BTTs. Chapter 7 allows to test this hypothesis and to make such a relationship between the efforts of the OECD and the spread of the BTT idea.

As in chapter 5, the case study in this chapter is based on OECD’s archives and documents and interviews with key officials from the OECD. These documents have been analyzed through the different means by which diffusion could have occurred, direct and indirect means. The literature supports the relevance of an actor for the promotion of an idea which will likely make it more influential (Rich 2004; Béland 2005). This promotion can be through formal or informal means (Stone 2004) or through teaching (Finnemore and Sikkink 1998) and the promoters also need to demonstrate their own competence, credibility and trustworthiness (Mintrom and Vergari 1998; Majone 1989). The case study allows tracing these different mechanisms or strategies used by the OECD which can be captured under the theoretical concept of “strategic diffusion”.

Firstly, the history of the development by the OECD of relationships with non-members is presented for the period that began at the end of the 1980s. Then, this chapter focuses on the direct means used by the OECD to promote ideas to non-members, such as assistance, training, meetings and dialogue. Secondly, the chapter highlights the indirect means of promotion of the idea. The promotion of concepts such as consensus, expertise and neutrality is an indirect means used by the OECD to promote its work and its ideas.

## 2. HISTORICAL BACKGROUND

Before 1990, the OECD's ministerial council did not mandate the OECD's secretariat for direct assistance or co-operation with a large number of non-members. The organization is distinct from its members and acts with a lot of autonomy but since it does have to render accounts to the council of countries providing for the financing of the organization, its actions are to be in accordance with or confirmed by the council. The council provides for general guidance on the work of the organization but the OECD's secretariat can influence the agenda. Furthermore, the OECD's secretariat has a wide leeway concerning the programs it adopts and how these programs are implemented. At the end of the 1980s, the OECD had developed a dialogue with Dynamic Asian Economies (DAE) because it recognized that these countries were becoming important in the world economy. However, the major turning point occurred in 1990 when the OECD decided to further its dialogue with DAE but also to help integrate transition economies in the global economic system. For the following decade, the intensification of co-operation with non-members was a preoccupation of the OECD. The organization wished to promote the process of economic reform based on its principal strengths and expertise by hosting

meetings, seminars and so on. The OECD developed linkages with non-members in a general manner to help develop and maintain the global market economy.

Taxation became a key component of this assistance and BTT one of the main recurrent themes in seminars, workshops and in-country programs related to taxation provided by the OECD. The CCEET justified that BTT was the topic which used the largest part of the activities regarding taxation by the fact that the OECD had a specialization with regard to this topic. Activities regarding BTT were probably disproportionate with regards to the necessity for these countries to sign BTTs so rapidly and intensively (CCET 1996b). Other topics concerning taxation were the establishment of a legal and institutional framework, including reforming the tax system and implementing an efficient administrative function and the elaboration of reliable statistical information necessary in the context of a market economy.

The first important events which marked the beginning of a new era for the development of relationships between the OECD and non-members, were two seminars held in June 1990. With the first seminar on “Foreign Direct Investment in Central and Eastern Europe”, the OECD wished to exchange views and identify areas where these non-members could benefit from the experience of the OECD in their transition to a market economy, particularly in attracting FDI. A second seminar was also held in June 1990 concerning “Taxation Relationship and International Investment Flows between Member and Non-Member Countries”. Participants invited to this second OECD seminar were senior tax policymakers from various regions around the globe, the participants were from countries such as Argentina, Chile, India, Jamaica, Singapore, Venezuela, USSR and Nigeria. This seminar addressed the impact of tax regimes on investment flows, and specifically discussed BTT. The OECD also intended to implicate non-members in the review of the OECD model initiated at this time. These two events launched in 1990 an active promotion of BTT by the OECD, to non-members.

The collapse of the communism in many countries and the emergence of new independent states marked another important step. These economies in transition and NIS turned to the OECD, as the organization with expertise in the market economy to help them restructure their institutions. The OECD decided to provide help in order to assimilate the economies in transition into the world market (CCEET 1991a). BTTs were always merged to the necessary institutions for a market-based regime (evidence of this link between BTT and market economy has been provided in chapter 5).

### 3. PROMOTION THROUGH DIRECT MEANS

#### 3.1 Assistance to Central and Eastern European countries

In 1990, the CCEET was created to coordinate OECD's efforts to help economies in their transition to a market economy. The CCEET was not a distinct entity from the OECD but was a body mandated to catalyze and organize advice and technical assistance to European Economies in Transition with regard to the OECD's areas of expertise. The assistance covered many areas such as economic statistics, privatization, competition policy, foreign direct investment, financial sector reform. The CCEET was replaced by the CCET in 1994, to reflect the fact that countries other than new independent states from Europe were now also targeted for help. By the end of the 1990s, because the OECD hoped for collaboration with identified non-members throughout the globe, the centre evolved in 1998 into the CCNM.

The analysis does not deny the fact that non-members may have requested the OECD's assistance for some issues in different forms or levels. The transition to a market economy in



many countries created needs for expertise and non-members turned to the OECD for help. “Since late 1989, these reforming countries have been addressing requests for advice, co-operation, assistance and training to the OECD” (CCEET 1991a: 3). CCEET, created to respond to these requests, developed a program of assistance upon the “perceived needs” of countries in transition. Requests concerned general matters such as legislation, building institutions, mechanisms and culture for a market-based system (CCEET 1991a) and procedures and the establishment and operation of bodies to promote inward investment (Group of the Council on Non-Member Economies 1992b).

As demonstrated in chapter 5, since the OECD argued that BTT is a necessary component of a market economy system and prevents double taxation, which would hinder the flow of capital, BTTs were merged into the program in the very first years of the assistance to these countries. However, it is difficult to understand why this would have been a priority for these countries in these years. The transition process meant that they had to modify the foundations of their system and their institutions. While non-members requested help in designing institutional structures relevant for market economy, the information available does not support specific request related to the assistance in developing BTT network directly from the beginning of their transition process. Nevertheless, these countries were interested in anything that could increase foreign investment and their requests were of a more general nature (CCET 1993a). The Steering group on Taxation and Tax Training who supervised the training activities related to tax in the assistance programme indicated that: “Le thème des activités reflète à la fois les intérêt de l’OCDE (par exemple les conventions fiscales) et les intérêts exprimés par les pays par le biais de divers mécanismes formels et informels qui existent à l’OCDE pour définir ces priorités” (CCET 1993b). By combining BTTs in the necessary institutional structures for market economy, the OECD and particularly the CFA could promote its product at a very early stage of transition, even before tax system design was completed in these countries. Non-members were tying their hands

with regard to international taxation rules even before or at the same time as those rules were elaborated at the domestic level.

The global assistance program included many different types of activities: review of legislation and market-oriented institution, economic reviews, assistance, technical assistance, training, policy advice, dialogue, structured dialogue and so on (Group of the Council on Non-Member Economies 1993c). The OECD also included in its program, the implementation of a register of technical assistance to coordinate assistance offered by means other than the OECD, publications and participation in OECD committees for some countries.

The CCEET saw many avenues where the OECD's expertise could be useful in helping the transition economies with regard to taxation. Once these economies move toward the privatization of the use of resources, the country needs a tax system to provide funds for public services. There is a sense of emergency to put in place an efficient tax system (CCEET 1991a). A tax system is complex and has many features and, even if the OECD provided help in many areas of taxation, BTT was certainly one of the major parts of the assistance provided by this organization. With regard to the structuring of a tax system, the OECD coordinated its effort with other organizations, such as the IMF, who also provided help in structuring tax system in these countries but was not involved directly in the promotion of BTTs.

Within the CCEET program, the responsibility for the assistance with regard to taxation policies was assigned directly to the CFA in 1990. The CFA had been a well organized committee and very active in exchanges about international taxation issues and in setting standards through many working parties specialized on different topics, such as the working party no.1 who was responsible for BTT and the OECD model. Taking on the leadership role with regard to assistance concerning taxation policies, the CFA used its expertise on specific areas and

ensured that its work got diffused beyond the OECD members' basis. The CCEET affirmed that taxation was a domain with a particular approach to assistance and reported in 1993 that the strength of the OECD with regard to international taxation in general and BTT, in particular, were widely recognized, explaining the importance of taxation within the CCEET program. While the objective of the tax program was to assist economies in transition to develop institutions compatible with the market economy, the CFA always made sure to tie its domain of expertise with the assistance. This assistance was developed in accordance with the OECD's priority in general which included building "treaty, legislative, administrative and statistical framework" (CCET 1996a). BTT was among the highest priority for the OECD, even if this may not reflect the priority order of economies in transition at this time.

The technical assistance with regard to taxation took many forms, meetings, seminars, training session and in-country assistance. The diffusion of BTT was strategically merged with a wider taxation and foreign investment issue, and many different activities were organized with regard to BTT. For many years, the working party no.1 had meetings with experts from central and eastern European countries concerning BTT. During these meetings, officials from non-members were asked to present their position with regard to major treaty provisions and to note in particular where their treaty policy differed significantly from the OECD model. These meetings were another entry for influence within non-members.

### *3.1.1 Training*

To provide the necessary facilities for training and increase the networking between OECD countries and non-member, the OECD established multilateral tax centres in 1992 in Vienna, Copenhagen and Budapest and in Ankara in 1993. The objective of these centres was to increase the expertise of officials dealing with taxation issues in transition economies, particularly with

regard to the administration of a tax system and international taxation, including the role of tax treaty. The centres would also help countries in structuring national tax schools. The CFA supervised activities (topics, content, speakers and participants) provided in these centres among which many courses concerned BTT. The OECD secretariat, through the CFA, is responsible for the content of the seminars and prepares the material. An expert from the secretariat of the OECD was generally present for courses, seminars or workshop concerning BTT. The CFA organized the courses and identified member countries' experts to help deliver courses in the OECD premises. Among the many courses that were coordinated by the OECD, the responsibility of some was given to specific member countries, but all courses about BTT remained controlled by the CFA.

As an example of the achievement of multilateral centres, in 1992 only, more than 400 tax officials from 12 non-members participated in activities held for a total of 20 weeks in these centres. In 1995, there were 65 weeks of seminars in the multilateral centres and more than 1 300 officials from 24 countries participated in these activities (CCET 1996b). This information confirms just how the activities were reaching far and strong. The fact that these countries did participate in the activities demonstrated openness towards the OECD's ideas. Throughout these seminars, BTTs were a recurrent topic, either focusing on its negotiation, its concepts, its application or its interpretation or combining it with session on international taxation or tax avoidance and evasion or the drafting of tax laws.

In 1993, the OECD jointly with the Russian Tax Service, the European Union and member countries created the Moscow International Tax Centre, to provide similar training on strategic management and technical tax issues. In 1997, a new multilateral tax centre was established in Korea to facilitate contact with Asian countries.

To ensure that non-members would take ownership in the multilateral program, the OECD created a consultative group to review the OECD's multilateral tax training activities. This group included officials and experts from Central and Eastern European countries, the NIS and Mongolia, OECD members and international organizations as well as representatives from the OECD/CCEET secretariat. The creation of this consultative group may have increased the implication of recipient countries in the OECD's agenda for technical assistance but the group was not a decision-making body and was kept out of discussing more political or broader issues. Reports from the OECD secretariat were to be the basis of the discussions in the group, ensuring that the OECD remained in control of the assistance program.

### *3.1.2 Specific assistance*

Some countries were targeted through a more intense program, the partners in transition program. These countries, Slovak Republic, Czech Republic, Hungary and Poland received special assistance from the OECD in order to implement an institutional structure in accordance with a market economy system and adhere to international standard to eventually access OECD membership. One of the conditions for membership is that these countries have a network of BTTs that is closely aligned to the OECD model. When BTTs signed from a country wishing to become a member differ from the OECD model, this divergence needs to be explained and argued for to the CFA. Therefore, even if the OECD cannot enforce the use of its model legally, there is a moral pressure to do so for countries which wish to become members. In the mid-1990s, these countries and Mexico and Korea were authorized to become OECD members.

For the Baltic countries, the assistance was even more straightforward with regard to BTT in 1992. The CFA helped these three countries (Latvia, Lithuania and Estonia) to negotiate treaties with Nordic OECD member countries. The negotiation rounds were closer to a

multilateral agreement but lead to the signature of many BTTs between Baltic countries and Nordic countries and the help of the Secretariat of the OECD in this regard was directly associated to this achievement. It is obvious, and sometimes acknowledged by the OECD itself, that the CCET program aims at helping countries develop BTT networks in a “manner which complies with the concepts set out in the OECD model tax convention” (CCET 1994a: 37).

In 1994, the OECD and Russia made their co-operation relationship official (which had started with the Soviet Union). The OECD had been working with Russia to offer advice on many different topics and Russian officials participated to OECD training activities, mostly at the OECD tax training centres in Copenhagen and in Moscow. In 1995, a step forward was taken with some countries identified for their potential to adhere to OECD standard to provide in-country advice, such as Bulgaria, Romania and Slovenia.

More than just giving training with regard to BTT, the OECD provides assistance to some non-members in developing their own model, in negotiating, in applying treaties and the organization also monitors progress with regard to BTT, using the OECD model as a benchmark. Reports are produced to highlight the particularities in treaty policies in some countries. By raising the awareness about the OECD model and making non-members familiar with the OECD model, the OECD encouraged and facilitated the use of BTT and particularly its model.

Because the OECD and more specifically the CFA understood the influence of the training with regard to BTT, it suggested in 1993 that member countries hold the initiation of negotiation with Central Asian and Transcaucasian NIS until their officials have “gone through the OECD training courses” (CFA 1993a: n.d.). In a more general manner, the OECD identified the “absorptive capacity” as one of the conditions for effective policy advice, and it noted that technical training from the OECD improved this capacity in areas crucial to the transformation

(Group of the Council on Non-Member Economies 1993a). Particularly concerning taxation, training was offered to introduce officials of non-members to the concept of taxation in market economies and the OECD norms specifically.

The different forms of assistance were adding to one another's influence. The steps used by the OECD in its assistance were certainly useful in getting non-members to go from no treaty at all to many treaties close to the OECD model. CCET gives the following example which is a very acute illustration:

Les diverses activités développées ces trois dernières années --les centres de formation, les séminaires et les activités menées dans les pays --sont complémentaires, intégrées et se renforcent les unes les autres. Trois exemples illustrent ce point : a) Des stages sur les conventions fiscales ont été organisés à Ankara en mai et juin 1993. Ces stages ont été suivis, en juillet et août, de missions dans la plupart des pays participant aux activités du centre d'Ankara afin de les aider à mettre au point des modèles de conventions fiscales pour servir de base à des négociations bilatérales. Une réunion a eu lieu ensuite à Paris, en septembre, à laquelle les pays ont travaillé de concert pour affiner leurs modèles, après quoi les modèles ont été présentés à une réunion conjointe avec le groupe de travail no.1 du CAF. (CCET 1993b: 3-4)

### 3.2 Dialogue with dynamic economies

The case study demonstrates that the OECD tailored the diffusion of BTT to the receptiveness of non-members. For economies in transition and NIS their BTTs were combined with the whole restructuring of tax systems and because officials did not have prior experience with tax agreements, they needed formal training to get familiar with BTT and the OECD model. For Asian economies, they had experience with BTT because they already had signed some to protect the efficiency of their tax incentives before 1990. The diffusion strategy was therefore different; the relationship was developed around an exchange rather than a teacher-student association.

The dialogue with Dynamic Asian Economies began at the end of the 1980s. This dialogue was developed to exchange views with DAE, who were playing a growing role in the global economy. The OECD wished to extend its knowledge about these countries and foster a convergence of views where appropriate. The beginning of the dialogue was on more general issues regarding the global economy, but it was from the start intended to evolve toward discussion on more specific issues. Further on, the OECD put more emphasis on improving the coherence between these countries' policies and those of OECD member countries.

Therefore, the approach with the DAE was different than with the NIS. The difference lies also on the fact that DAE (except Hong Kong) were heavily relying on BTTs prior to 1990. The benefit for them of signing such agreement was the possibility to protect the tax incentives they had developed to attract FDI. In that sense, when a country offers a tax exemption to attract foreign investment, if the home country of the investor taxes the income, the tax exemption is worthless to foreign investors. These countries needed to make sure that their tax incentives were efficient, and they signed treaties, which included specific provisions (tax sparing) to ensure that the income benefiting from the tax exemption was not taxed in the home country. Member countries were willing to incorporate such a clause to have a BTT with these dynamic economies. In the 1990s, OECD member countries and the OECD itself deployed efforts to demonstrate that tax incentives were not efficient in attracting FDI and therefore should not be used by these economies. In 1998, the OECD took a position against the incorporation of a tax sparing clause in the BTT and member countries were then less favourable to incorporate such a provision in their BTTs and the OECD. Therefore, the necessity for deepening the dialogue with DAE had a different source than that of other countries. Nevertheless, to maintain the reliance on BTT and its model, the OECD needed to keep in close contact with DAE about this topic.



In 1991, the informal workshop with DAE was a first step toward discussion about taxation issues of mutual interest and in 1992, the CFA notes that more general workshops are to be followed by meetings on specific topics, such as BTT. The dialogue was deepened in the 1990s and in 1993, the CFA identified three priorities for this dialogue with DAE, tax treaties, exchange of information and counteracting international tax evasion and avoidance. These three topics are not unrelated, and in fact, they can all be associated with tax treaties. The OECD model contains a provision for the exchange information between tax authorities. Moreover, BTT is promoted as a solution to hinder international tax evasion and avoidance.

The dialogue was then extended in the mid-1990s to some Latin American dynamic economies (Brazil, Argentina and Chile). In 1995, Mexico held a meeting dealing exclusively with BTT to which Latin American countries were invited in order to enlarge contacts with these countries with regard to BTT. While Mexico was the host, the CFA remained the event leader and controlled the agenda, the content and the invitations.

### 3.3 CFA – Outreach activities

The CFA took on a very entrepreneurial role with regard to the diffusion of its standards and norms and the early experience with CCEET activities led the committee to develop its own outreach program in the mid-1990s. One of the main CFA strategies was always to help non-members develop a BTT network and use the OECD concepts of the model.

Among the modification of this strategy, the CFA added the necessity to consider the potential influence and leadership of countries in their respective region for determining which country should be invited to participate in activities. Besides, priority was to be given to major

players in the global economy with whom OECD member countries would benefit from working with. The reference to targeted countries was then the dynamic non-member economies (DNME).

Under this revised approach, BTTs were to remain a major theme for discussions with non-members to get them to understand and share the international norms set forth by the OECD. Therefore, one objective was clearly stated as helping these non member countries to develop a better understanding of the role of tax treaties, the OECD model and the importance of tax treaties in establishing a favourable framework for international investment and trade (CFA 1994b).

The alignment of topics to areas of expertise of the OECD is made clear:

En essayant d'atteindre ces objectifs, il faudra prendre soin de choisir des sujets où l'OCDE a déjà élaboré des règles ou directives internationales. Une attention particulière devra être portée aux domaines de conflit potentiel, par exemple le recours à des incitations fiscales pour attirer l'IDE, la mise au point de régimes particuliers pour les activités commerciales et financières, la fixation de prix de transfert appropriés et les questions relatives à l'application et à l'interprétation des conventions fiscales. Ces activités doivent en permanence être orientées sur les domaines où l'on peut espérer des résultats concrets, où des programmes multilatéraux semblent plus appropriés que des schémas bilatéraux et où des décisions unilatérales peuvent ne pas être concevables. (CFA 1995a: 7)

When responsible for activities under the CCEET or subsequent bodies, the CFA had to face some reluctance within the organization as to the role of training and direct assistance to implement specific policies in economies in transition. Nevertheless, the direct and concrete impact with regard to BTT signatures by economies in transition very early in 1990s was perceived as the program's success and the CFA reaffirmed this strategy. Clearly, the interest of OECD member countries has to be taken into consideration in the development of the program. Moreover, the main objective remains the necessity to ensure that non-members adhere to the OECD defined international standards.

### 3.4 Network Building

The case of BTT and the OECD demonstrates just how this organization has played a primary role in the diffusion and had been a pivotal actor. The strategic diffusion, as we saw, had many tentacles, from large conferences, to seminars and workshops, to in-country assistance, BTTs were everywhere and the OECD's expertise always available. Not only did the OECD strategically organize a diffusion of the idea and combined BTTs in an advantageous manner with a paradigm and a problem, but it also created and maintained a network of policymakers around its idea. Networking was part of the strategy for the diffusion of the OECD's ideas to non-members.

In many instances, the OECD acknowledges that the assistance program was successful because the organization provided access to experts on particular policies to economies in transition officials. The OECD event and premises also offered the possibility for officials to meet officials from other countries and share their experiences. The organization fostered the network around BTT. Experts from member countries, consultants or officials, were invited to participate to the OECD activities for non-members. OECD member countries do not necessarily agree with each provision of the OECD model, but they usually follow it closely enough to be promoters of this model. A few experts who did not endorse the OECD model participated in some events organized by the OECD, and, even if they had a chance to express some reservations, it is obvious that events organized by the OECD never provided a forum for the justification or the "remise en question" of the purpose and consequences of BTT and the OECD model as a whole. In some cases, non-members or consultants would throw the idea of having a study on the impact of BTTs but such an analysis does not seem to have been done or published by the OECD.

The OECD also always insured that participants from non-members were high level officials who would be involved in policy-making. Therefore, participants to be trained about BTT and the OECD model would be officials who were to be involved in the development of a treaty policy within their country and in the negotiation of these agreements. By coming to the OECD activities, these officials could meet their counterpart from other non-members and also experts from the OECD countries. In many countries in transition and new independent states, direct access to senior officials who wished to convert the country to a market economy necessarily framed their perception of a problem and a solution that fitted the paradigm they wanted to embrace.<sup>23</sup>

The OECD created a direct access to experts and officials from other countries to help countries in transition and then other countries as well. The organization provided seminars and workshop for senior officials from key ministries (economic, finance, revenue) and promoted its idea to implement a market economy. Through this program, taxation was one of the most important topics, which included a large number of activities about BTT. Many participants were or became treaty negotiators for their country. Not only did the OECD decide which countries were invited to workshops or seminars, but it gave information to these countries about how to select the participants. In order for the event to be useful, participants needed to be from senior levels in governments working or to be working in tax policy, tax administration and international taxation. As expressed by Marier, bureaucrats play an important role in “describing the policy

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<sup>23</sup> “in the former Soviet Union with its state-controlled structure, the transnational actors need to gain access to the very top of the decision-making hierarchy to have an impact. Their specific ideas and concepts also had to be compatible with the beliefs and goals of the top decision makers.” “To influence policies, transnational actors need, first, channels into the political system of the target state and, second, domestic partners with the ability to form winning coalitions. Ideas promoted by transnational alliances or epistemic communities do not matter much unless those two conditions are met” Risse-Kappen (1994: 208).

problems to the politicians and in providing potential solutions” (2008: 521). Clearly, the OECD created linkages with pivotal domestic actors in many countries.

Further on in 1995, when deciding to expand relationship with Asian and Latin American countries, the CFA asked representatives from WP1 to identify delegates from these countries who should be invited to workshops. This expansion and targeted evolution of the relationship development with non-members had also to be done with regard to priorities where OECD member tax authorities could benefit and where time and money could be saved for OECD members.

It is noteworthy that the BTT solution is bilateral but the OECD uses multilateral networking activities to ensure that the bilateral solution is followed. Emulation definitively comes into play here, if non-members know that others are going along with BTTs then the perceived benefit associated with coming on board is more interesting than the perceived cost of not signing BTTs.

The OECD takes an active role within many other forums concerning taxation. This participation ensures that the organization remain at the forefront of any development regarding BTT. It developed relationships with regional tax administration organizations (CIAT, CATA) and other international organizations (WB, IMF and UN ECOSOC) and invites representatives from these organizations to its events and activities.

“All networks are constructed. Members must choose to build and maintain networks, but they can be changed to fit new conditions” (Bloodgood and Clough 2008: 7). The case study demonstrates that the OECD is central in building a network to promote BTT. The OECD brought the resources, the expertise, and credibility to the network. The organization ensured that

officials from selected countries join the network, and they were then able to bring the idea into their respective domestic political realm.

### 3.5 Participation of non-member countries in the drafting of the OECD model

Even if as soon as 1991, the OECD was considering getting the input of some non-members for the OECD model review, it is only in 1993, that the CFA decided to obtain comments from non-members and other international organizations with regard to the OECD model and notes that previously the model was drafted without any input from non-OECD members. This gave non-members a way to express their dissidence with regard to specific articles, but again it meant that these countries needed to get familiar with the OECD model to comment it and the OECD model remained the benchmark. Did these countries have a real influence over the drafting of the OECD model? It is difficult to ascertain but a reservation can be expressed regarding the real impact non-members could have had on the model in the 1990s and even now, since decisions are made only by member countries.

In 1995, the OECD specifically invited DNME to provide issues needing clarification of changes to the OECD model. Modifications to the model need to go through a process in which non-members are in a weak position. A report by the OECD secretariat or by an OECD member country needs to be produced to support this modification. In these circumstances, it is unlikely that changes that would be beneficial to non-members only would lead to a modification to the model. By allowing non-members to “participate” in the process it nevertheless might help non-members to appropriate the model.

The OECD makes it clear throughout all its work with non-members that there are two levels of help that countries can receive more directly. Non-members can come to conferences

and seminars, but the OECD will provide further assistance in the implementation and application of specific solutions only if these countries agree with the concepts of international taxation defined by the OECD.

#### 4. PROMOTION THROUGH INDIRECT MEANS

Organized diffusion of ideas includes the indirect means used to promote ideas. The indirect means support the idea by increasing its credibility. The promotion of an international consensus around the idea and of the promoter's or developer's expertise can certainly constitute additional persuasive arguments. To preserve its moral authority, the OECD should promote BTT as being an internationally accepted norm (Barnett and Finnemore 2004). The neutral status of the organization is also necessary to support its moral authority. Furthermore, to remain an expert and ensure that the organization maintains its status as "an authority" in the matter of BTT, the diffusion strategy may include the promotion of its expertise. Consequently, this section will address how the OECD perceived and promoted its role regarding BTT and also posited itself as a neutral expert.

The diffusion strategy included the promotion of the OECD expertise and "neutrality". When uncertainty prevails, reliance on expertise facilitates policy-making. Even if the organization represents the interest of member countries, which are developed countries, it seems to be perceived as neutral. This is particularly the case with regard to the idea of BTT for which the OECD is the guardian. The OECD controls the development of a model which is used as the basis to negotiate agreements among countries since the mid 1900s and is known as the principal expert in this regard. The OECD's involvement is constantly justified by this expertise.

The OECD plays a distinct role from that of member countries. In the early 1990s, OECD member countries committed to openness toward non-members by relieving any obstacles to trade and investment with these countries thus opening their market and transferring “developmental resources” (OECD 1990a). At the end of the 1980s, the organization affirms its role in developing, supporting and promoting policies to help non-members be part of the global economy.

The very active technical assistance program undertaken by the OECD with regard to non-members was implemented rapidly and was not initiated by a specific mandate from the Council on technical assistance. In 1991, the council endorsed this role, which began in 1990 within different areas through the CCET. The council indicated that the organization should continue to develop assistance programs because it makes the best use of its expertise and resources.

The way the OECD sees its role is important in the way it organized the diffusion and promoted its expertise. The OECD posited itself as a neutral expert who was the best policy entrepreneur for BTT, among other things. The organization referred to the necessity to transfer knowledge outside OECD members in areas where the organization has a comparative advantage, where it holds a specific and almost exclusive expertise. Because the organization had been the developer of a model and the gatekeeper of this idea for over 30 years, BTTs were among the issues where the OECD definitely considered it had a comparative advantage. Moreover, the OECD took a leadership role in centralizing the information about assistance provided to transition economies from other international organizations as well as by countries on a bilateral level to ensure efficacy of global help and better uses of resources. The organization wanted to ensure it controlled the assistance relating to its areas of expertise, especially for issues where it had created international standards.



In 1991, the OECD expressed that multilateral institutions, more than national ones, were in a better position to provide technical assistance to transition economies to help them acquire the necessary knowledge and experience with regard to market economy requirements. This argument was supported by the fact that multilateral institutions do not have a bias toward a specific economic system and its experience in policy-making is more diversified (CCEET 1991a).

#### 4.1 Creation of a consensus and international norms

The promotion of an idea is easier if there is a perceived wide consensus that the policy is the best one and is used generally. The OECD communications frequently refer to the fact that there is a consensus about BTT and the OECD standard. Introductory or conclusive remarks of seminars or conferences often stated that BTT and the OECD model are widely accepted international norms. The formulation “it is generally agreed” or similar expressions are usually used to wrap-up conferences or to start discussions. This perceived consensus serves to identify potential problems or solutions in a market economy. In the taxation area, the OECD sees itself as vested with the mandate to develop global norms and standards to foster a better co-operation among states and increase economic wealth globally and this mandate has expanded to non-members in the 1990s (OCDE 1994a)

The consensus is either taken for granted or recognized as an OECD’s achievement. The acceptance of the OECD model among OECD countries is used to demonstrate a consensus and to expand this consensus among non-members. In addition the adherence of some non-members to this standard is provided as proof of this growing consensus. In 1994, the OECD noted that the programs’ achievements included:

...a recognition by non-member countries that tax treaties which follow the OECD model provide a favourable climate to promote cross-border flows of capital, labour and goods and services and provide a framework within which conflicts can be resolved. This in turn, has lead to an expansion of the tax treaty network between these countries and member countries. (CFA 1994b: 5)

The CFA outreach program was based on the fact that the organization saw its role as a rule-setter with regards to taxation (CFA 1995a). It was also clear that topics to be covered and discussed with non-members were to be those where the OECD had established rules or recommendations. In 1995, it becomes clearer that the CFA's role is to promote its ideas and recommendations, which support the wider objectives of the organization, such as the promotion of international trade and free movement of capital.

The larger objectives justifying the CFA's involvement was: "to promote the free flow of capital, goods, services and technology, to avoid unfair tax competition for cross-border activities between member and non-member countries to promote acceptable tax regime for inward investment in non-member countries and an equitable sharing of taxing rights between countries" (CFA 1994b: 6).

The CFA argued that the best way to achieve these goals was through the promotion of the use of "international tax rules developed by the OECD" (CFA 1994b: 6). Non-members could be encouraged to use these standards if they learned how to apply and interpret these norms. A uniform application and interpretation of these norms would reduce conflicts among tax authorities and consequently, would increase the usefulness of these standards.

The program's emphasis was also on issues where the CFA can measure concrete results, such as BTTs. The result of the promotion of BTT and the OECD model are easily quantifiable.

The OECD compiles and publishes the total number of BTTs as a demonstration that the OECD model is widely accepted as an international norm, even if some agreements can differ from the OECD model.

#### 4.2 Comparative advantage and expertise

The involvement of the CFA with regard to BTT and non-members was in accordance with the global strategy of the organization to focus help on specific and unique expertise the OECD could bring. This also meant that the involvement should not bring more work to the CFA and consequently, should be in accordance with what the OECD is already doing and where it has a comparative advantage. This probably explains why the OECD never wished to open discussion about the consequences of BTTs or alternatives for non-members. The involvement of the OECD needed to be in accordance and complementary to what it is doing, not modifying or adding to its work. Standards which had been developed for member countries were to be promoted to non-members with minimal adjustments.

The expertise of the organization also relies on the fact that it addresses many domains and offers a cross-sectional perspective. The expertise of the organization with regard to economic policy has been well known for many years, and it most likely explains in part why countries in transition to a market economy turned to the OECD for help. The expertise was elevated over any political or economic interest and was used to justify giving advice and training policymakers from these countries to good policymaking in the implementation of a market economy system.

Expertise can be confused with objectivity, particularly in the field of taxation. Therefore, expertise and neutrality reinforce one another. The OECD refers to the uniqueness of its expertise and history and its wealth of experience with regard to economic development to

convince that it is the one organization that is the better positioned to help countries in transiting from a controlled economy to a market economy and to become part of the global economic system.

The OECD said it is open to sharing experience in 1995 (OECD 1995b) but at the same time it points to specific topics such as transfer pricing, residence taxation and new financial instruments where non-members do not hold any specific expertise or resources to develop an expertise equivalent to that of the OECD.

OECD's permanent staffs working on taxation issues in the OECD are recognized as experts in their field. Participants in the CCET program agreed that the OECD's experts were very competent and easily accessible (CCET 1996b). Therefore, the OECD's and its employees' expertise is available and proactive and non-members rely on this expertise. The OECD had the characteristics of an "opinion leader" as defined by Rogers: "Opinion leadership is earned and maintained by the individual's technical competence, social accessibility, and conformity to the system's norms." (2003: 27)

#### 4.3 Neutrality

The concept of neutrality is associated within the OECD's work. The organization publishes reports and surveys, which are based on scientific methods for gathering information and analyzing it. The documentation aims at presenting facts about a country's economic position as objectively as possible. This work is probably central in the perception of the organization as a neutral actor. Therefore, the perception held by different actors, including business community, remained in the early 1990s and the organization worked out its involvement with non-members around that perception. In 1989, for the preparation of the 1rst

conference to be held with non-members the OECD notes that representatives from the business community require that many questions be considered in the neutral context of the OECD (CFA 1989a).

According to the OECD, its mandate includes the development of thorough research to base policy recommendations, again providing for objectivity. The fact that the OECD is largely known as a research and statistics organization can support the necessity to rely on its “objectively defined” recommendations. Recommendations concerning economic policy from this organization were promoted as neutral and based on one of its principal strengths, economic analysis.

The OECD affirms that it offers a neutral forum distinct from anything that could be offered by a country with specific interests and preferences. The organization states that it does not have any “parti pris” other than improving the functioning of the global market economy and increasing living standards globally as a consequence. It is possible that the OECD provides the pros and cons of many alternatives used in OECD member countries offering a full picture that member countries could not provide on a bilateral level. However, in the case of BTT and the OECD model, the OECD promotes this option directly. The diversity in alternatives promoted is certainly constrained within the concepts and the solution the organization has itself developed. Nevertheless, non-members seem to refer to the OECD for advice in part because they see the organization as neutral to some extent.

The organization is put in contrast to international organizations providing financial aid to support its neutrality. The OECD argues it is not in a negotiating position with non-members it wished to help. At the same time, we could say that there is some value for the organization to ensure predominance of its standards, because no financial aid is provided, it does not mean that

the organization does not have any interest in helping these countries. “However, the feature that was particularly stressed by officials, in each of the countries, was what they saw as the “objectivity” and “neutrality” of the OECD. By contrast with the other agencies, its analysis of the situation is unrelated to specific programmes and involves no conditionality; as one interlocutor put it: “we are not discussing something for the sake of something” (Group of the Council on Non-Member Economies 1993c: Chapter 3, par.11). The OECD is not providing a totally disinterested and humanitarian support, in any case, not with regard to BTT.

Therefore, even if this neutrality can be questioned, the fact remains that the organization reproduced and maintained this perception which could have allowed more non-members to rely on this organization for BTT. The organization also addresses this perception in the assessment of the CCET program:

It is noteworthy that the OECD has been perceived by recipient country officials as a disinterested party, owing to its institutional structure as a multilateral organisation which does not provide grants, credits, or other forms of conditional financial assistance; nor administer important Member country policies affecting CEECs/NIS economies, such as trade or immigration. Such perceived objectivity, basically institution in origin, has tended to endow OECD advisory opinions with considerable credibility with the representatives of the CEECs/NIS charged with implementing the transition to market economies. (Group of the Council on Non-Member Economies 1993c: Chapter 2, par.20)

Policy-makers’ perception of neutrality extends to the political realm, and neutrality is a useful characteristic to support a policy recommendation within a national political debate. In these circumstances, politicians are more likely to be convinced to follow a recommendation when it is perceived as objective and neutral.

## 5. RESERVATIONS ABOUT THE ROLE OF THE ORGANIZATION

Although the case study reveals a strong leadership role in diffusing the use of BTT and the OECD model to non-members, the relevance of the type of involvement was not unanimous within the organization. It is noteworthy that concerning the OECD's expertise, some member countries had some reservations about the help provided by the OECD to transition economies. "... Until recently, it had only modest exposure to the former Warsaw Pact countries and their problems.... solutions applicable to developed market economies may not be easily transferable to economies in transition... It has little experience of prescriptive work, as opposed to analysis and policy guidance" (Group of the Council on Non-OECD Member Economies 1993c: Chapter Two, par.4). Even if the fact that the OECD does not have a thorough understanding of controlled economies at this time and that some solutions may not be applicable to these non-members was mentioned in the assessment of the CCET program in 1993, this did not seem to modify the OECD's work in general at this time, nor the CFA specific work with regard to taxation and dissemination of its standards.

The role of the OECD in technical assistance was sometimes questioned by member countries (as in 1993 by the US Delegate) but the OECD's secretariat, and particularly the CFA, did not see any problems with this at that time and maintained that the council has approved technical assistance. Prior to 1990, the relationship between the OECD and non-members was mostly the OECD studying these other countries to get a better understanding. The technical assistance and training provided by the CFA was more intense than what was going on in other areas and this also made some other bodies of the organization uncomfortable with providing this kind of directive help.

## 6. CONCLUSION

The present chapter has demonstrated through a case study that the OECD has been central and autonomous in the diffusion of BTT in non-members in the 1990s. The influence of this organization does have to be part of the explanation of the wide expansion in BTT networks in non-members during that period. Chapter 5 demonstrated that the idea of BTT had been combined with the market economy and the potential double taxation problem. Furthermore, the OECD did not have to deal with adverse public sentiment since it kept the issue from any political debate by addressing it as a technical matter only. Chapter 6 demonstrates just how this idea was pushed to non-members in the 1990s. The OECD strategically organized the diffusion of the BTT idea through direct and indirect means to non-members in the 1990s. The case study supports the hypothesis:

### **2. The OECD strategically diffused the BTT policy and its synergy to non-OECD member countries in the 1990s.**

To understand why an idea is influential it is important to address how the idea becomes to be known to policy-makers and the role of a specific actor can be determinant in this regard. The case study demonstrates that the OECD took an active and leadership role and organized the diffusion of the BTT idea to non-members through a strategy which started in the early 1990s, when a window of opportunity had been opened. Formal means of transfer such as assistance, training of policy-makers in these countries and dialogue were set up. The organization widened its relationships with many non-members in the 1990s, from Central and Eastern European countries to Dynamic Asian Economies and Dynamic Non-Member Economies. Before 1990, the OECD studied non-members' economy, in the 1990s it was felt like the OECD needed to train non-members. The strategic promotion and diffusion of the BTT idea was very intense during



that second phase of relationship development. A third phase started around 1998. At this point, the OECD considered that it could not welcome all non-members to work with the organization, and it needed to focus on specific countries with which OECD members had a particular interest in developing relationships.

The case study also supports that not only direct means of promotion are important, but also that indirect means can help support the diffusion of an idea. The OECD promoted and reproduced its status as a “neutral expert”. The work on BTT and non-members was centralized within the CFA and its permanent staff which includes experts on this topic. Non-members perceived the organization as being neutral and holding a necessary expertise that they were looking for. This case study is in accordance with the expectations from the findings of studies about international organizations as bureaucracies. In order to maintain its moral authority and expert authority the OECD did include in its strategy the promotion of its neutrality, impartiality and objectivity. Also, the OECD constantly presented BTT as a norm on which there is an international consensus and therefore to be seen as “the defender of the values of the international community” (Barnett and Finnemore 2004: 23).

The case study supports the argument that the influence of organization such as the OECD’s need to be addressed more specifically in cases of international diffusion of ideas. The use of this case study to address the hypothesis has limitations. First, the case study focusing on the OECD does not allow the definite establishment that no other actor or policy entrepreneur had any role to play in the promotion or diffusion of the idea of BTT. The case study, nevertheless, points out to arguments, which support the primacy of the OECD’s role. While it is possible that officials from OECD member countries could have been convincing non-members to sign BTTs, there is no evidence that a single OECD member country was the first treaty partner of many non-

members. It is also clear in the case study that non-members rather turn to the OECD for advice because the relationship with the organization was not based on any financial negotiation. It is less likely that specific experts from OECD member countries could have had the same impact on their personal capacity. In the documentation analyzed for the case study, no other international organization is presented as working on or promoting BTT, except for the work of the UN. Nevertheless, a rapid comparison between the work of the OECD and the UN concerning BTT validates the fact that the OECD's work is an on-going and important project within the OECD while the UN's involvement is punctual and the UN did not take an active part in the diffusion of the idea.

Secondly, it is also possible that many actors at the international level were part of an epistemic community which promoted the idea through different forums and that the OECD was only a member of this epistemic community. However, again, the case study reveals that the OECD was a pivotal actor and not only organized the promotion of the idea, specifically to non-members but also fostered and controlled, to some extent, the networking around the idea.

Chapter 7 tests more specifically if the OECD caused the large increase in the number of BTTs signed in the 1990s. It will establish if there is a relationship between the contacts a country had with the OECD's ideas and the fact that this country signed more BTTs.

## **CHAPTER 7 – CONTACTS WITH THE OECD AND BTT NETWORK DEVELOPMENT**

### **1. INTRODUCTION**

The analysis provided in chapter 7 completes the dissertation's argument. It answers the fundamental questions: Has the OECD influenced non-OECD member countries to sign BTTs in the 1990s? Chapter 2 argued that the question "How can the role of the OECD with regard to the spread of the idea of BTT be theoretically captured and explained?" can be answered by using a theoretical framework based on ideas and diffusion. This theoretical framework incorporates the role of actors, such as an international organization, in establishing the conditions for an idea to be influential. The case study analysis conducted in chapters 5 and 6 supported the hypothesis formulated based on the theoretical framework according to which the OECD has created a synergy with the idea of BTT and other types of ideas and has strategically promoted this idea to non-members in the 1990s.

The in-depth descriptive analysis in chapter 3 permitted to answer the following questions: "How can the BTT spread in non-OECD member countries in the 1990s be described? Which countries have participated in this trend? What are the similarities and divergences among the BTT network developed by these non-OECD member countries?" This chapter identified different patterns of BTT network development and situated the phenomenon in time and space. The information provided by the case study analysis and the evidence of the patterns of BTT diffusion support the importance to consider the role of the organization in the explanation for the cluster of BTT signatures by non-members in the 1990s.

Some questions formulated in the introduction remain to be answered; What explains the major spread of BTTs in non-OECD member countries in the 1990s? How can we empirically establish the OECD's influence on non-OECD member countries? Has the OECD influenced the choices of these non-OECD member countries to sign BTTs? Concerning the first question, the analysis in this chapter considers some possible explanations (such as coercion and emulation). However, the dissertation does not aim at doing an exhaustive analysis of every potential explanation but rather to situate the influence of the OECD in the context of other variables. Since no study has been conducted about the factors explaining BTT network development in non-members before, this research incorporates explanations from findings of research on other policies.

The dissertation argues that the second question can be answered through a large-N statistical analysis to assess the relationship between the OECD and the signing of BTTs in every non-OECD member country. However, prior to this analysis, the influence of the OECD has to be quantified. In order to quantify the influence based on the information collected in the case study of the OECD's activities with regard to BTT, a variable CONTACTOECD is created. This variable measures the contact each country had with the OECD concerning BTT in the early 1990s. Then, to tackle the last question a large-N statistical analysis addresses the relationship between this variable CONTACTOECD and BTT network development (as described in chapter 3) for each non-OECD member country. Is it possible to argue that the OECD's promotion and teaching about BTT led to the signature of more BTTs by these countries?

This chapter first addresses the correlation between the level of contacts with the OECD and the development of a BTT network, and it compares this relationship with the correlation with other variables for which a relationship could be expected according to the diffusion literature. Secondly, the chapter incorporates contact with the OECD as a variable in an event-

history analysis. The answer resulting from this analysis is that the OECD has influenced non-members to sign BTTs and develop BTT networks in the 1990s. First, there is a correlation between the level of contacts with the OECD and the intensity of BTT network development in the 1990s and second, contact with the OECD considerably increases the likelihood of signing a BTT.

### 1.1 Contact with the OECD's idea brought into the analysis

Diffusion literature captures diffusion by looking at specific mechanisms that could theoretically influence policy choices. Many recent quantitative and more precisely event-history analysis addresses the importance of such diffusion mechanisms to explain the international spread of an idea (Elkins and al. 2006 concerning bilateral investment treaties; Simmons and Elkins 2004 about liberalization policies; Brooks 2005 concerning pension reforms). However, the mechanisms are usually seen as exogenous. Therefore, mechanisms are presumably at work if some conditions exist (Volden and al. 2008). For example, in many quantitative analysis, learning or emulation from peer nations or neighbours is presumed to be present when a country (or a state) chooses the same policy as a neighbor (Berry and Berry 1990) or peer (Brooks 2005).

The variables included in such analysis tend to take for granted that when particular conditions exist, some diffusion mechanisms are at work and explain the spread of the idea. According to Rogers (2003), communication channels are important elements of the diffusion of innovation. These channels are “the means by which messages get from one individual to another” (Rogers 2003: 18). Mintrom (1997) and Mintrom and Vergari (1998) highlight the importance to consider network and policy entrepreneur in diffusion but few studies consider these communication channels more precisely. The dissertation argues that it is necessary to go

beyond these diffusion mechanisms. Concerning the specific case of BTT, the OECD is more than the messenger. It is the developer, the guardian and the promoter of the idea of BTT.

The qualitative analysis in chapters 5 and 6 demonstrates how an international organization managed an idea and actively diffused it in order to facilitate reliance on this idea. The OECD's strategy relates to many diffusion mechanisms identified in the literature (imitation, socialization, learning and even some form of coercion or "soft power". Furthermore, the different diffusion mechanisms (learning, competition, coercion, socialization (or emulation)) are complementing rather than alternative mechanisms (Graham and al. 2008). It is necessary to look at the promotion of this idea to understand how the idea and its characteristics became known to policy-makers. As Bennett indicated, emulation explanation has to include a demonstration that "policy makers were aware of the policy adoptions elsewhere" (1997: 215).

This chapter will enhance the existing diffusion literature by demonstrating that an important variable is overlooked. To demonstrate empirically that the involvement of an international organization has an impact on policy choices of countries even outside a perspective of coercion, the dissertation provides a large-scale statistical analysis linking contacts with the information provided by the OECD about an idea and the adoption of the idea. If the OECD influenced the decision of non-member countries to sign BTTs, non-members, which have expanded their BTT network considerably in the 1990s are expected to have been in contact with the OECD with regard to BTT in the 1990s. The hypothesis according to which non-member countries with expanded BTT network development in the 1990s have not been in contact or had limited contact with the OECD will then be tested statistically in this chapter.

**Hypothesis 3: Given that hypotheses 1 and 2 are verified, non-OECD member countries, which had contacts with the OECD concerning BTT in the 1990s are more likely to adopt the BTT policy during that period.**

## 2. CORRELATION BETWEEN CONTACT AND BTT NETWORK

To complete the dissertation's argument according to which it is necessary to include OECD's efforts to promote BTT to explain the puzzle, a large scale statistical analysis including every non-OECD member country is elaborated. Since this analysis is a first effort to relate systematically contact with the OECD and the worldwide diffusion of an idea, preliminary analyses are relevant to tackle the usefulness of the variable. Therefore, before including the variable in the explanation of an event-history analysis, which will be done in the second part of this chapter, the correlation of the variable with the BTT network development will be done. The relationship will also be compared with the correlation between BTT network development and other variables supported by previous studies. The aim is to determine if there is a relationship between the contact a non-member country had with the OECD and the expansion of its BTT network. The dissertation does not argue that the OECD is the only influence for BTT, but that the OECD is very important, and that this kind of agency influence has been overlooked in earlier studies about diffusion.

From the general hypothesis 3, the correlation analysis will focus on the relationship between contacts with the OECD and the BTT network development in non-members in the 1990s. The hypothesis 3 has been delineated into the following hypothesis:

**Hypothesis 3.1: Contact non-member countries have had with the OECD concerning BTT are associated with the signature of BTTs by these non-member countries in the 1990s.**

The phenomenon has been isolated to the 1990s since, as demonstrated in chapter 6, there is evidence of a wide adoption of the BTT idea in non-members in the 1990 and the qualitative analysis in chapter 5 also indicates that the OECD has elaborated a promotion strategy for BTTs during those years. The purpose of this analysis is to address how contacts with the OECD are correlated to the increasing number of BTTs signed in the 1990s. Because BTTs are not a one time event and a country can sign numerous BTTs, three different measures of BTT network development will be analyzed as dependent variables.

## 2.1 Population – Count data analysis

The population includes every non-OECD member country in the years 1989 through 2000 for a total of 173 countries. Mexico, Korea, Slovak Republic, Czech Republic and Hungary are not part of the analysis, since they became OECD members in the 1990s. The exclusion makes the analysis stronger because as it has been demonstrated in chapter 5, to obtain membership, these countries had many contacts with the OECD, and they had to prove that they were following the OECD recommendations thus signing many BTTs during that period. Each of these countries had signed numerous BTTs before they became OECD members. For example, the Czech Republic had concluded 41 BTTs before it became an OECD member in 1995. As each



country requesting membership, the Czech Republic worked closely with the OECD prior to its accession to integrate itself in the world economy (OECD 1994h). All these new member countries do have high value on “contacts with the OECD” and BTT network development measures.

Many countries do not have any treaties (64 countries) but they, nevertheless, have been included in the analysis. The data indicates that these countries did not have any contact with the OECD. The fact that a considerable number of countries all have nil value on contacts with the OECD and on the dependent variables supports the argument of the dissertation. Nevertheless, including all these extreme values in the statistical analysis could blur the interpretation of the results. Where it is possible that the inclusion unduly alters the results, a test without these countries has been run.

## 2.2 Dependent variables

BTT is not a policy adopted only once. Therefore, the first treaty signed does not accurately depict the adoption of this policy, and the analysis should address the expansion of BTT network (Boehmke and Witmer 2004). As demonstrated in chapter 6, the increase in BTT signatures in the 1990s is primarily due to non-members, which began to sign treaties in the 1990s (Path 1) and non-members, which considerably expanded their BTT network in the 1990s but who had signed BTTs previously (Path 2). To capture all these patterns in the analysis, three dependent variables have been designed to assess the level of adoption of the BTT policy by non-members. The first dependent variable “NB” is the number of BTTs signed by each non-OECD member country in the 1990s. The total number of BTTs signed by non-OECD country ranges from 1 to 86 but this number for the 1990s is situated between 0 and 56 (mean 11,86).

It could be argued that this analysis should have been done in a dyadic form (as analysis of BIT has been done by Elkins and al. (2006); also Gilardi and al. (2009)). However, since the dissertation concerns only the cases of non-members, considering the units of analysis as dyads rather than countries would also mean that OECD member countries would have to be included in the analysis. Contacts OECD countries have with the organization would be included in the analysis, and this would lessen the explanatory power of the analysis for two reasons in particular. First, the form of contact is very different between OECD members and the organization and between non-members and the organization. While OECD members participate to some level in the organization activities, they do so in the form of supporting development of these activities or recommendations. A relevant unique measure of contact could not be developed. Second, the dissertation addresses the case of non-member countries, specifically to put aside the possibility that these countries influenced decision-making within the organization in the first place. This circularity could not be avoided if OECD member countries were included in the analysis. There are few studies concerning diffusion in developing countries and their particularities (Marsh and Sharman 2009) and this may justify the recourse to different features for the analysis. However, considering BTT as a unilateral policy has limitations, such as disregarding the possibility that BTT partners are also a relevant source of diffusion.

Since BTTs can be signed repeatedly, the expansion and the intensity of this expansion is valuable information to understand the phenomenon. The second (AVER1990) and third dependent variables (DIFFAVER) address the intensity of BTT network development. AVER1990 is the annual average number of BTTs signed by non-members in the 1990s. Countries which have intensively signed treaties in the 1990s will have a higher AVER1990. AVER1990 varies from 0,13 to 7 (mean 1,69). While these variables are relevant for the actual phenomenon, these measures could also be appropriate in other analyses focusing more on expansion of policy rather than its adoption.

DIFFAVER is the differential between the annual average number of BTTs signed before 1990 and in the 1990s. This variable is essential to circumscribe the analysis to the period in question, the 1990s. It is possible that a country had a considerable growth rate in the 1990s, and the variable AVER1990 would be high but since this country had started to sign BTTs before and maybe had a similar growth rate considering only the variable AVER1990 would lead to a wrong conclusion about the impact of the independent variable. If a country had an important BTT network development prior to 1990 but just continued signing BTTs in the 1990s, then it is probably not because it had contacts with the OECD. DIFFAVER has been designed to take into account the increase or decrease in the rate of network development in the 1990s. This variable highlights a particular development path in the BTT network development and countries which have developed BTT network prior to 1990 and slowed down the development in the 1990s will have a negative DIFFAVER. Countries which had developed a BTT network before 1990 but continued to do so more intensively in the 1990s will have a higher DIFFAVER. For countries which signed their first BTT in the 1990s, DIFFAVER will necessarily be a positive value. DIFFAVER varies from -1,46 to 7 (mean 1,16).

As the information in Appendix 9 reflects, these three variables are correlated but do measure something different and present some variance. Therefore, it is useful to keep these three dependent variables in the analysis because it allows a better measurement of the impact of contacts with the OECD in the 1990s.

### 2.3 Independent variables

Although Brooks (2005) indicates that soft power (from the World Bank in her study) can not be adequately incorporated into a quantitative analysis, the dissertation argues that it is

possible to develop a variable that could be included to ascertain potential soft power by international organisation. The variable CONTACTOECD has been constructed on the basis of OECD's official documents analysed for the qualitative analysis of chapters 5 and 6 of this dissertation. This variable is based on the level of contact each non-OECD member country had with the OECD concerning BTT more or less directly. Since it can not be affirmed that these contacts have had instantaneous impact on BTT signature, the negotiation, finalization and signature time need to be taken into consideration. This process can take many months. Therefore, documents of the OECD were analyzed to established contacts with each country and the OECD with regard to BTT from 1990 to 1996 even if the impact on the BTT network development is measured for the period 1990 to 1999. The variable is determined on a cumulative basis for this analysis and it takes into consideration each country's participation in seminars, training or conferences under the responsibility of the OECD which concerned BTT. Variable CONTACTOECD ranges from 0 to 85 (mean 4,66). The table 6 explains the value that has been accorded to the different types of OECD events.

Table 6. Values of events for the establishment of the variable CONTACTOECD.

<b>Program</b>	<b>BTT content</b>	<b>Value</b>
Regional	Some	2
In-Country	Some	3
In-Country	All	5
Workshop/Seminar/Conference	Some	1
Workshop/Seminar/Conference	All	3

The establishment of these values is somehow subjective therefore tests have been done to ensure that the determination of the variable is relevant. Alternative tests used a different value

attribution mechanism. A discrete variable was established based on the level of contact, from 0 for countries with no contact to 3 for countries with high levels of contacts. Another variable used different values to provide for higher values attributed to in-country program for example. Results were almost identical with these two alternative variables. Therefore, even if the determination of CONTACTOECD is based on a subjective evaluation, results provided by the analysis are strong.

## 2.4 Other variables

It is useful to compare results with other possible explanatory variables in order to situate the influence of the OECD in its context. The comparison of a strong relationship between CONTACTOECD and the dependent variables and the relationship with other independent variables can support or negate the importance of CONTACTOECD. The relationship with other specific variables has been included in the analysis on the basis of the results of previous researches according to which we could expect other explanatory variable to be related to BTT network development.

These are not control variables per se because the first part of the analysis is based on correlation among variables and not the application of a model in order to explain the phenomenon. Explanatory variables are analysed to compare the correlation existing between these variables as expected by some studies and the DV. This first part of the analysis can support the need for further analysis.

### *2.4.1 Economic conditions*

A conventional approach explains policy convergence by nation states which adopt similar policies in reaction to similar economic pressures (Bennett 1991). Therefore, economic variables are expected to be related to the adoption of some policies.

A certain level of development can be a prerequisite to signing BTTs in order to have the basic resources in place before negotiating this kind of agreement. This argument would lead to the hypothesis that higher living standards is associated with a larger BTT network and therefore that countries having higher living standards have entered into more BTTs in the 1990s. If a higher standard of living is deterministic of more BTTs, then the GDP per capita would be associated to NB, AVER1990 and DIFFAVER. To address this possibility, the analysis includes the variable GDPMEAN in the analysis. GDPMEAN is the mean of the gross domestic product per capita for 1990s for each country. This variable allows establishing if the standard of living is related to BTT network expansion in non-members.

The variation in the standard of living has also been added to the analysis to account for the impact of an increase or decrease in the living standard. GDPVAR is the variation in the gross domestic product in the 1990s for each country. The analysis will allow determining if higher standards of living (GDPMEAN) or an increase in the living standards (GDPVAR) is associated with BTT network development.

As it has been demonstrated in chapters 5 and 6, the OECD related BTT to FDI. The organization promoted the idea of BTT as a relief to possible double taxation which is an obstacle to FDI. FDI could create a pressure for a country to sign a BTT with the country of residence of

an important investor. A variable accounting for the net inflows as a percent of GDP (FDI) has therefore been included in the analysis to ascertain the relationship between BTT and FDI.

Simmons and Elkins (2004) present evidence supporting that transition to economic liberalization is clustered in space and time and waves of restriction removal can be seen in the mid-1990s. Particular policies have been adopted during this period and the reliance on BTT can be seen as one of these policies. Acknowledging that there has been a paradigm shift in many countries in the end of the 1980s and early 1990s does not however explain why countries adopt a specific policy or program. In fact, it may be because the policy has been perceived as one of the important components of economic liberalization. The dissertation tries to highlight the reason why non-members came to choose a particular policy (BTT) as one of the tools for economic liberalization.

The qualitative analysis in chapter 5 demonstrated that the OECD promoted BTT as a necessary tool for market economy. The argument of the dissertation is not that countries that liberalize sign BTTs but it is a question of why countries whether they were transiting to a market economy or already had a market economy used BTTs as often in the 1990s. The argument of the dissertation is that they used it because the information they based their decision on was formulated in such a way as to take for granted that this tool was necessary for all countries who have an open economy.

Nevertheless, the analysis will address the relationship between the level of BTT network development and the level of openness of a country's economy. The existence of a relationship between these variables would support the need for further investigation. Two variables have therefore been added to the analysis. OPENNESS is the total trade (export plus import) as a percentage of GDP. OPENVAR is the variance of OPENNESS for the period 1990 to 1999.

In the course of this dissertation, pressures from a country on another country to sign a BTT will not be addressed even if these pressures could influence the decision to sign a BTT with this country. This could be done through case studies of particular countries. The analysis nevertheless includes one variable that could be related to explain why a country would pressure another one to sign a BTT. Market potential in some countries could bring some countries to desire a BTT with another country and therefore to lobby intensively to conclude such a BTT. To account for the fact that other countries could convince non-members to sign a BTT with them in order to access a considerable market, the variable POPULATION is included in the analysis. If POPULATION is related to BTT network development then additional investigation should further address the hypothesis that potential market access could be linked to pressures to sign BTTs.

#### *2.4.2 Political Conditions*

Since the analysis focuses on non-OECD member and therefore a wide range of countries, from less developed, to in development to emergent countries, political liberties is more relevant as a political variables than partisanship. POLLIB represent the level of political liberties in each country. The variable ranges from 1 to 7, 7 being the countries where political liberties are respected the most.

Partisanship might be more relevant in explaining diffusion among OECD countries, because their political institutions have been developed over time and may have built in the class cleavage and therefore represent in a consistent manner different ideologies within the countries (Milner and Judkins 2004). Partisanship is less relevant for an explanation including such a large number of countries (173 countries) that are not OECD member countries.



### 2.4.3. Coercion

An argument could be made that countries that receive financial aid or grants (particularly from international organizations such as the World Bank (“WB”) and the International Monetary Fund (“IMF”)) are coerced to sign BTTs in order to facilitate international exchanges. Levi-Faur (2005) also indicated that a form of top-down explanation for diffusion might include international institutions as sources of change. As he expressed to explain the rise of regulatory capitalism: “Their financial power and the terms and conditionality that they enforce, as well as their monopoly on advice to governments, serve to explain systemic change...” (Levi-Faur 2005: 25).

According to Dobbin, Simmons and Garrett (2007: 455), there is no clear evidence of the efficiency of conditionality, and Simmons and Elkins’ (2004) study demonstrates that there is no external political pressure from the IMF on countries to liberalize their economy. However, Elkins and al. (2006) indicated that even if the signature of Bilateral Investment Treaties is probably not a condition per se for IMF financial support, there might be more subtle pressures since BIT are suppose to attract foreign capital. This argument is also adequate in the case of BTT. BTT is a policy associated to “good practices” for a market economy system. Even if other international organisations such as the WB or the IMF do not promote directly BTT, their borrowers can perceive that by signing BTTs they reinforce the signal that they are broadly adopting market economy policies.

According to Marsh and Sharman : “Coercion is most likely to be important in explaining diffusion and transfer in the developing world, but a large majority of the empirical work in this field ignores countries outside the OECD, ...” (2009: 272). Other studies Brooks (2005) have

found that some form of coercion from the World Bank could explain the reform of pension privatization.

Coercion is often referred to as a carrots and sticks mechanism used by international organizations who grant loans to countries on specific conditions (Braun and Gilardi 2006). Therefore in many researches, IMF and WB loans are included as an explanatory variable. A relationship between the adoption of an idea and the fact that it is an idea that has been supported by these international organizations is assimilated to pressure from these international organisations to adopt such a policy in order to be granted a loan. Two variables have been included in the analysis of correlation with the DV, WBLOAN is the net financial inflows from the World Bank as a percent of GDP and IMFLOAN is the use of IMF credit as a percent of GDP.

Empirical analysis addressing potential “soft power” exercised by international organisation on some countries is limited. Orenstein (2008) questions the relevance to use WB loan as the variable to examine WB’s influence since it disregards soft power and therefore underestimate this transnational actor’s influence. The dissertation tries to incorporate a variable which captures the level of contacts a country has had with an international organization concerning a certain area of expertise.

The inclusion of the contact with the OECD is based on the assumption that learning does not only take place horizontally but also that top-down explanation can uncover influences for learning. Top-down explanation therefore do not only account for coercion but also more generally for learning.

Appendix 10 provides details concerning each variable and Appendix 11 presents the complete data set for the analysis.

## 2.5 Analysis and results

The Kendall's rank correlation TAU has been used as the correlation coefficient to measure the strength of the relationship between CONTACTOECD and NB, AVER1990 and DIFFAVER. Kendall's Tau represents a probability that increase (decrease) in variable is associated with an increase (decrease) in another variable. Kendall coefficients have also been established to measure the strength of the relationship between the other independent variables; GDPMEAN, GDPVAR, POPULATION, OPENNESS, REGION, POLLIB, FDI, WBLOAN and IMFLOAN, and the dependent variables.

The use of the Kendall coefficient has advantages for the present analysis. First, this non-parametric test does not require a normal distribution of variables. In the present analysis, CONTACTOECD and NB, AVER1990 and DIFFAVER do not have a normal distribution. A regular regression even using a logarithm would give results difficult to interpret. Second, because it measures convergence and divergence among each pair of observations, it is less sensitive to extreme values than Pearson's  $r$ .

The null hypothesis is that there is no relationship between contacts a country had with the OECD in the 1990s and the BTT network development of this country measured by the number and the growth rate of BTT network in the 1990s. The alternative hypothesis is that a large number of BTTs and intense network development is associated with more contacts with the OECD concerning BTT directly or indirectly.

The results presented in tables 7 and 8 clearly indicate a strong relationship between CONTACTOECD and the three dependent variables. First, table 7 presents the results of the analysis for 173 countries. Probabilities to observe higher NB when CONTACTOECD is increasing is significant ( $t=0,563$ ;  $p<0,001$ ). This relationship is also very strong for AVER1990 ( $t=0,570$ ;  $p<0,001$ ) and DIFFAVER ( $t=0,471$ ;  $p<0,001$ ). The null hypothesis where NB, AVER1990 and DIFFAVER would be totally independent from CONTACTOECD is rejected. Therefore, in situations where countries have more contacts with the OECD regarding BTT from 1990 to 1996 probabilities to observe a more intense development of BTT network in the 1990s are high.

As for the other independent variables, the standard of living does not seem to have any significant relationship with BTT network development. Population level seems to have a relationship with the BTT network development in these countries but this relation is weak. More population is associated with the probability of having signed more BTTs in the 1990s ( $t=0,306$ ;  $p<0,001$ ), also to more chances of having an intense BTT network development in the 1990s ( $t=0,282$ ;  $p<0,001$ ) and finally to more chances of having accelerated the network development in the 1990s ( $t=0,143$ ;  $p<0,01$ ). Therefore, while the population level is associated with BTT network development in the 1990s, the relationship is weaker than the one with CONTACTOECD. Countries with a greater population can represent an attractive market for other countries which would have an interest in entering into a BTT negotiation with this country. The impact of other countries in pushing some countries to sign BTTs would need to be developed in further studies.

According to these results, there is no relationship between the level of openness of a country's economy and the level of FDI with the signature of BTTs and the development of a BTT network in the 1990s. Contrary to what could have been expected, more open economy is

not associated with more BTTs or more developed BTT networks. The level of political liberty is not significantly associated to any of the three dependent variables measuring BTT network development.

Also, loans from the WB are not associated to higher DVs. In fact the relationship is negative, therefore more loans from the WB (as a percent of GDP) is significantly associated to less BTTs being signed ( $t = -0,192$ ;  $p < 0,01$ ), with a lesser average of BTTs in the 1990s ( $t = -0,171$ ;  $p < 0,01$ ) and with a decreased level of BTT network development in the 1990s ( $t = -0,183$ ;  $p < 0,01$ ). There is no significant relationship between loans from the IMF and BTT network development. These findings seem to demonstrate that coercion by lending international organisation can not explain BTT network expansion in non-members in the 1990s.

Table 7. Kendall's TAU (all)

<b>Variable</b>	<b>Observations</b>	<b>NB</b>	<b>AVER1990</b>	<b>DIFFAVER</b>
CONTACTOECD	173	0,563***	0,570***	0,471***
GDPMEAN	173	0,045	0,041	0,058
GDPVAR	173	-0,036	-0,040	-0,054
POPULATION	173	0,306***	0,282***	0,143**
OPENNESS	138	0,008	-0,010	0,010
FDI	142	0,026	0,029	0,040
POLLIB	157	0,043	0,004	0,015
WBLOAN	149	-0,192**	-0,171**	-0,183**
IMFLOAN	155	0,063	0,076	0,034

\*  $p < 0,05$ ; \*\*  $p < 0,01$ ; \*\*\*  $p < 0,001$

The conclusion that CONTACTOECD has a strong relationship with the dependent variables could be biased because there are 64 countries which do not have any treaties and never had any contact with the OECD regarding BTT. To verify the impact of the inclusion of these countries in the analysis, further tests have been done on the population of non-member countries who have signed at least one BTT. Results are presented in table 8. CONTACTOECD remain

significantly associated to the dependent variables. Therefore, even when countries which did not have any treaties and which did not have contacts with the OECD are excluded from the analysis, the relationship between the dependent variables and CONTACTOECD remains strong. For countries who have signed at least one BTT, there is an important probability that this country signed more BTTs and more intensively developed a BTT network when it has had more contacts with the OECD. The level of population remains associated with the number of treaties being signed in the 1990s and with AVER1990. The level of political liberty is then positively associated with the number of BTTs signed in the 1990s indicating that countries with a higher level of political liberties is related to more BTTs and increased BTT network development in the 1990s. World Bank loan as a percent of GDP is still negatively associated with all three variables.

Table 8. Kendall's TAU (excluding countries with 0 BTT).

<b>Variable</b>	<b>Observations</b>	<b>NB</b>	<b>AVER1990</b>	<b>DIFFAVER</b>
CONTACTOECD	109	0,491***	0,505***	0,457***
GDPMEAN	109	0,073	0,068	0,073
GDPVAR	109	0,012	-0,022	-0,072
POPULATION (milliers)	109	0,164**	0,146**	0,041
OPENNESS	99	0,022	-0,006	0,014
POLLIB	105	0,155*	0,084	0,064
FDI	98	0,057	0,059	0,070
WBLOAN	100	-0,279***	-0,253***	-0,244***
IMFLOAN	104	-0,029	0,004	-0,003

\* p<0,05; \*\*p<0,01; \*\*\*p<0,001

These results clearly demonstrate that contacts non-member countries have had with OECD concerning BTT is strongly associated with the signature of BTTs by these non-member countries in the 1990s and the intensity of BTT network development in these countries, confirming hypothesis 2. These results support the importance of considering the influence of an international organization in the diffusion of an idea to explain the diffusion and the role of ideas. Nevertheless, time is not considered in these results and it is therefore impossible to say if prior

contact led to subsequent BTT signature. The following event-history analysis will further that investigation to see if prior contacts with the OECD led to BTT signature afterward.

### 3 EVENT-HISTORY ANALYSIS

The previous correlation examination in the first part of this chapter did not consider the sequence of events, the event-history analysis will allow determining if prior contact with the OECD is linked to subsequent BTT signature. The event-history analysis will include contact with the OECD as one variable in two existing diffusion explanations, emulation and coercion.

The following event-history analysis is an attempt to incorporate an agency dimension to this kind of analysis of diffusion which is usually more structure-driven (Marsh and Sharman 2009). As the qualitative analysis demonstrated in chapters 5 and 6, an international organisation can be an important actor in the development and promotion of an idea. According to Mintrom and Vergari, “Policy entrepreneur who can manipulate the resources in policy networks will be the most able to make convincing arguments on behalf of the policy innovations they are promoting” (1998: 130). If the policy entrepreneur has the financial resources, expertise, control over a network, then the policy entrepreneur is central in the explanation. The dissertation innovates by incorporating a variable contact with the OECD in the empirical analysis. The dissertation deepens the understanding of the diffusion mechanism by allowing for the integration of the influence of an international organisation into the analysis.

Chapters 5 and 6 have demonstrated how the OECD played a role of teacher for BTT in the early 1990s. Therefore contact with this teacher could explain how policy makers from particular countries learned about the idea, therefore facilitating the adoption of the idea.

Learning is a mechanism which is intrinsically linked to competition and emulation since countries learn from what competitors are doing as well as about the norms adopted by other countries. Simmons and Elkins (2004) have referred to mechanisms such as new information and altered payoffs to connect learning with what others are doing. Missing from their analysis is the means or channels through which learning can take place, such as the OECD in the case of BTT. Therefore, an international organisation can be seen as the transmitter of this information, the teacher of norms others (Finnemore 1993) have adopted or are adopting.

Event-history analysis is used to make inferences about the influence of covariates on the occurrence of an event. In this analysis, we consider the risk of a country to sign its first BTT once it has been in contact with the OECD. This analysis allows comparing cases (countries) who have signed a BTT and others who have not as well as cases where countries have been in contact with the OECD and others who have not (Box-Steffensmeier and Jones 2004). Event-history is well suited for this kind of analysis since it does not consider that events occur in every case by the end of the period analysed as regression-based methods do. Therefore, event-history analysis takes into consideration cases which are right-censored, i.e. observations for which no event has occurred by the end of the 1990s in our case.

As indicated by Busch, Jorgens and Tews (2005), policy diffusion can not be explained by a simple mechanism. In their study, they distinguish three groups of factors; policy characteristics, dynamics of the international system and domestic factors. The policy characteristics can explain why an idea is adopted while others are not, in the case of BTT, the characteristics have been presented and analyzed in chapter 4. Among these characteristics were the features of BTT, the program and the link with the three other types of ideas, paradigm, problem and public sentiment. The dominant paradigm to which BTT have been associated is market economy and among the problems BTTs were solving was double taxation. Also, BTTs



were seen as a technical matter therefore no public concern has been raised against such a policy. BTTs were also well packaged to render it less complex and easier to adopt.

Dynamics of the international system is identified as another group of factors which could include mechanism such as emulation, coercion, communication channels. These channels can be informational (Simmons and Elkins 2004) or actors such as policy entrepreneurs (Mintrom 1997). Following the analysis in chapter 6 which demonstrates the involvement of the OECD with regard to BTT and its strategic promotion of the idea, this chapter will address how contacts with the OECD can explain the signature of a first BTT in the 1990s.

Concerning the third group of factors, domestic factors, while some factors will be included in the event-history analysis, such as political liberties, GDP, religion, language and population, it will not be possible to address in domestic actors or interest or national policy style in more details for each country. A case study of some countries would be more appropriate for the consideration of such variables.

### 3.1 The event: Signature of the first BTT

In the analysis, the signing of the first treaty is the event non-members are at risk of experiencing during the 1990s. This analysis will examine if, once a country has been in contact with the OECD concerning BTT this country has more chances to sign its first BTT. As we have seen in chapter 6, two major BTT network development paths are responsible for the large increase in the number of BTTs signed in the 1990s, one includes countries which have started to sign BTTs in the 1990s and the other includes countries which have intensified their BTT network development in the 1990s. The correlation analysis has included three variables to account for different patterns of BTT network development. The event history analysis will

concern only the first treaty for each non-OECD member country which had no BTT before 1990. Therefore, countries in the second path are excluded since their first treaty was signed prior to the period analysed. Only countries “at risk” of signing their first BTT in the 1990s will be observed.

It is not possible to parameterize the process of BTT signature. Putting aside covariates, it is not possible to establish what the survival time before signing a BTT would look like based only on time-dependency. In such a case, the Cox proportional hazards model is often used in social science research. “This model allows one to estimate the effects of individual characteristics on survival time without having to assume a specific parametric form for the distribution of time until an event occurs.” (Box-Steffensmeier and Jones 1997: 1432)

Data are constructed on a yearly basis for the period 1989 to 1990. Yearly observation in this case is sufficient and relevant since the signature of a BTT is usually preceded by a negotiation period of many months (Box-Steffensmeier and Jones 1997). However, gathering data on a yearly basis creates ties, i.e. the occurrence of more than one event at the same time. These ties have been handled through the exact method in the analysis.

### *3.1.1 Hypothesis*

The correlation analysis presented in the first part of this chapter has determined that hypothesis 2 according to which “Contacts non-member countries have had with the OECD concerning BTT is associated with the signature of BTTs by these non-member countries in the 1990s” is confirmed. In order to further the understanding and render a more precise analysis, hypothesis 2 has been delineated more precisely to address the sequence of event. According to the null hypothesis for the event-history analysis, a country which has had contacts with the

OECD in the early 1990s is not more likely to sign its first treaty in the following years. The event-history analysis will test the following hypothesis:

**Hypothesis 3.2: The risk of signing a first BTT is higher for Non-OECD member countries which have been in contact with the OECD in previous years.**

## 3.2 Variables

### *3.2.1 Dependent variable – First BTT is the event*

The dependent variable is developed around the signature of the first BTT by a country which is conceived as the event. The event-history analysis will address the impact of covariates on the probability of the event occurring in the period, 1990 to 2000. “In event-history analysis, the goal is to explain a qualitative change (an “event”) that occurs in the behaviour of an individual at a particular point in time.” (Berry and Berry 1990: 398). In this discrete time model, the period of analysis is divided in years. The risk set is every country which is “at risk” of signing their first BTT from 1989 to 1999 (108 countries). Therefore, this sample excludes every country which has already signed a BTT before 1990 (65 countries). Once a country signs its first treaty during 1990s, it is taken out of the sample for future years, resulting in a decrease in the risk set every year (risk set – 982 times at risk). The variable to be explained in this analysis, is the probability that a country will experience the event (sign its first BTT) at a particular time.

Because countries can sign their first BTT only once in the period, the variance in the dummy variable is limited and the percentage of observation where the event is experienced is expected to be low. Berry and Berry (1990: 399) mention that in a “pooled data set consisting of “at risk” of adoption, the percentage of cases scored adopt can be less than 5 %”. In their study of

state lottery adoption, only 3 % of the observations scored as adoption. In the present analysis, observations where countries sign their first BTT in the 1990s represents 3,7 % of the risk set (36/982). Appendix 12 provides the complete data set.

### *3.2.2 Explanatory variables*

The analysis will address the explanatory power of the variable CONTACTOECD by incorporating this variable in two diffusion explanations developed and supported by previous studies, an emulation model, and a coercion model.

#### Contact with the OECD

Some recent studies have demonstrated how an international organisation such as the OECD can be an important actor in “creating the world we live in” (Porter and Webb 2004). As discussed in Dobbin and al. (2007) the role of international organization such as World Bank in the diffusion of specific policies goes beyond coercion or conditionality for financial aid. In the case of liberalization policies, the World Bank has contributed to the debate by providing sound evidence of the benefits of such policies. Therefore, the role of international organization needs to be included in empirical analysis of policy diffusion. The dissertation argues that the study of the OECD provides evidence of the important role the organisation played in developing and promoting the idea to a specific audience, the non-members. CONTACTOECD is a dichotomous variable in the event-history analysis. The variable is coded “1” for countries which have been in contact with the OECD with regard to BTT. This coding is based on the variable developed in the correlation analysis therefore for each country which has had any contact with the OECD the variable in this event-history analysis is coded “1” and “0” otherwise.

## Emulation

Socialization can explain why a country adopts what it feels has become a norm and therefore will emulate policies adopted by peers, neighbours or countries from the same region. Emulation is assimilated to socialization and social learning. This mechanism of socialization can change the preferences of the countries and therefore explain why they would want to adopt a particular policy at a particular time (Graham and al. 2008). This argument is in accordance with the main argument in the dissertation focusing on how the OECD has been promoting a product and demonstrated how it is in the interest of countries to develop a BTT network. The qualitative analysis in chapters 5 and 6 demonstrated how the OECD used rhetoric and ideology as part of socialization (Dolowitz and March 1996). The inclusion of contacts with the OECD in the analysis is therefore necessary if we wish to understand the origins of the emulation by countries.

Literature on diffusion generally includes emulation among neighbouring states (Berry and Berry 1990) or countries (Weyland 2005; Simmons and Elkins 2004) and event-history analysis are used in studies addressing the international diffusion of ideas among neighbours. According to Boehmke and Witmer, countries “look first at what nearby states (or countries) are doing, for reasons of political and demographical similarity, convenience, political networking...” (2004: 40). To be aligned with these previous researches, the analysis includes the information related to the signature of BTT by neighbour countries which are not OECD member (NEIGHBOR). NEIGHBOR variable allows determining if BTT signature by a NEIGHBOR non-member countries increases the probability that a country will sign its first BTT in subsequent years. A dichotomous variable is created where “0” means that this country does not have any neighbour countries who signed its first BTT and “1” indicates that at least one neighbour country has signed its first BTT in previous years.

Non-members could also emulate policies of neighbour which are OECD member countries. Since all OECD country have a BTT network, the variable OECDNEIGHBOUR indicates the presence of an OECD member as a neighbour (OECD NEIGHBOUR).

To account more generally for emulation among countries within the same region, the variable region is also a dichotomous variable and “1” indicates that more than 20% of the countries in the region have signed a BTT in the previous years, “0” otherwise. A dichotomous variable is used to ease the interpretation of the results.

Brooks (2005) has also indicated that emulation can occur among peer groups. Elkins and al. (2006) and Simmons and al. (2006) use three measures for cultural peers: religion, colonial heritage and predominant language. “These measures capture an important possibility: that BITs result more from socially constructed emulation of policies of important reference groups than from hard-nosed economic competition.” (Elkins and al. 2006: 831). In the analysis of bilateral investment treaty by Elkins and al. 2006, the variable cultural peer was not significant to explain bilateral investment treaty signature by host countries. In the current analysis, the variable PEER was designed as a dichotomous variable to simplify its interpretation. PEER provides information regarding the prior adoption of BTT by a country in the same PEER group which were determined on the basis of language and religion. PEER is a dichotomous variable where “1” indicates that more than 20% of the countries in the peer group have signed their first BTT in the previous years and “0” otherwise. For the variable REGION and PEER, the level of 20% has been fixed on the basis of the distribution and tests were done on a higher and a lower level to confirm the adequacy of using this level.

## Coercion

According to Marsh and Sharman: “Coercion is most likely to be important in explaining diffusion and transfer in the developing world, but a large majority of the empirical work in this field ignores countries outside the OECD, ...” (2009: 272). The literature about coercion in explaining diffusion has been presented in the previous correlation analysis. To account for the possibility that international organization granted conditional loans to countries have coerced these countries in adopting specific liberalization policies such as BTT, loans from the WB and the IMF has been added to the analysis.

WB and IMF are two dichotomous variables. WB is coded “1” when a country has received a World Bank loan in previous years and IMF is also coded “1” when countries have received a loan from the IMF in previous years.

### *3.2.3 Control Variables*

GDP represents the 1996 GDP per capita (log) to account for the possibility that countries with higher living standards might have more resources to enter the process of BTT negotiation and implementation. POP is the 1997 population (log) to account for the fact that countries with greater population might be more attractive because of the size of the markets they offer to other countries which would push for a BTT to be signed.

To account for cultural factors, religion and language have also been included as control variables. Both variables have been designed as dichotomous variables. RELIGION is coded “1” when the country primary religion is a Christian religion and “0” otherwise. It could be argued that countries for which the primary language is French or English are more easily included in

international cooperation or coordination efforts and other countries are less likely to follow the same patterns. The variable LANGUAGE is coded “1” for countries for which the primary language is French and/or English, and “0” otherwise.

Missing from this analysis are variables related to foreign direct investment, level of openness and level of democracy. These variables could not be included in this analysis since there were too many missing data due to the lack of information concerning many countries in the data set. Since these variables were not associated with the number of BTTs signed in the 1990s neither with the intensity of BTT network development in the first part of this chapter, it is probable that the inclusion of these variables would not invalidate the results of the EHA.

### 3.3 Analysis and Results

The Cox proportional hazards model is commonly used for survival data. The Cox model is a non-parametric model and therefore is relevant for the purpose of the analysis in the dissertation since the assumption for the use of a parametric model are not met, particularly because it is not possible to posit the baseline hazard function in advance.

Tests have been done to confirm that proportional hazard assumptions are met. Kaplan-Meier survival curves have been done for each dichotomous covariate. This test demonstrates that the hazard rates' curves are parallel providing evidence in favour of the proportional hazard assumptions for the effect of each variable. While this test is not conclusive for two control variables which are not dichotomous (GDP and Population) a second event-history analysis has been run without these two variables and the results were similar and still significant.



The Cox model does not have an intercept and when estimating the model parameters, the concern is only on the ranks of the survival times. The fact that the analysis is based on yearly observation (discrete time data) produces tied data, ie events occurring in the same year. Because the Cox model analysis is based on ordered duration times a correction has to be done for tied data. The exact discrete method has been used to correct for tied data.

According to the test for the variance inflation factors (VIF) there is no problem of multicollinearity among the independent variables (Appendix 13), each factors being less than 4.

The results presented in table 9 confirm the relevance of emulation and coercion in explaining the signature of a first BTT in the 1990s with and without the variable CONTACTOECD. Also, it indicates that it is useful to consider the contacts a non-member country had with the OECD as a factor explaining the BTT spread in the 1990s. The hazard ratio are the rate at which an event will occur, therefore ending the survival time, given that the event has not occur before this time (Box-Steffensmeier and Jones 1997).

Before the incorporation of CONTACTOECD in the emulation model, the significant variables are NEIGHBOR, PEER, GDP and Language. Emulation among neighbours is confirmed in this analysis (hazard rate: 8,407;  $p < 0,001$ ). The fact that a neighbour (non-OECD member country) has signed a BTT in previous years increases greatly the likelihood that a country will sign its first BTT. In that situation, the risk is 7 times higher. Surprisingly, the fact that at least 20% of PEER countries have signed a BTT results in a reduction of the likelihood that a country will sign its first BTT (hazard rate: 0,395;  $p < 0,001$ ). Therefore in this situation emulation among peers can not explain why countries started signing BTTs.

While GDP per capita was not correlated with the number of BTTs signed in the 1990s and the intensity of BTT network development in the previous section of this chapter, higher GDP per capita increases the likelihood that a country will sign its first BTT in the 1990s (hazard rate: 3,421;  $p < 0,001$ ). This conclusion is reached for GDP in every model but to a lower level of significance in the coercion model. Also, it is interesting to note that countries with English or French as their primary language are less likely to sign their first BTT in this period in every model.

The incorporation of CONTACTOECD in the emulation model increases the explanatory power of the model. While emulation among neighbour remains significant and high (hazard rate: 9,233;  $p < 0,001$ ) when incorporating CONTACTOECD in the model, this new variable is also high and significant (hazard rate: 7,480;  $p < 0,001$ ). Therefore, for non-members who have been in contact with the OECD, the risk to sign their first BTT in subsequent years is 6 times higher than for countries which have not had contact with the OECD.

Considering the coercion model without CONTACTOECD, the results obtained are not totally in accordance with the findings of previous research. The results for WB and IMF are in opposition. While WB loan in prior years reduces significantly the likelihood of signing a first BTT (hazard rate 0,121;  $p < 0,001$ ), IMF loan increases this likelihood considerably (hazard rate; 7,564;  $p < 0,001$ ) suggesting that if there is some form of coercion related to conditionality in the case of BTT, it would probably come from the IMF rather than the WB. Once we incorporate CONTACTOECD in the model, the results are similar but to a lower level of significance.

In the coercion model, CONTACTOECD is significant and high (hazard rate: 6,802;  $p < 0,001$ ). Therefore, for non-members which have been in contact with the OECD in previous

years, the risk to sign a first BTT is again almost 6 times higher than for non-members. The explanatory power of this model is also increased by the addition of CONTACTOECD.

The conclusion for the global model combining emulation and coercion variables are similar. Once CONTACTOECD is included in the global model, emulation among neighbour is still a very important factor and if a neighbour country has signed a BTT in previous years, the risk of signing a first BTT is more than 8 times higher (hazard rate: 9,221;  $p < 0,001$ ). The significance of the coercion variables WB and IMF are lower when CONTACTOECD is included in the global model and WB loan still reduces the risk of signing a first BTT (hazard rate: 0,278;  $p < 0,05$ ) whereas IMF loan still increases the likelihood to sign a first BTT (hazard rate: 3,835;  $p < 0,05$ ) during the period.

In this global model, CONTACTOECD is still significant and the explanatory power of the model is increased by the addition of this variable. Countries which have been in contact with the OECD are much more likely to sign a BTT in subsequent years. The risk is almost 5 times higher (hazard rate: 5,798;  $p < 0,001$ ).

These results confirm the hypothesis and the risk of signing a first BTT is higher when countries have been in contact with the OECD in previous years. Furthermore, the inclusion of CONTACTOECD increases the explanatory power of existing models to explain diffusion.

The LRChi<sup>2</sup> test provides evidence of the goodness of the fit of each model with the observed data. LRChi<sup>2</sup> is highly significant in each model ( $p < 0,001$ ) with and without the inclusion of CONTACTOECD which supports the reliability of the results. Furthermore, when CONTACTOECD is incorporated in each model separately and globally, LRChi<sup>2</sup> is higher and still highly significant. Therefore, the inclusion of the variable created by the dissertation to

consider the impact of contacts a country had with the OECD and the fact that it signed its first BTT improves the fit of the emulation model and the coercion model with the actual data observed.

Table 9. Event-History Analysis Results.

Variables	<b>Emulation model</b>		<b>Coercion model</b>		<b>Global - all inclusive</b>	
	Without Contact OECD	Contact OECD	Without Contact OECD	Contact OECD	Model 1	Model 2 = Model 1 +Contact OECD
<i>Independent</i>						
Contact OECD		<b>7,480***</b>		<b>6,802***</b>		<b>5,798***</b>
Neighbour BTT OECD	8,407***	9,233***			8,277***	9,221***
Neighbour	1,879	0,754			1,468	0,703
PEER BTT	0,395**	0,526			0,393**	0,507
REGION BTT	2,161	1,732			2,133	1,779
WBloan			0,121***	0,253*	0,168**	0,278*
IMFloan			7,564***	4,095*	6,293**	3,835*
<i>Control</i>						
GDP per capita	3,421***	2,680***	1,755*	1,329	3,391***	2,733***
Population	1,385	1,280	2,154***	1,793*	1,507	1,390
Religion	0,789	0,960	0,741	0,884	0,914	1,033
Language	0,160**	0,251*	0,147**	0,219*	0,135***	0,205**
<i>No.</i>						
Observations	108	108	108	108	108	108
Failures	36	36	36	36	36	36
Time at risk	982	982	982	982	982	982
Log Likelihood	-96,288	-87,787	-102,041	-92,866	-91,852	-85,590
LR chi2	55,640***	72,640***	44,13***	62,48***	64,51***	77,03***

\*p<0,05; \*\*p<0,01; \*\*\*p<0,001

### 3.4 Specific cases

This analysis aims at globally addressing the influence of the OECD's on the diffusion of BTT. As the analysis of the role of transnational actors in pension privatization can not explain all adoptions or non-adoptions of these reforms (Orenstein 2008), the analysis of the influence of the OECD can not explain all BTTs signed or not.

Some specific cases are worth mentioning to illustrate that while the relationship between the contacts with the OECD and the adoption of BTT is strong there are cases for which this relationship is not present. The study of these cases would highlight other features of idea diffusion and would probably complement the present analysis with the inclusion of other domestic variables to the explanation. There are 3 cases of countries which had contacts with the OECD but did not sign any BTT during the 1990s (Hong Kong, Malawi, Bosnia and Herzegovina). For Bosnia and Herzegovina the relationship with the OECD was weak and the conflict in this country certainly explains the fact that no BTT were signed in these years. Malawi also had minimal contact with the OECD; in fact it only participated to the 1990 symposium organized by the OECD "Taxation Relationship and International Investment Flows Between Member and Non-Member Countries". Of these 3 countries, Hong Kong<sup>24</sup> had the most contact with the OECD in the 1990s but its status may explain the fact that it did not sign any BTT in this decade. However, it is necessary to note that after its retrocession to China, Hong Kong has developed a BTT network by signing 20 BTTs in the 2000 (8 of these BTTs are not yet in force).

It is also interesting to note that 10 non-members did not have any contact with the OECD but signed a considerable number of BTTs in the 1990s. These countries are Bangladesh, Cyprus,

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<sup>24</sup> In 1989, Hong Kong had signed only a limited BTT with the United States concerning only income from shipping operations.

Indonesia, Kuwait, Malta, Mauritius, Pakistan, South Africa, Tunisia, and United Arab Emirates. Every country, except United Arab Emirates, had signed BTTs before 1990. An in-depth analysis of these cases could highlight other important factors determining why these countries have signed BTTs, such as the possibility that other countries had an interest in signing a BTT with these countries and therefore influenced the decision of these countries. The explanation could also be based on emulation or competition.

### 3.5 Limitations

The analysis does not completely address the fact that BTTs are bilateral. Some of the 36 cases may be cases where both countries partner to a BTT are in the risk set. Nevertheless because we consider information concerning PEER and REGION for the previous year, the information should not modify the fact that if other countries in the group have signed BTTs, a country is more at risk of signing a BTT.

Also, the event-history analysis has focused on the first adoption of BTT by a non-OECD member country. However, BTT is not a one-time adoption policy. Further analysis could be made to address how the repetition of event or the BTT network development could be done in a future EHA.

As Elkins and al. (2006) did for bilateral investment treaty, a further EHA could also provide for the study of the risk to sign a BTT when competitors for capital signed BTT. However, the inclusion of neighbours, peers and region in the analysis certainly overlaps with some of the findings that such an analysis would provide, since competitors can be neighbours, peers, same region countries.

#### 4. CONCLUSION

The quantitative analysis of the dissertation supports evidence that contacts with OECD matter in the diffusion of the BTT idea. Therefore Hypothesis 3 is verified; non-members which had contact with the OECD concerning BTT in the 1990s are more likely to adopt the idea of BTT during that period. Contacts non-member countries had with the OECD were certainly very important in starting to sign BTTs and were also relevant to the development of a network of at least 10 treaties in the 1990s. Therefore any explanation about idea diffusion that would overlook contact with a transnational actor or an international policy entrepreneur, such as an international organization, would be missing an important factor. Of course, the dissertation does not aim at developing a complete diffusion model but its contribution remains considerable by pointing in the direction of a missing factor in many diffusion studies. If we are to understand diffusion completely, we need to include contact with vector of diffusion in the analysis. Further studies will need to be done to include such a variable in the models explaining diffusion because it can be an important one, particularly in the context of globalization.

It is also important to remind that BTTs are bilateral. A country could not alone decide to develop a BTT network if no other countries want to sign BTTs with it; in this case no treaties would be signed. Therefore it is possible that the likelihood of signing its first BTT is also linked to the interest of other countries in signing a BTT with a specific country based on its standard of living or population. As we have seen in this analysis, standard of living is not associated to BTT network development and population is only weakly associated with BTT network development.

It is possible that this type of analysis is incomplete to study bilateral treaties and that other factors should be considered. Nevertheless, the findings of the dissertation remain innovative and

relevant. International organizations do matter in the way they format and diffuse ideas and more attention should be brought to these organizations when addressing factors explaining the diffusion of an idea.



## **CHAPTER 8 – CONCLUSION**

### **1. INTRODUCTION**

This chapter first reiterates the goal of the dissertation and situates the theoretical ground of the research project in general terms. The main findings of the dissertation are discussed to establish their relevance and importance and also to stress the larger significance of these findings for the analysis of policy-making. In addition, the consequences of the findings on the empirical and theoretical level are exposed. Finally, limitations are presented and prospects for other research are offered for future consideration.

### **2. GOALS AND PURPOSES**

The puzzling spread of BTTs signed by non-OECD member countries in the 1990s on the basis of a standard form developed for OECD countries led to the overarching question “What are the conditions allowing an idea to influence policy adoption in diverse national settings, how are these conditions created and by whom?” The goal of the dissertation is to understand the process through which ideas become influential and diffuse across diverse settings and more specifically to explain the role of an international organization in the process.

The dissertation first aimed at demonstrating through a literature review how some approaches focusing on ideas and diffusion are complementary both from a theoretical and a methodological perspective. This complementarity leads to the development of a theoretical framework which allows a more systematic and comprehensive analysis of the conditions under

which an idea influences policy-making and the way these conditions are created. The dissertation responds to critics about the lack of analytical rigor in constructivism by developing a theoretical framework from which hypotheses can be formulated and verified. The theoretical framework is based on findings from a review of previous constructivist studies as well as historical and sociological institutionalism which offers an explanation based on ideas. However, the dissertation argues that it is necessary to bridge ideas with processes of diffusion and agency to propose a relevant theoretical framework about the relationship between ideas and policy adoption.

The dissertation then aimed at providing an in-depth and exclusive descriptive analysis of the BTT spread in non-members to understand the characteristics of the evolution of BTT networks in these countries in the 1990s. The analysis of BTT characteristics was done with the objective to determine if the adoption of this policy can be explained by exogenous interests. The brief history of BTT and the OECD's involvement is provided to establish if some facts can point out to any other explanation.

Finally, the dissertation focused on developing empirical evidence verifying the hypothesis generated by the theoretical framework. A case study and a large-N quantitative analysis were used to tackle questions: What explains the major spread of BTTs in non-OECD member countries in the 1990s? Has the OECD influence the choices of these non-OECD member countries to sign BTTs and how?

### 3. MAIN FINDINGS AND CONSEQUENCES

The international web of BTTs, described as an “international regime” (Rixen 2008), has existed for a long time but non-members have only more recently been intensively participating in this regime. “The creation of a network of tax treaties has been a remarkable achievement, and the OECD Model Convention, which is largely responsible for establishing an almost universally accepted international tax regime, must by any standards be considered a major success” (Easson 2000: 620). As it has been remarked by Dagan (2000), countries that are not members of the OECD have been stepping “into a pre-existing game”. In chapter 3, the exclusive analysis of BTT and BTT network development in non-OECD member countries situated the phenomenon in time, space and substance. This analysis further supported the identification of the dependent variable and demonstrated that a variety of countries participated to the 1990s trend and had similar BTT network development paths. What has influenced them to do so at this point in time is a relevant question. Chapter 4 rejected an explanation based solely on exogenous predetermined interest and pointed to the necessity to address the possible role played by the OECD.

The main finding of the dissertation is that the OECD has been central in explaining the spread of BTTs among non-members in the 1990s because it created the necessary conditions for the idea of BTT to be accepted by these countries. This role can be explained by the synergy the organization created and maintained between the idea of BTT, the market economy paradigm and the obstacles to attracting investment, such as double taxation. Furthermore, the role includes activities held by the OECD to teach non-members about BTT directly and indirectly. By generating favourable conditions for the adoption of BTT the OECD could convince non-members to adopt this policy option and develop a BTT network. The research process leads to the confirmation of the hypotheses put forward based on the theoretical framework.

The dissertation has combined qualitative and quantitative analysis to ascertain the role of the OECD in the diffusion of BTT. First, to understand the involvement of the OECD, a case study is an efficient methodology because this methodology is relevant to trace the process of the BTT idea development and promotion within the OECD. The case is therefore, about the OECD's activities related to BTT and non-members in the 1990s. Secondly, the case study has demonstrated how the OECD strategically and intensively promoted the BTT idea to non-members in the 1990s. The analysis allows establishing that the OECD was a central and autonomous actor in the diffusion of the BTT idea.

In chapter 5, the case study partially supports the first hypothesis; **1) The OECD created and maintained a synergy between the BTT policy, a paradigm, a problem, and a public sentiment in the 1990s.** The case study demonstrated that the OECD has been central in creating and maintaining linkages among the idea of BTT (policy) and the market economy paradigm as well as the problem of double taxation as an obstacle for attracting FDI. However, no public sentiment was revealed from the analysis of the case study. The case study did point in the direction of some clues as to why it is less likely that no such public opinion emerged. The matter was insulated from the political debate and kept at the technical level.

In chapter 6, the case study confirmed the second hypothesis; **2) The OECD strategically diffused the BTT policy and its synergy to non-OECD member countries in the 1990s.** Much evidence has been put forward demonstrating the different strategies to promote the BTT idea to these countries. While the literature often recognize the importance of some actors in the promotion of an idea (policy entrepreneur, transfer agent, experts, epistemic community), the concept of “strategic diffusion” helps to uncover why actors have been important and which strategy has been used to ensure that an idea spreads. The case study reveals that the OECD used

direct methods such as conference, technical assistance, and training session. The OECD could also rely on indirect methods to support its ideas such as the development and the promotion of a consensus around the idea. Furthermore, by promoting its expertise, credibility, and neutrality it also reinforced the intrinsic characteristics of the idea itself giving it more credibility. As expressed by a previous study, expertise and control over knowledge creates an appearance of neutrality and depoliticization which gives an international organization an “authoritative voice” (Barnett and Finnemore 1999: 710).

The case study is very important to explain how BTT policy was developed and combined with the market economy paradigm, particularly at a point in time where many countries were transiting to a market economy. The argument of the OECD evolved around the necessity to create institutions favourable to a market economy to attract FDI. Consequently, any obstacles should be removed. Double tax was depicted as an important obstacle to FDI and BTTs were sold as the best solution to relieve double taxation.

The case reveals that the OECD worked on making the idea attractable for non-members, in explaining its central role to attract FDI, in selling a package, in teaching how to negotiate these BTTs and to implement them. As expected by previous research, these characteristics make the idea easier to adopt and can explain why many non-members relied on the idea.

Finally, the dissertation provides for a quantitative analysis of the influence of ideas in a specific country given this country has been in contact with the promoter of the idea. The diffusion literature has demonstrated that some mechanisms can explain diffusion, such as emulation, socialization, learning and coercion. However, this literature is often disconnected from the agent or the promoter of an idea and the focus is on the recipient end of the idea. The source of the idea and the means by which ideas became known are disregarded, and diffusion is

explained only by the presence of some conditions. The dissertation provides evidence for the importance of including the promoter of ideas to explain the diffusion of a policy.

The case study is relevant to see how the OECD dealt with the idea and how it linked BTT to non-members in the 1990s. It uncovers the development and the maintenance of the conditions for the idea to become influential, and also it reveals the strategy developed and used by the organization to promote this idea and support reliance on BTT by these countries. However, this case study could not in itself determine that it is the efforts of the OECD which explain the wide spread BTT signatures in the 1990s in non-members. This supports the relevance to combine a case study with a quantitative analysis.

The quantitative analysis in chapter 7 confirms the third hypothesis; **3) Given that hypotheses 1 and 2 are verified, non-OECD member countries, which had contacts with the OECD concerning BTT in the 1990s are more likely to adopt the BTT policy during that period.** Using quantitative analysis, such as correlation factors and event-history analysis, the dissertation maintains that the contact with an actor who actively promotes an idea is related to the adoption of the idea.

The quantitative analysis allows arriving at this conclusion since it demonstrates that the more a country had contact with the OECD in the early 1990s, the more it signed BTTs in these years. Also, having contact with the OECD prior to signing a first BTT considerably increases the risk of signing a first BTT in the following years. In the emulation model, contact with the organization is an important variable. Also, as the emulation explanation would expect, the fact that a non-OECD member neighbour country signed a BTT in previous years increase the likelihood of signing BTTs. In the coercion model, contact with the OECD is the most relevant variable to explain the signing of a BTT.

The relevance of these findings is twofold. First, it gives empirical evidence of the OECD influence in policy-making even for non-members. Second, on theoretical ground, the dissertation provides for a more systematic analysis of the influence of ideas on policy-making.

### 3.1 On the empirical level

On the empirical level, the findings of the dissertation have implications to understand the OECD's influence in tax matter but also in other spheres in which it is involved. The findings help to understand the conditions under which further expansion of BTT network can happen and also how BTT could or not be replaced in the future.

Activities provided by the OECD created and maintained the perception by non-members that BTTs were necessary to attract FDI while no direct evidence of the consequences of BTT was presented. In the 1970s, an author indicated that: "Too often, developing countries focus on the use of double taxation agreements as a means of attracting foreign investments and they over-emphasize the importance of such agreements." (Irish 1974: 312) The dissertation emphasizes that still in the 1990s, non-members were persuaded that BTT was a necessary policy to be part of the global market economy in the 1990s without any evidence of the benefits or costs of this policy for them. Therefore, the statement that they over-emphasized the importance of such agreements could still reflect the situation for the 1990s.

The OECD has played a leadership role in persuading non-members to develop BTT network. Irish (1974) pointed out that developing countries have more bargaining power than they think (or use). In fact, it is the developed countries which need to have BTTs signed with them to ensure they get a part of tax revenues to which they would not have access otherwise

since they usually offer a FTC. It was therefore, necessary for the OECD to convince non-members that they needed to have BTTs to attract FDI in order to maintain the bargaining power in favour of developed countries.

Woodward (2004) argued that the MAI failure might bring more public scrutiny to the OECD's actions and recommendations. This could lead to more skepticism from national experts or the public in general about the idea promoted to non-members from this organization. This could affect the easiness to create a synergy with the idea of BTT. The influence of the OECD's idea on non-members could depend upon the activities or relationships developed with and for non-members.

Recently, the OECD has been accepting requests for membership from new member countries and has developed a more general approach to the development of linkages with non-members. This evolution of the organization will likely render the consensual approach more difficult and will modify the organization's influence. As the theoretical framework suggests, if the OECD's recommendations are in synergy with a dominant paradigm adopted by the diversity of countries and the perception of a common problem among these diverse countries and is not objected by any public opinion, then the organization can remain influential upon strategically diffusing its recommendations.

The dissertation also demonstrated that the promoter's credibility and expertise are central in facilitating the promotion of ideas. As long as there have been some form of uniformity among the OECD members economic conditions, the organization could base its recommendation on a credible expertise. Can this credibility be maintained with a diversity of member countries economic conditions? Will a consensual decision-making approach still provide for an efficient process within the organization? If consensus is more difficult to reach among the members, how



will the organization's recommendations be perceived? Will this affect the influence of the organization outside its membership?

Concerning more particularly the further expansion of the global BTT network, Easson (2000) suggests that Latin America and the Middle East will be the next regions to experience a wave of expansion of BTT networks. Therefore, according to the findings of the dissertation, if BTTs are to spread more intensively in these regions, a synergy with a paradigm, a problem and a public sentiment will need to be maintained, and the idea will need to be actively promoted in these countries by the OECD or other experts. While some efforts have been made recently by the organization to establish relationships with countries in the Middle East and North Africa region, the collaboration is not as extensive as it was with some non-member countries in the 1990s.

Many authors have also discussed the future of BTT. Some authors describe the lock-in effect of the global BTT network, others discuss the problems occurring because of BTTs, such as double non-taxation and even the threat to tax autonomy posed by the global BTT network (Genschel and Rixen 2006; Easson 2000; Dagan 2000). While for many years the OECD and many experts and countries aimed at the expansion of BTT network, the future of the global BTT network is now questioned. Should this global network of similar BTTs be transformed into a multilateral agreement or should it be replaced or modified fundamentally? The dissertation demonstrates that for an option to be influential it will need to be convincing, fit with a paradigm, a problem and a public sentiment, and it will need to be strategically diffused. According to the dissertation's findings, for changes to happen, a synergy will need to be created with another solution, which will also need to be promoted actively and strategically if the global BTT network now in place is to be replaced.

The modes of governance, inquisitive and meditative, used by the OECD (Mahon and McBride 2008) are associated with the moral and expert authority possessed by this organization. Furthermore, as a bureaucracy, the organization presents some pathologies identified by Barnett and Finnemore (1999). Particularly by pushing the process of rationalization to its limits, a bureaucracy will tend to fit new issues to an existing and well-known solution which may not be the most efficient one. This could apply to the case of BTT and the OECD has an interest in ensuring that this solution is maintained because it has developed a huge expertise about this specific solution. It may also tend to continue to use this solution to new issues even if researching for other possibilities could lead to more appropriate results. Barnett and Finnemore (2004) also identify “bureaucratic universalism” as a possible pathology of international organizations. In the case of the OECD, BTT are in fact promoted to non-member countries as a one size fits all solution which is supposedly transferable to any national settings. Once again BTT are promoted as a technical matter which is applicable disregarding many national contextual concerns.

### 3.2 On the theoretical level

Theoretically, if ideas produce policy adoption, it is of utmost importance to understand the conditions under which ideas are influential and how and by whom these conditions are created. Actors who are central in the development of ideas and their promotion are more likely to have power. The theoretical framework can help to follow ideas through processes and actors to explain the spread of ideas across different settings. The theoretical framework supports the formulation of hypotheses to address other situations when ideas could explain policy decision.

The dissertation emphasizes that ideas produce policy adoption. Based on previous literature highlighting the role of ideas, the theoretical framework identifies the conditions under which an idea will influence policy adoption. The literature about ideas supports the existence of different types of ideas and recognizes that different ideas play different roles. Campbell's (2004) typology of ideas is useful for that purpose. This typology separately defines a program (replaced by "policy" in the dissertation), a frame (replaced by the notion of "problem" in the dissertation), a paradigm and a public sentiment. Each type of idea is presented as being either in the foreground or in the background of the policy making process and ideas are either outcome oriented or not. Therefore, the dissertation posits that the characteristics of an idea are important in explaining why an idea has been influential but also that the synergy with the other types of ideas is central. For example, the literature supports that a paradigm will constrain policy choices (Béland 2005; Goldstein 1993; Hall 1993), and the dissertation argues that the synergy between a policy and a paradigm can explain why a policy idea has been influential in different national settings. Furthermore, this synergy should also exist between a policy, a problem and a public sentiment for a policy option to be adopted.

The policy and its synergy with a paradigm, a problem and a public sentiment have to be promoted. The promotion activities are likely to involve strategic actors who have an interest in a particular idea. Therefore, the dissertation refers to the concept of strategic diffusion to circumscribe the promotion activities conducted directly or indirectly, which will facilitate the spread of an idea.

Agency is fundamental in creating the necessary conditions for an idea to be influential. As "strategic constructivism" (Jabko 2006) would expect, actors strategically create common understanding and influence policy choices. In the theoretical framework, arguments which are raised by actors in support of specific ideas can change the perception of interest. The

identification of a problem and the appreciation of the policy option can all be altered by the arguments of idea promoters. Leaving the policy adoption explanation to a country's interest disregards an important part of the puzzle.

Actors create, maintain or promote the necessary conditions for ideas to be influential and without them ideas would float around and not necessarily reach policy makers. The literature incorporates actors such as a policy entrepreneur (Kingdon 2003; Mintrom 1997 ) or an epistemic community (Haas 1992) or an expert (Ladi 2005; Noaksson and Jacobsen 2003), or a think tank (Rich 2006) or a transfer agent (Stone 2004). The distinction between these different types of actors may not be necessary, since it is their actions which are relevant. Expertise and credibility concerning the idea facilitate its promotion. These characteristics are held by the categories of actors who successfully promote ideas. Actors make sense of ideas and connect different types of ideas and strategically diffuse these ideas. Besides expertise and credibility, actors need to have resources to promote their ideas. The theoretical framework helps to focus on the actors which have created the necessary conditions for an idea to be influential and how they did it.

The theoretical framework can explain the adoption of a policy option which is in accordance with existing institutions; policies which do not operate any fundamental change. The framework can also explain the adoption of a policy which may depart from institutions in place and therefore be seen as operating a more fundamental change. Change in a policy can be explained by the fact that the existing policy is no longer supported by a dominant paradigm while a policy option is. A change of policy can be seen as necessary if the existing policy is not responding to the problem it was supposed to solve initially or creates other problems. Also, a public concern can be raised about a policy which would lead to a change in this policy. The theoretical framework would then expect that the policy adopted for replacement would be the

policy which is perceived to be related most to a dominant paradigm, as the best solution for a perceived problem.

The analysis must consider the importance of ideas without denying that interest also matters. On the one hand, a country's perception of its interest can be altered by ideas in circulation. What explains which ideas are more likely to influence the perception of interest? The theoretical framework does not deny that a policy can be adopted because it is perceived as being in the interest of a country. However, it focuses more on the construction of the perception according to which the adoption of this particular policy is in the interest of this country. It recognizes that a particular actor can provide for the necessary conditions for an idea to be influential.

Furthermore, the interest of the developer and promoter of ideas is also an important aspect to understand where ideas come from and why they get to be influential. Holden (2009) indicates that there is a gap in the policy transfer literature because no attention is brought to the material interest behind a particular idea, as it was the case for exporting the idea of PPP in developing and eastern European countries. This supports the necessity to ask who benefits from an idea being diffused globally and therefore who has an interest in promoting actively and strategically the idea. The dissertation has unconditionally demonstrated that the OECD had an interest in having its standard dominate in order to maintain its leadership and expertise role in the matter of BTT and more generally international taxation. This interest led it to provide for the necessary linkages with a paradigm and a problem and also to promote the idea to targeted countries.

A parallel can be made with the concept of "purposeful opportunism" in the case of the European Commission.

The Commission has learnt to respond to opportunities for action as they present themselves, and even to facilitate the emergence of these opportunities. Much of the activity of the European Commission might well be interpreted as an attempt to expand gradually the scope of the Union competence without alienating national governments or powerful sectoral interests. The Commission, acting as a “purposeful opportunists”, has employed a variety of techniques aimed at expanding the scope of Union competence, and the extent of its own scope for action. (Cram 1994: 199)

In the case of BTT and non-members, the OECD can definitively be qualified as a “purposeful opportunist” who extended its power by persuading non-member countries to develop a BTT network and rely on the organization expertise to do so.

Would these countries have signed BTTs so intensively in the 1990s without the OECD’s effort to promote the idea to them? From the analysis, we can say that the probabilities of BTT network development without the OECD’s implications are limited. However, it does not mean that there would not have been any BTT network developments at all had the OECD not been involved.

The theoretical framework is relevant for addressing ideas about policies, but it goes further. The concept of synergy also indicates that a paradigm could probably be changed because of a lack of synergy with existing problems or solutions (policies) or if a public opinion opposes it. It would be interesting to study a case of paradigm shift to see if the theoretical framework is valuable in understanding why a paradigm was replaced.

Finally, studies of cases where ideas have not been adopted could also be interesting. Analysis based on the theoretical framework could reveal that a lack of synergy with other types of ideas can explain why an idea may not have been influential. If such a synergy existed, the influence may be lacking because the idea has not been promoted actively. According to the dissertation’s findings, ideas for which a synergy existed and, which have been promoted should

lead to policy adoption. Some cases could also reveal that, even if there is a synergy and a strategic diffusion, an idea may not be successfully diffused. Consequently, these cases would point in the direction of other variables, which would complement the analysis.

### 3.3 Link with other taxation researches

Many disciplines study taxation: political science, economic, law, accounting, finance, sociology. Contributions from these fields of research are complementary and furthermore, some researches are interdisciplinary and bridge insights from different fields into a study. The dissertation is theoretically based in the field of political science. However, the puzzle is also interesting and does have possible implications for research on taxation policies from other fields.

A sub-field of accounting research is interested in the implications of tax legislation for corporate decision-making and management, particularly international tax legislation and transfer pricing legislation (Lamb 1999; Borkowski 1996). Some studies consider the impact of tax legislation on income attribution within a multinational group of corporations (Collins and al. 1998). The dissertation provides an interesting puzzle for these fields of research. It would be relevant to address how the decision to invest abroad and the manner in which to invest are (or not) in fact affected by the existence of a BTT between the corporation's country of residence and the source country and the content of such treaty. The dissertation can also open new opportunities for interdisciplinary research to address the potential investors' influence on their residence country to negotiate a BTT with another country in which they wish to invest.

A reconsideration of taxation policies is necessary because of globalization. Free movement of capital and people and the advancement of technology alter the comportement of taxpayers and therefore the efficiency of taxation policies need to be addressed not only from a

domestic approach but also at the international level (Lamb 2005). Interdisciplinary taxation research needs to analyze the influences (national and international) upon policy choices in order to inform the debate undertaken concerning taxation policies in an international perspective. The findings from the dissertation contribute to the thinking about the international allocation of tax revenues (Easson 1991), and the role and responsibility of an international organization in international taxation governance (Radaelli 1998b; Cockfield 2006)

#### 4. LIMITATIONS AND FUTURE RESEARCH

Some limitations of this research project have been expressed throughout the dissertation but some others are more general and are worth mentioning to understand the boundaries of the findings and also point toward future research to refine, confirm or complement these findings.

The aim to render a constructivist analysis more systematic may be condemned to fail by those who consider the development of a testable constructivist research program impossible. Nevertheless, it is necessary to attempt analytical rigor in constructivist approach. The theoretical framework is informed mostly by constructivism but also incorporates arguments from historical and sociological institutionalism, as well as diffusion literature and incorporates agency. The prospects for critics are similar to those Checkel noted concerning its effort to theorize social interaction “Indeed, interpretative constructivists will see much that is wrong here: my loosely positivist epistemology, the strong emphasis on agency, the neglect of recursive practices” (2001: 226). I will agree with Checkel’s response (2001) that indeed such middle-ground approach may lose something, however the theoretical framework provides testable hypothesis and therefore encourage exchange on the circumstances when ideas matter.



The choice of the OECD activities with regard to BTT and non-members as the case study presents some limitations. For Dolowitz and Marsh (1996) the question “Who are the key actors” in policy transfer is relevant. While the dissertation concentrates on one key actor, the entire range of possible key actors has not been analyzed in detail. The dissertation did provide for some facts concerning the UN’s involvement with BTT in developing countries. A brief analysis of this involvement did, in fact, support the conclusion that the UN played a secondary role with regard to BTT, and this does not support the rejection of the OECD as the key player. The case study of the OECD’s confirmed that the organization took a leadership role in the promotion of the BTT idea, but it probably was not the sole actor.

Nevertheless, some more thoughts could be given to the group of experts in the OECD or outside the organization which could form an epistemic community concerning BTT. Stewart (2002) recognizes the important role of the OECD with regard to tax reform in developing countries in the 1990s but also points to other actors such as international organizations or experts who have been involved. Among these other actors, the Harvard Institute for International Development (HIID) which has produced and translated in many languages a guide and checklist of what a tax system should include therefore providing for a packaged idea probably easier to adopt. While it could also be interesting to address specific experts’ involvement, Stewart (2002) recognizes that experts usually act as consultants for international organizations, and the experts she names have also come up within the documentation analyzed for the OECD BTT expertise. The presence of other actors involved in BTT would not reject either the theoretical framework or the empirical findings. It could only mean that other actors have supported the synergy and/or have promoted the idea.

The case study does not allow determining if private interests have been influential in getting some countries to sign a BTT with another country. This should probably be included in a

further analysis since it would be logical to think that a portion of BTTs signed may have been adopted because major investors from one country pressured their home country government to sign a BTT with other countries in which they wished to invest. Firms from exporting countries have an interest in ensuring that there is no double taxation in the countries they invest or just that the rules of the games will be similar to what they are used to in other countries. Pressures from potential investors could be addressed by a country case study.

Busch and al. (2005) identify three categories of factors that theoretically can be expected to affect international diffusion. The dissertation has addressed two of these; 1) dynamics of the international system by focusing on one actor who actually promotes a policy; and 2) the policy characteristics. The third category, domestic factors, has not been addressed (except for some factors considered in the quantitative analysis). Case studies of particular countries could help to cover this third category. Country case studies could also reveal how domestic actors or institutions have supported or restrained BTT network development. Nevertheless, the dissertation has demonstrated that BTTs are signed by a variety of countries with diverse domestic institutions.

The analysis could be complemented by comparing a few cases of countries with similar BTT network development and different domestic institutions to understand the impact of domestic institutions. The comparison of a few cases of countries with similar domestic institutions but different BTT network development path could also refine the understanding. It is possible that domestic institutions have contributed to faster and more intensive BTT network development while in other cases it would be associated with a much slower pace of BTT network development over time.

The relationship between contact with the OECD and BTT network development established particularly in chapter 7 also presents some limitations. A counter argument could state that non-members which have had contacts with the OECD were the countries which wanted to sign BTTs and just asked the OECD to help them in this regard. If this was the case then the OECD would not have influenced the decision but rather just helped in its implementation. A country case study may help to explain when exactly the country decided to sign BTTs.

However, there are good reasons to believe that the OECD was also very important in the earlier stages of the policy process. More particularly, concerning the countries transiting to a market economy in the early 1990s, the OECD combined BTT with the necessary component of a market economy very early in the stages of the transition by some countries. So it is very likely that these countries were convinced to sign BTTs from their contacts with the OECD. The OECD strategically combined BTT with other preoccupations from these countries in the transition process.

For countries others than transition economies, the chain of events may be less obvious. However, the data reveals that very often, the first contact with the OECD is not a request for direct assistance for the negotiation or signing of BTTs, but rather it is a participation to a more general conference in which BTTs are discussed. Therefore, while it may be true that countries which are not interested in signing BTTs do not make any contact with the OECD, those which are interested to have more information and refer to the OECD for that purpose are generally convinced to rely on BTT. As a result, countries which are in contact with the OECD concerning BTT generally decide to sign tax treaties.

Many countries and not only transition economies developed a relationship with the OECD in the 1990s. Therefore, it is less likely that these countries all decided to sign BTTs and turned to

the OECD for information concerning BTT at the same time and that this would have happened independently from the OECD's activities to develop a relationship with these countries. The results of the relationship between contact with the OECD and the BTT network development in non-members are to be interpreted taking this limitation under consideration. However, this issue does not override the importance of the findings of the analysis. More precisely, the event-history analysis considers the impact of the first contact with the OECD. This first contact is generally not a direct assistance but rather a conference. A contact with the idea of BTT in general conferences increases considerably the possibility to sign a first BTT afterwards.

The dissertation has assimilated BTT and the OECD model. Based on the documentation analyzed and more general articles about BTT and the OECD model, in particular, it is reasonable to consider all BTTs regardless of the actual precise content of each BTT, since they are all very similar and are mostly based on the OECD model. In such a large scale study, an in depth analysis of the content of all the treaties would have been practically impossible to do. As the evidence suggests, the OECD model is at the center of the global web of BTTs, and the UN model only offers some adjustment for developing countries. Nevertheless, it could be interesting to do an in-depth content analysis of the BTTs signed by a few countries to determine to what extent they incorporate features offered by the UN model. This type of project could also incorporate the analysis of the reasons which could explain why some countries have been able to include more or less of the UN model recommendations into their BTTs.

## 5. CONCLUSION

Ideas matter and produce policy adoption. To provide for a more systematic analysis, the explanation must also focus on the conditions under which ideas are influential, how these

conditions are created and by whom. The combination of ideas, synergy, and strategic diffusion into a single framework informed by constructivism leads to a better explanation of policy-making. Therefore an idea is influential when it is in synergy with other types of ideas (policy, paradigm, problem and public sentiment) and when it is strategically diffused by an actor, such as an international organization.

The dissertation has innovated in many ways. It provided a rare in-depth descriptive analysis of an understudied phenomenon; BTT in non-OECD member countries. Furthermore, the dissertation has offered a relevant analysis of the activities of the OECD with regard to BTT. While the involvement and the expertise of the OECD in this matter is often taken for granted by tax professionals, the case study helped to understand how the organization ensures that the recommendations it supports get to be adopted in different national settings. The dissertation definitively increases the understanding of the role of this organization in global tax governance.

According to Barnett and Finnemore, “The more international organizations are pushed to the forefront of global governance, the more frequent are the catcalls and criticisms – and the more interested are social movements and states keen to question their actions, to limit their powers, and to search for alternatives” (2005: 182). Given these circumstances, it may be more difficult for international organizations to create a synergy around an idea and promote it successfully. These organizations may need to combine their efforts with those of other actors to create the necessary conditions for the ideas to be successfully diffused and adopted.

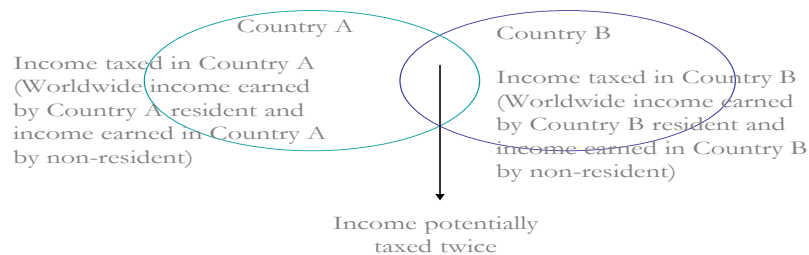
The dissertation also innovated by demonstrating the complementary nature of approaches focusing on ideas and on diffusion and merging both in a single theoretical framework. Furthermore, it used mixed method to measure the impact of ideas and verify expectations derived from the theoretical framework. First, the dissertation examined the construction by an

international organization of the necessary conditions for an idea to be influential. Then, it measured the relationship between the contact with the idea, through the organization, and the adoption of the idea in diverse national settings. This combination of methods strengthens the findings of this dissertation.

The theoretical framework should be tested further in explaining other policy diffusion phenomenon or situations where particular policy options have prevailed over others. Further analysis will help in refining the answer provided by this dissertation to the question “What are the conditions under which ideas are influential in diverse national settings, how are these conditions created and by whom?”

## Appendix 1

### BTT Application – An Example



Arnold and McIntyre provide an example between two developed countries.

Country A and Country B are developed countries contemplating a tax treaty. Both countries tax their residents on a worldwide basis, and both provide their residents with a foreign tax credit for withholding taxes paid with respect to foreign-source income. Country A has one taxpayer, Taxpayer A, who earns royalties of 1 000 \$ in Country B. Country B likewise has one taxpayer, Taxpayer B, who earns royalties of 1 000 \$ in Country A. Absent a treaty, Country B would impose a 15 percent withholding tax on royalties paid to Taxpayer A, and Country A would do the same with respect to royalties paid to Taxpayer B. Country B would allow Taxpayer B to claim a foreign tax credit for the withholding taxes paid to Country A and country A would allow a credit for the comparable taxes paid by Taxpayer A to Country B. If the two countries agree by tax treaty to reduce withholding at source on royalties to a rate of zero for residents of the other Contracting State, then each country would thereby lose source-tax revenue of 150 (1 000 \$ x 15%). They would recoup the lost source-tax revenue, however, by collecting 150 in additional tax from their own residents. (Arnold and McIntyre 2002: 108)

This example demonstrates that when tax systems are similar, unilateral measures can prevent double taxation. However, the interaction among different national tax systems is rarely so straightforward. Also a BTT has the advantages to bind both countries for the future.

## Appendix 2

### Theoretical consequences of BTT for capital-importing countries

The following example illustrates the consequences of BTT for capital-importing countries.

#### Country A:

Domestic tax rate on income earned within the country	25%
FDI from country A to Country B	0 \$

#### Country B:

Domestic tax rate on worldwide income earned by its resident	30%
FDI from Country B to Country A	50 000 000 \$
Income earned on FDI in Country A	5 000 000 \$

#### Tax revenues for each scenario

	Country A	Country B	Total	Consequences
1) No BTT	1 250 000 \$	1 500 000 \$	2 750 000 \$	Double taxation
2) BTT - OECD model (restrict source taxation at 10%)	10% 500 000 \$			
	30% - 10% = 20%	1 000 000 \$	1 500 000 \$	Single taxation - 33 % of total tax revenues to Country A
3) Agreement recognizing priority of source taxation	25% 1 250 000 \$			
	30% - 25% = 5%	250 000 \$	1 500 000 \$	Single taxation - 83 % of total tax revenues to Country A

This example highlights the impact of BTT on passive forms of income (interest, dividends and royalties). Following this example it is important to briefly expose how business income is considered in BTT. Usually the right to tax business income is given to the source country only for the income earned through a permanent establishment situated in the source country. A business deriving income from a country which does not have any substantial presence or activities in this country, for example when its products are sold through an independent distributor, will not pay tax in this country. However, when a foreign corporation has a branch (store or plant) in a country, the income attributed to this permanent establishment will be taxed in this country. If a foreign corporation decides to create a subsidiary to earn income in a particular country, this subsidiary may be considered a resident of this country and then the income earned by this corporation will be taxed according to the domestic taxation rules of this country. When a subsidiary pays interests, dividends or royalties to its parent corporation, the BTT rules exposed in the example apply.





### Appendix 3

#### List of the Relevant Bodies Within the OECD (1990 to 1999)

**OECD:**

“OECD” in the dissertation refers to the organization and not to the group of OECD member countries.

**Council:**

Premier body of the OECD, it is composed of a representative from each member state, it provides for the strategic orientation of the OECD that will be conducted by the Secretariat under the supervision of the Secretary-General.

**Secretary-General:**

The chair of the Council and the head of the Secretariat.

**Secretariat:**

“heartbeat of the OECD” (Woodward 2009: 49). It exercise the function related to the OECD mandate. It is subdivided in department and directorate.

<b>Acronym</b>	<b>Name</b>	<b>Note</b>
DAFFE	Directorate for financial, fiscal and enterprises.	Subdivided in: Directorate for financial and Enterprises Affairs And Centre for Tax Policy and Administration
CAF	Committee on Fiscal Affairs	A committee under the responsibility of the DAFFE for the period under study
WP1	Working party No.1 dealing with tax treaty issues	Reports to the CAF
CCEET	Centre for Co-operation with the European Economies in Transition	Created in 1990 Reports to the Secretariat
CCET	Centre for Co-operation with the Economies in Transition	Replaced the CCEET in 1994 Reports to the Secretariat

CCNM	Centre for Co-operation with Non-Member	Replaced the CCET in 1998 Reports to the Secretariat
SGTT	Steering group on tax training	Consultative body Name changed to Consultative Group on Taxation and Tax Training (CGTTT) in 1993
AGI	Advisory Group on Investment	Consultative body
DAC	Development assistance committee	Semi-autonomous body
BIAC	The Business and Industry Advisory Committee	Autonomous body – representing the business community

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## Appendix 4

### Number of BTTs and Annual Average Number of BTTs by Non-OECD Member Country (109 countries)

Countries	Total number of treaties	Number of treaties in the 1990s	Annual Average BTT signed in the 1990s (1)	Annual Average BTT signed before 1990 (1)	Annual average differential (1)	Annual average Total (1), (2)
Albania	22	15	1,88		1,88	1,47
Algeria	12	8	0,89		0,89	0,75
Argentina	18	11	1,38	0,50	0,88	0,58
Armenia	28	12	2,40		2,40	2,33
Azerbaijan	23	10	1,67		1,67	1,77
Bahrain	6	3	0,43		0,43	0,43
Bangladesh	25	12	1,00	0,91	0,09	0,89
Barbados	13	4	0,33	0,20	0,13	0,35
Belarus	35	24	3,00		3,00	2,33
Belize	2					0,40
Benin	1			0,09	-0,09	0,04
Bolivia	6	5	0,63	0,07	0,56	0,19
Bosnia and Herzegovina	4					1,00
Botswana	7	3	0,38		0,38	0,47
Brazil	29	3	0,22	0,87	-0,65	0,73
Brunei	3			0,03	-0,03	0,05
Bulgaria	57	32	3,33	1,86	1,47	2,38
Cameron	2			0,14	-0,14	0,06
Cape Verde	1	2	1,00		1,00	0,13
Chile	16	3	1,50	0,07	1,43	0,52
China	86	39	4,00	3,43	0,57	3,58
Congo (Republic)	2			0,33	-0,33	0,10
Croatia	38	17	2,83		2,83	2,92
Cuba	7	2	2,00		2,00	0,88
Cyprus	34	12	1,25	0,77	0,48	0,87
Ecuador	11	6	0,67	0,50	0,17	0,44
Egypt	39	24	2,44	0,52	1,92	0,93
Estonia	38	21	3,00		3,00	2,71
Ethiopia	3	1	0,33		0,33	0,30
Fiji	7	4	0,50	0,13	0,37	0,22
Gabon	2	1	0,14	0,04	0,10	0,05
Gambia	4	3	0,43	0,10	0,33	0,15
Georgia	18	9	2,25		2,25	1,64
Ghana	2	1	0,14		0,14	0,14
Guyana	2	1	0,13	0,20	-0,07	0,09
Hong Kong	3					0,75

Countries	Total number of treaties	Number of treaties in the 1990s	Annual Average BTT signed in the 1990s (1)	Annual Average BTT signed before 1990 (1)	Annual average differential (1)	Annual average Total (1), (2)
India	72	40	4,22	0,92	3,30	1,71
Indonesia	53	30	2,89	1,36	1,53	1,89
Iran	19	9	1,60	0,09	1,51	0,49
Israel	42	21	2,33	0,29	2,04	1,02
Ivory Coast	7			0,29	-0,29	0,17
Jamaica	11	5	0,44	0,35	0,09	0,32
Jordan	13	4	0,67	0,50	0,17	0,57
Kazakhstan	36	31	4,29		4,29	2,57
Kenya	8			0,36	-0,36	0,21
Korea (DPKR)	5	2	0,67		0,67	0,50
Kuwait	31	14	1,63	0,50	1,13	1,24
Kyrgyzstan	13	9	2,25		2,25	1,18
Laos	3	2	0,67		0,67	0,30
Latvia	44	33	3,43		3,43	3,14
Lebanon	16	9		0,04	-0,04	0,36
Lesotho	3	3	0,60		0,60	0,25
Libya	4	1		0,17	-0,17	0,11
Liechtenstein	2	1	0,20	0,05	0,15	0,05
Lithuania	44	23	3,29		3,29	3,14
Macau	2	1	1,00		1,00	0,25
Macedonia	23	13	2,17		2,17	1,77
Madagascar	2	1	0,17	0,14	0,03	0,08
Malawi	1			0,05	-0,05	0,03
Malaysia	52	22	2,44	1,05	1,39	1,41
Malta	43	19	2,11	0,61	1,50	1,23
Mauritius	31	21	2,50	0,33	2,17	1,07
Moldova	30	15	2,50		2,50	2,31
Mongolia	25	20	2,22		2,22	1,56
Morocco	31	8	0,89	0,59	0,30	0,67
Mozambique	4	4	0,56		0,56	0,25
Myanmar	3	1				0,38
Namibia	9	9	1,29		1,29	0,64
Nepal	7	4	1,00	0,33	0,67	0,35
Netherlands Antilles	2			0,08	-0,08	0,05
Nigeria	8	4	0,33	1,33	-1,00	0,40
Oman	9	3	1,50	1,00	0,50	0,50
Pakistan	45	19	2,25	1,20	1,05	1,41
Papua New Guinea	8	6	0,67	0,67		0,40
Peru	2					0,33
Philippines	36	11	1,25	1,57	-0,32	1,16
Qatar	3	2	2,00		2,00	0,38
Romania	68	42	4,56	1,18	3,38	2,43
Russia	61	56	7,00		7,00	4,07

Countries	Total number of treaties	Number of treaties in the 1990s	Annual Average BTT signed in the 1990s (1)	Annual Average BTT signed before 1990 (1)	Annual average differential (1)	Annual average Total (1), (2)
Rwanda	1					0,17
San Marino	4					1,33
Saudi Arabia	4					0,16
Senegal	7	2	0,33	0,06	0,27	0,21
Serbia and Montenegro	18	6	1,20	0,30	0,90	0,67
Seychelles	9	3	1,50		1,50	1,00
Singapore	56	22	2,33	0,71	1,62	1,47
Slovenia	36	9	1,80		1,80	3,27
South Africa	63	40	5,71	0,21	5,50	1,24
Sri Lanka	34	5	0,71	2,17	-1,46	1,17
Sudan	6	2	0,67	0,13	0,54	0,19
Swaziland	4	2	0,33	0,05	0,28	0,10
Syria	12	3	0,33	0,33		0,52
Taiwan	15	9	1,50	0,11	1,39	0,58
Tajikistan	6	2	0,50		0,50	0,55
Tanzania	9	1	0,20	0,32	-0,12	0,23
Thailand	52	18	4,25	0,87	3,38	1,30
Trinidad and Tobago	14	3	0,60	0,43	0,17	0,37
Tunisia	32	12	1,25	1,06	0,19	0,94
Turkmenistan	9	9	1,50		1,50	0,69
Uganda	9	3	0,38	0,05	0,33	0,23
Ukraine	59	43	6,14	1,00	5,14	3,28
United Arab Emirates	20	13	1,63		1,63	1,33
Uruguay	2			0,67	-0,67	0,10
Uzbekistan	38	30	4,29		4,29	2,71
Venezuela	25	17	1,78		1,78	1,47
Vietnam	18	15	1,88		1,88	1,20
Yemen	1					0,33
Zambia	16			0,73	-0,73	0,41
Zimbabwe	10	4	0,50	0,75	-0,25	0,40
<b>Mean</b>	<b>19,50</b>	<b>11,86</b>	<b>1,69</b>	<b>0,57</b>	<b>1,16</b>	<b>0,94</b>
<b>Minimum</b>	<b>1</b>	<b>1</b>	<b>0,13</b>	<b>0,03</b>	<b>-1,46</b>	<b>0,03</b>
<b>Maximum</b>	<b>86</b>	<b>56</b>	<b>7</b>	<b>3,43</b>	<b>7</b>	<b>4,07</b>

(1) These are intensity measures

(2) Includes the intensity measures 2000 to 2007

## Appendix 5

### List of Non-OECD Member Countries by Region

Africa (44)	CLAC (41)	Asia (33)	Europe (20)	MENA (23)	Oceania (12)
Angola	Anguilla	Afghanistan	Albania	Algeria	Cook Islands
Benin	Antiga and Barbuda	Armenia	Andorra	Bahrain	Fiji
Botswana	Argentina	Azerbaijan	Belarus	Djibouti	Fr. Polynesia
Burkina Faso	Aruba	Bangladesh	Bosn. & Herz.	Egypt	Marshall Isl.
Burundi	Bahamas	Bhutan	Bulgaria	Irak	Micronesia
Cameron	Barbados	Brunei	Croatia	Iran	Nauru
Cape Verde	Belize	Cambodge	Estonia	Israel	New Caledonia
Central Africa	Bermuda	China	Latvia	Jordan	Papua N. Gui.
Chad	Bolivia	Cyprus	Liechtenstein	Kuwait	Samoa
Comoros	Brazil	Georgia	Lithuania	Lebanon	Solomon Isl.
Congo (Rep.)	British Virgin Isl.	Hong Kong	Macedonia	Libya	Tonga
Congo D. Rep.	Cayman Island	India	Malta	Mauritania	Tuvalu
Equat. Guinea	Chile	Indonesia	Moldova	Morocco	
Erythree	Colombia	Kazakhstan	Monaco	Oman	
Ethiopia	Costa Rica	Korea(DPKR)	Romania	Pakistan	
Gabon	Cuba	Kyrgyktan	Russia	Qatar	
Gambia	Dominica	Laos	San Marino	Saudi Arabia	
Ghana	Dominican Rep.	Macau	Serbia & Mont.	Somalia	
Guinea	Ecuador	Malaysia	Slovenia	Sudan	
Guinea-Bissau	El Salvador	Maldives	Ukraine	Syria	
Ivory Coast	Grenada	Mongolia		Tunisia	
Kenya	Guatemala	Myanmar		U.A.Emirats	
Lesotho	Guyana	Nepal		Yemen	
Liberia	Haiti	Philippines			
Madagascar	Hondura	Singapore			
Malawi	Jamaica	Sri Lanka			
Mali	Montserrat	Taiwan			
Mauritius	Netherlands Antilles	Tajikistan			
Mozambique	Nicaragua	Thailand			
Namibia	Panama	Timor-Leste			
Niger	Paraguay	Turkmenistan			
Nigeria	Peru	Uzbekistan			
Rwanda	Puerto Rico	Vietnam			
Sao Tome & Pr.	St Kitts and Nevis				
Senegal	St Lucia				
Seychelles	St Vincent Gren.				
Sierra Leone	Suriname				
South Africa	Trinidad & Tobago				
Swaziland	Turks & Caicos Isl.				
Tanzania	Uruguay				
Togo	Venezuela				
Uganda					
Zambia					
Zimbabwe					

## Appendix 6

### Non-OECD Member Countries – BTT Network Development Path 1

	Reg. (1)	NB of treaties		Annual Average BTT				GDP MEAN per cap	Pop.	BTT partners		
		Tot.	In 1990s	1990	pre- 1990	Diffe- rential	Total			% with OECD	% of OECD	% region
<b>Albania</b>	4	22	15	1,88	0,00	1,88	1,47	778	3 101	41	30	86
<b>Algeria</b>	5	12	8	0,89	0,00	0,89	0,75	1 756	29 215	67	27	8
<b>Argentina</b>	2	18	11	1,38	0,50	0,88	0,58	7 134	35 688	83	50	11
<b>Armenia</b>	3	28	12	2,40	0,00	2,40	2,33	494	3 143	29	27	61
<b>Azerbaijan</b>	3	23	10	1,67	0,00	1,67	1,77	599	7 961	43	33	17
<b>Belarus</b>	4	35	24	3,00	0,00	3,00	2,33	1 493	10 198	19	23	56
<b>Chile</b>	2	16	3	1,50	0,07	1,43	0,52	4 274	14 828	50	27	31
<b>Croatia</b>	4	38	17	2,83	0,00	2,83	2,92	4 000	4 618	29	37	76
<b>Estonia</b>	4	38	21	3,00	0,00	3,00	2,71	3 466	1 401	53	67	87
<b>Georgia</b>	3	18	9	2,25	0,00	2,25	1,64	772	4 887	33	20	83
<b>Israel</b>	3	42	21	2,33	0,29	2,04	1,02	16 614	5 862	38	53	0
<b>Jordan</b>	5	13	4	0,67	0,50	0,17	0,57	1 526	4 541	38	17	8
<b>Kazakhstan</b>	3	36	31	4,29	0,00	4,29	2,57	1 435	15 474	36	43	31
<b>Kuwait</b>	5	31	14	1,63	0,50	1,13	1,24	13 188	1 839	35	37	0
<b>Kyrgyzstan</b>	3	13	9	2,25	0,00	2,25	1,18	366	4 724	38	17	46
<b>Latvia</b>	4	44	33	3,43	0,00	3,43	3,14	2 573	2 434	45	67	82
<b>Lithuania</b>	4	44	23	3,29	0,00	3,29	3,14	2 479	3 578	48	70	80
<b>Macedonia</b>	4	23	13	2,17	0,00	2,17	1,77	1 932	1 983	39	30	87
<b>Mauritius</b>	1	31	21	2,50	0,33	2,17	1,07	3 313	1 150	19	20	6
<b>Moldova</b>	4	30	15	2,50	0,00	2,50	2,31	493	4 305	20	20	73
<b>Mongolia</b>	3	25	20	2,22	0,00	2,22	1,56	535	2 426	35	30	42
<b>Russia</b>	4	61	56	7,00	0,00	7,00	4,07	2 692	148 667	35	73	24
<b>Serbia &amp; Mont.</b>	4	18	6	1,20	0,30	0,90	0,67	2 562	9 957	13	3	88
<b>Slovenia</b>	4	36	9	1,80	0,00	1,80	3,27	9 057	1 973	44	53	81
<b>South Africa</b>	1	63	40	5,71	0,21	5,50	1,24	3 249	43 236	33	70	22
<b>Taiwan</b>	3	15	9	1,50	0,11	1,39	0,58	11 919	21 743	44	23	31
<b>Un. Ar. Emirats</b>	5	20	13	1,63	0,00	1,63	1,33	17 876	2 734	5	3	5
<b>Uzbekistan</b>	3	38	30	4,29	0,00	4,29	2,71	638	23 688	33	43	36
<b>Venezuela</b>	2	25	17	1,78	0,00	1,78	1,47	3 279	23 009	60	50	0
<b>Vietnam</b>	3	18	15	1,88	0,00	1,88		259	75 741	94	57	6
<b>Mean</b>		<b>29</b>	<b>18</b>	<b>2,50</b>	<b>0,09</b>	<b>2,40</b>	<b>1,79</b>	<b>4025</b>	<b>17137</b>	<b>40</b>	<b>37</b>	<b>42</b>
<b>Minimum</b>		<b>12</b>	<b>3</b>	<b>0,67</b>	<b>0,00</b>	<b>0,17</b>	<b>0,52</b>	<b>259</b>	<b>1150</b>	<b>5</b>	<b>3</b>	<b>0</b>
<b>Maximum</b>		<b>63</b>	<b>56</b>	<b>7,00</b>	<b>0,50</b>	<b>7,00</b>	<b>4,07</b>	<b>17876</b>	<b>148667</b>	<b>94</b>	<b>73</b>	<b>88</b>

(1) Regions: 1- Africa; 2- CLAC; 3- Asia; 4- Europe; 5- Mena



## Appendix 7

### Non-OECD Member Countries – BTT Network Development Path 2

	Reg. (1)	NB of treaties		Annual Average BTT			GDP MEAN per cap	Pop.	BTT partners			
		Tot.	In 1990s	1990	pre- 1990	Diffe- rential			Total	% with OECD	% of OECD	% region
<b>Bangladesh</b>	3	25	12	1,00	0,91	0,09	0,89	293	131 524	52	43	44
<b>Bulgaria</b>	4	57	32	3,33	1,86	1,47	2,38	1401	8 196	34	67	64
<b>China</b>	3	86	39	4,00	3,43	0,57	3,58	644	1 215 688	28	80	26
<b>Cyprus</b>	4	34	12	1,25	0,77	0,48	0,87	12 527	15 160	35	40	59
<b>Egypt</b>	5	39	24	2,44	0,52	1,92	0,93	1 124	62 941	36	47	10
<b>India</b>	3	72	40	4,22	0,92	3,30	1,71	383	991 513	30	73	26
<b>Indonesia</b>	3	53	30	2,89	1,36	1,53	1,89	881	203 954	37	67	35
<b>Malaysia</b>	3	52	22	2,44	1,05	1,39	1,41	3 740	21 668	36	63	32
<b>Morocco</b>	5	31	8	0,89	0,59	0,30	0,67	1 294	28 008	58	60	6
<b>Pakistan</b>	5	45	19	2,25	1,20	1,05	1,41	568	134 395	28	43	32
<b>Romania</b>	4	68	42	4,56	1,18	3,38	2,43	1 468	22 450	20	47	48
<b>Singapore</b>	3	56	22	2,33	0,71	1,62	1,47	20 195	3 703	32	60	33
<b>Thailand</b>	3	52	18	4,25	0,87	3,38	1,30	2 244	58 830	38	67	32
<b>Tunisia</b>	5	32	12	1,25	1,06	0,19	0,94	1 898	9 226	53	57	13
<b>Ukraine</b>	4	59	43	6,14	1,00	5,14	3,28	1 116	50 260	38	83	60
<b>Mean</b>		<b>51</b>	<b>25</b>	<b>2,88</b>	<b>1,16</b>	<b>1,72</b>	<b>1,68</b>	<b>3318</b>	<b>197 168</b>	<b>37</b>	<b>60</b>	<b>35</b>
<b>Minimum</b>		<b>25</b>	<b>8</b>	<b>0,89</b>	<b>0,52</b>	<b>0,09</b>	<b>0,67</b>	<b>293</b>	<b>3 703</b>	<b>20</b>	<b>40</b>	<b>6</b>
<b>Maximum</b>		<b>86</b>	<b>43</b>	<b>6,14</b>	<b>3,43</b>	<b>5,14</b>	<b>3,58</b>	<b>20195</b>	<b>1 215 688</b>	<b>58</b>	<b>83</b>	<b>64</b>

(1) Regions: 1- Africa; 2- CLAC; 3- Asia; 4- Europe; 5- Mena

## Appendix 8

### List of OECD's Official Documents

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- . 1993e. *Le rôle du système fiscal dans l'encouragement de l'investissement étranger direct - Rapport du secrétariat sur les consultations engagées dans les pays en transition* (CCET/DAFFE/CFA(93)192).
- . 1993f. *Les questions à examiner à propos du rôle de la fiscalité dans la promotion de l'investissement direct étranger* (CCET/DAFFE/CFA(93)103)
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- . 1993h. Steering Group on Taxation and Tax Training - *Summary meeting held on 8 and 9 September 1993* (CCET/DAFFE/CFA/M(93) 188)
- . 1994a. *CCET Activities Report 1994* (OECD/GD(95)15)
- . 1994b. Steering Group on Taxation and Tax Training - *Summary Record of the Meeting Held on 27 and 28 January 1994* (CCET/DAFFE/CFA/M(94)11)
- . 1994c. Steering Group on Taxation and Tax Training - *Summary Record of the Meetings Held on 7 and 8 July 1994* (CCET/DAFFE/CFA/M(94)51)
- . 1994d. *Summary Record of the Meeting held 9-10 February*. Advisory Group on Investment (CCET/DAFFE/M(94)56)
- . 1995a. *Taxation and Foreign Direct Investment - The Experience of the Economies in transition*. Paris: OECD.
- . 1995b. *Co-ordinating in-country activities with the multilateral tax programme* (CCET/DAFFE/CFA(95)52)
- . 1995c. *Activity report for the first half of 1995* (CCET/DAFFE/CFA(95)51)
- . 1995d. *Assesment of the performance of the multilateral tax training centres*. Steering group on taxation. (CCET/DAFFE/CFA(95)50)
- . 1995e. Groupe de Direction sur la fiscalité et la formation fiscale - *Compte rendu succinct de la réunion des 26 et 27 janvier 1995* (CCET/DAFFE/CFA/M(95)17)
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## Appendix 9

### Dependent variables – Summary Statistics and Kendall's Tau

	Countries with BTT (109 countries)			All countries (173 countries)		
	NB	AVER1990	DIFFAVER	NB	AVER1990	DIFFAVER
<b>Mean</b>	11,86	1,69	1,16	6,23	0,86	0,65
<b>Minimum</b>	0	0,13	-1,46	0	0	-1,46
<b>Maximum</b>	56	7	7	56	7	7
<b><u>Kendall's Tau</u></b>						
<b>NB</b>	1	0,781***	0,584***	1	0,867***	0,642***
<b>AVER1990</b>	0,781***	1	0,779***	0,867***	1	0,776***
<b>DIFFAVER</b>	0,584***	0,779***	1	0,642***	0,776***	1

\*\*\* p<0,0001

## Appendix 10

### Independent and Control Variable – Descriptive Statistics

Variable	Observations	MEAN	STD DEV.	Min	Max
CONTACTOECD <sup>(1)</sup>	173	5,67	13,54	0	85
GDPMEAN <sup>(2)</sup>	173	3,19	0,63	2,08	4,83
GDPVAR <sup>(3)</sup>	173	2,05	0,22	1,41	2,84
POPULATION (milliers) <sup>(4)</sup>	173	3,46	1,04	0,9	6,08
OPENNESS <sup>(5)</sup>	138	84,34	47,62	15	317
POLLIB <sup>(6)</sup>	157	4,11	2,17	1	7
FDI <sup>(7)</sup>	142	3,66	6,36	-6,22	52,53
WBLOAN <sup>(7)</sup>	149	11,57	18,33	0	119
IMFLOAN <sup>(7)</sup>	155	3,24	12,84	-0,97	152,59

(1) This variable has been elaborated on the basis of the participation to OECD's event or collaboration with the organization of each country for the period 1990 to 1996.

(2) <http://unstats.un.org/unsd/snaama/selectionbasicFast.asp> - Log

(3) <http://unstats.un.org/unsd/snaama/selectionbasicFast.asp> - Log

(4) <http://unstats.un.org/unsd/snaama/selectionbasicFast.asp>. This variable contains very extreme values such as the population of China and India. Log

(5) <http://www.bized.co.uk/dataserv/pennndata/pennhome.htm>

(6) Freedom House, *Freedom in the World Country Ratings 1972-2007* (reversed).

(7) World Bank, World Development Indicators.

## Appendix 11

### Kendall's Tau Analysis – Data Set

	Country	NB	AVER1990	DIFFAVER	CONTACTOCDE	GDPMEAN (log)	GDPVAR (log)	Pop (log)	Open.	Pollib	FDI	WBloan	IMFLOAN
1	Afghanistan	0	0	0	0	2,25	1,66	4,29		1			
2	Albania	15	2	2	30	2,89	2,25	3,49	45	4	2,78	3,32	1,45
3	Algeria	8	1	1	0	3,24	1,86	4,47	59	2	0,35	3,4	2,77
4	Andorra	0	0	0	0	4,27	1,94	1,82		7		0	0
5	Angola	0	0	0	0	2,87	1,83	4,12	110	2	9,21	1,01	0
6	Anguilla	0	0	0	0	3,88	2,2	1,04					
7	Antiga & B.	0	0	0	0	3,88	2,14	1,86	160	4	6,71		
8	Argentina	11	1	1	16	3,85	2,25	4,55	20	5	2,68	1,83	1,73
9	Armenia	12	2	2	29	2,69	2,01	3,5	99	4	52,53	7,13	4,4
10	Aruba	0	0	0	0	4,21	2,2	1,94			5,39	0	0
11	Azerbaijan	10	2	2	25	2,78	1,86	3,9	69	2	8,72	1,28	2,98
12	Bahamas	0	0	0	0	4,12	2,12	2,46	68	7	2,01	0	0
13	Bahrain	3	0	0	0	4	2,15	2,78	194	1	7,84	0	0
14	Bangladesh	12	1	0	0	2,47	2,08	5,12	25	6	0,17	14,73	1,64
15	Barbados	4	0	0	0	3,85	2,15	2,45	117	7	0,68	0	0
16	Belarus	24	3	3	38	3,17	1,75	4,01	112	2	1,05	0,68	1,36
17	Belize	0	0	0	0	3,44	2,19	2,35	119	7	3,18	4,58	0,01
18	Benin	0	0	0	0	2,55	1,96	3,82	63	6	2,28	26,44	3,58
19	Bermuda	0	0	0	0	4,63	2,21	1,79	70			0	0
20	Bhutan	0	0	0	0	2,77	2,2	2,71	78	1	0,48	6,54	0
21	Bolivia	5	1	1	0	2,95	2,14	3,89	47	7	5,56	11,53	3,67
22	Bosnia & H.	0	0	0	3	3,05	1,82	3,54		3	1,16	23,25	1,91
23	Botswana	3	0	0	0	3,44	2,05	3,21	89	6	0,31	2,71	0
24	Brazil	3	0	-1	13	3,59	2,06	5,22	15	5	1,8	1,22	0,31
25	British Virg. Isl.	0	0	0	0	4,32	2,78	1,28					
26	Brunei	0	0	0	0	4,12	2,15	2,49		1		0	0
27	Bulgaria	32	3	1	31	3,15	1,83	3,91	110	6	2,5	3,07	5,88
28	Burkina Faso	0	0	0	0	2,44	1,8	4,04	41	3	0,37	26,23	2,64
29	Burundi	0	0	0	0	2,2	1,72	3,8	36	1	0,22	68,31	5,07
30	Cambodge	0	0	0	0	2,39	2,3	4,08	71	2	5,22	3,62	1,95
31	Cameron	0	0	0	0	2,87	1,77	4,17	48	1	0,42	11,84	1,06
32	Cape Verde	2	1	1	0	3,04	2,14	2,62	71	7	2,96	9,12	0
33	Cayman Island	0	0	0	0	4,57	2,12	1,54					
34	Central Africa	0	0	0	0	2,53	1,7	3,56	36	5	0,14	43,27	3,56

	Country	NB	AVER1990	DIFFAVER	CONTACTOCDE	GDPMEAN (log)	GDPVAR (log)	Pop (log)	Open.	Pollib	FDI	WBloan	IMFLOAN
35	Chad	0	0	0	0	2,33	1,81	3,88	50	2	2,09	28,3	3,7
36	Chile	3	2	1	15	3,63	2,28	4,17	54	5	4,95	2,81	0,8
37	China	39	4	1	17	2,81	2,43	6,08	38	1	3,85	1,62	0,01
38	Colombia	0	0	0	0	3,3	2,17	4,6	29	5	2,18	3,22	0
39	Comoros	0	0	0	0	2,58	1,79	2,81	61	3	0,16	29,99	1,13
41	Congo D. Rep.	0	0	0	0	2,21	1,63	4,68	55	1	3,82	24,06	8,18
42	Cook Islands	0	0	0	0	3,65	2,19	1,23					
43	Costa Rica	0	0	0	0	3,51	2,24	3,56	86	7	3,02	2,56	0,32
44	Croatia	17	3	3	3	3,6	1,88	3,66	94	4	2,78	0	0
45	Cuba	2	2	2	0	3,42	2	4,04	34	1			
46	Cyprus	12	1	0	0	4,1	2,13	2,83	100	7	3,63	0	0
47	Djibouti	0	0	0	0	2,9	1,97	2,82	99	3	0,55	7,32	0,57
48	Dominica	0	0	0	0	3,51	2,21	1,84	119	7	9,08	4,97	-0,97
49	Dom. Republic	0	0	0	0	3,29	2,32	3,92	66	6	2,41	1,6	0,65
50	Ecuador	6	1	0	0	3,18	2,07	4,07	51	6	2,74	5,95	0,91
51	Egypt	24	2	2	5	3,05	2,32	4,8	46	2	1,25	2,94	0,14
52	El Salvador	0	0	0	0	3,2	2,35	3,77	53	6	1,29	2,48	0
53	Equat. Guinea	0	0	0	0	2,96	2,84	2,6	155	1	42,1	0	0
54	Erythree	0	0	0	0	2,34	1,9	3,52	124	2	9,54	4,58	0
55	Estonia	21	3	3	60	3,54	2,05	3,15	148	7	5,25	0	0
56	Ethiopia	1	0	0	0	2,16	1,72	4,81	42	4	0,9	19,85	0,87
57	Fiji	4	1	0	0	3,35	2,06	2,89	116	4	2,94	2,97	0
58	Fr. Polynesia	0	0	0	0	4,19	1,96	2,35				0	0
59	Gabon	1	0	0	0	3,69	1,88	3,04	94	3	-2,2	1,75	2,09
60	Gambia	3	0	0	0	2,52	1,94	3,1	116	1	4,58	42,17	7,9
61	Georgia	9	2	2	25	2,89	1,61	3,69	38	5	2,97	3,82	4,44
62	Ghana	1	0	0	0	2,57	1,79	4,27	60	5	1,87	55,76	15,61
63	Grenada	0	0	0	0	3,48	2,25	2	107	7	8,59	2,35	0
64	Guatemala	0	0	0	0	3,1	2,3	4,02	42	5	1,02	1,41	0,12
65	Guinea	0	0	0	0	2,68	1,91	3,89	44	2	0,58	29,62	3,23
66	Guinea-Bissau	0	0	0	0	2,3	1,83	3,1	61	5	1,2	93,66	4,03
67	Guyana	1	0	0	0	2,89	2,25	2,87	197	6	11,85	35,46	26,91
68	Haiti	0	0	0	0	2,53	2,05	3,91	43	3	0,15	11,84	1,04
69	Hondura	0	0	0	0	2,95	2,19	3,77	96	6	2,07	12,68	1,51
70	Hong Kong	0	0	0	15	4,34	2,27	3,81	258		20,17	0	0
71	India	40	4	3	8	2,58	2,07	6	22	6	0,43	7,63	0,82
72	Indonesia	30	3	2	0	2,94	2,06	5,31	48	2	0,78	8,18	1,46
73	Irak	0	0	0	0	3,23	1,99	4,36		1			0
74	Iran	9	2	2	0	2,62	1,95	4,81	43	2	0,02	0,31	0

	Country	NB	AVER1990	DIFFAVER	CONTACTOCDE	GDPMEAN (log)	GDPVAR (log)	Pop (log)	Open.	Pollib	FDI	WBloan	IMFLOAN
75	Israel	21	2	2	5	4,22	2,2	3,77	75	7	1,57	0	0
76	Ivory Coast	0	0	0	0	2,89	1,83	4,2	77	3	1,43	23,38	4,57
77	Jamaica	5	0	0	3	3,37	2,23	3,4	113	6	3,45	6,41	2,92
78	Jordan	4	1	0	0	3,18	2,16	3,66	127	4	1,98	10,84	3,46
79	Kazakhstan	31	4	4	35	3,16	1,83	4,19	65	2	5,18	2,19	1,8
80	Kenya	0	0	0	0	2,61	1,93	4,46	62	2	0,25	19,81	3,09
81	Korea (DPKR)	2	1	1	0	2,69	1,8	4,35		1			
82	Kuwait	14	2	1	0	4,12	2,29	3,26	94	3	0,16		0
83	Kyrgyzstan	9	2	2	16	2,56	2,04	3,67	78	3	3,24	11,13	7,79
84	Laos	2	1	1	0	2,49	2,2	3,69	64	1	3,28	20,76	3,45
85	Latvia	33	3	3	63	3,41	2	3,39	99	7	4,45	1,04	1,27
86	Lebanon	9	0	0	0	3,49	2,67	3,56	56	2	2,77	0,64	0
88	Liberia	0	0	0	0	2,08	2,01	3,39		4	13,03	119,26	152,59
89	Libya	1	0	0	0	3,79	1,99	3,7		1	-0,03		0
90	Liechtenstein	1	0	0	0	4,83	2,19	1,51		7		0	0
91	Lithuania	23	3	3	63	3,39	2,09	3,55	120	7	2,91	0,71	1,61
92	Macau	1	1	1	0	4,13	2,24	2,63	112			0	0
93	Macedonia	13	2	2	3	3,29	1,9	3,3	83	5	1,09	4,71	1,36
94	Madagascar	1	0	0	0	2,38	1,97	4,17	45	6	0,7	32,58	2,75
95	Malawi	0	0	0	3	2,36	1,91	4,03	59	6	0,83	85,6	7,41
96	Malaysia	22	2	1	25	3,57	2,2	4,34	159	3	5,67	1,55	0
97	Maldives	0	2	2	0	3,22	2,36	2,41		2	2,24	7,91	0
98	Mali	0	0	0	0	2,48	1,91	3,96	57	5	1,21	40,79	6,31
99	Malta	19	0	-1	0	3,94	2,15	2,58	191	7	6,97	0	0
100	Marshall Isl.	0	0	0	0	3,27	2,15	1,71		7		0	0
101	Mauritania	0	0	0	0	2,76	1,86	3,37	98	2	0,68	35,44	9,3
102	Mauritius	21	3	2	0	3,52	2,2	3,06	134	7	1,23	4,7	0,08
103	Micronesia	0	0	0	0	3,26	2,13	2,03		7		0	0
104	Moldova	15	3	3	32	2,69	1,53	3,63	109	6	2,97	7,87	9,32
105	Monaco	0	0	0	0	4,37	2,01	1,51		6			
106	Mongolia	20	2	2	23	2,73	1,83	3,38	91	6	1,75	5,78	3,69
107	Montserrat	0	0	0	0	3,76	2,05	0,9					
108	Morocco	8	1	0	0	3,11	2,04	4,45	48	3	0,73	10,84	0,74
109	Mozambique	4	1	1	3	2,31	2,03	4,23	52	5	2,6	23,16	5,68
110	Myanmar	1	0	0	0	2,2	2,09	4,65					
111	Namibia	9	1	1	0	3,28	2,04	3,24	112	6	2,88	0	0
112	Nauru	0	0	0	0	3,37	1,77	1		7			
113	Nepal	4	1	1	0	2,35	2,08	4,36	49	5	0,21	21,7	0,95
114	Neth. Antilles	0	0	0	0	4,12	2,18	2,27					0



	Country	NB	AVER1990	DIFFAVER	CONTACTOCDE	GDPMEAN (log)	GDPVAR (log)	Pop (log)	Open.	Pollib	FDI	WBloan	IMFLOAN
115	New Caledonia	0	0	0	0	4,22	2,03	2,31				0	0
116	Nicaragua	0	0	0	0	2,85	2,06	3,69	100	6	3,8	11,5	1,28
117	Niger	0	0	0	0	2,33	1,67	4	37	1	0,38	35,55	4,03
118	Nigeria	4	0	-1	3	2,5	2	5,06	69	2	3,93	9,04	0
119	Oman	3	2	1	0	3,82	2,11	3,36	74	2	0,68	0	0
120	Pakistan	19	2	1	0	2,75	2,03	4,13	37	4	0,84	9,41	2,12
121	Panama	0	0	0	0	3,53	2,19	3,44	82	6	5,2	3,14	1,76
122	P. New Guinea	6	1	0	3	2,96	1,91	3,7	98	6	3,57	11,49	1,46
123	Paraguay	0	0	0	0	3,16	2,08	3,7	82	4	1,86	3,35	0
124	Peru	0	0	0	0	3,29	2,02	4,39	26	3	2,93	3,56	1,93
125	Philippines	11	1	0	5	2,97	2,14	4,85	74	6	1,91	7,35	1,72
126	Puerto Rico	0	0	0	0	4,11	2,29	3,57	252			0	0
127	Qatar	2	2	2	0	4,25	2,26	2,74	68	1			
128	Romania	42	5	3	45	3,17	2	4,35	71	6	1,62	2,01	2,02
129	Russia	56	7	7	85	3,43	1,66	5,17	41	4	0,76	1	3,31
130	Rwanda	0	0	0	0	2,43	1,79	3,8	34	1	0,21	37,51	1,98
131	St Kitts & N.	0	0	0	0	3,73	2,26	1,64	135	7	14,03	0,7	0,15
132	Saint Lucia	0	0	0	0	3,58	2,18	2,17	146	7	8,7	1,42	0
133	St Vincent & G.	0	0	0	0	3,37	2,2	2,06	130	6	14,63	2,86	0
135	San Marino	0	0	0	0	4,43	2,09	1,41		7			0
136	Sao Tome & P.	0	0	0	0	2,91	1,72	2,12	138	7			
137	Saudi Arabia	0	0	0	0	3,9	2,1	4,28	77	1	0,38	0	0
138	Senegal	2	0	0	0	2,77	1,76	3,98	77	4	1,2	28,08	7,82
139	Serbia & Mont.	6	1	1	3	3,41	1,45	4		2	1,44	13,66	1,26
140	Seychelles	3	2	2	0	3,81	2,17	1,89	134	5	6,26	0,99	0
141	Sierra Leone	0	0	0	0	2,42	1,95	3,62	50	5	1,02	26,78	18,66
142	Singapore	22	2	2	28	4,31	2,28	3,57	317	3	12,39	0	0
143	Slovenia	9	2	2	40	3,96	2,03	3,3	119	6	0,88	0	0
144	Solomon Isl.	0	0	0	0	2,94	2,09	2,58		7	2,95	5,52	0,02
145	Somalia	0	0	0	0	2,29	2,3	3,81		1	0,61		
146	South Africa	40	6	6	0	3,51	1,98	4,64	43	7	0,6	0	0,34
147	Sri Lanka	5	1	-1	0	2,85	2,27	4,26	81	5	1,2	11,09	3,79
148	Sudan	2	1	1	0	2,56	1,81	4,49	28	1	1,04	13,3	10,06
149	Suriname	0	0	0	0	3,2	2,14	2,63		5	-6,22	0	0
150	Swaziland	2	0	0	0	3,09	2,11	3	168	2	4,75	2,34	0
151	Syria	3	0	0	0	3,01	2,13	4,19	81	1	0,81	0	0
152	Taiwan	9	2	1	25	4,08	2,25	4,34	90	6			
153	Tajikistan	2	1	1	9	2,44	1,41	3,78	124	2	1,34	3,9	3,28
154	Tanzania	1	0	0	0	2,33	2,18	4,49	49	3	1,97	27,67	2,85

	Country	NB	AVER1990	DIFFAVER	CONTACTOCDE	GDPMEAN (log)	GDPVAR (log)	Pop (log)	Open.	Pollib	FDI	WBloan	IMFLOAN
155	Thailand	18	4	3	25	3,35	2,11	4,77	82	6	2,6	2,08	0,78
156	Timor-Leste	0	0	0	0	2,49	2,29	2,92					0
157	Togo	0	0	0	0	2,53	1,72	3,69	69	2	1,65	46,5	7,66
158	Tonga	0	0	0	0	3,22	2,05	1,99		3	1,18	2,87	0
159	Trinidad & T.	3	1	0	0	3,66	2,18	3,11	99	7	7,84	0	0
160	Tunisia	12	1	0	0	3,28	2,13	3,97	91	2	2,26	10,64	1,54
161	Turkmenistan	9	2	2	23	2,85	2,04	3,64	98	1	4,6	0,13	0
162	Turks & C. Is.	0	0	0	0	4,11	2,27	1,23					
163	Tuvalu	0	0	0	0	3,07	2,08	1		7			
164	Uganda	3	0	0	0	2,37	2,05	4,35	32	4	1,72	35,83	8,56
165	Ukraine	43	6	5	26	3,05	1,57	4,7	69	5	1,1	2	3,96
166	United Ar. Em.	13	2	2	0	4,25	2,08	3,44		2		0	0
167	Uruguay	0	0	-1	0	3,72	2,35	3,51	39	7	0,66	2,28	0,3
168	Uzbekistan	30	4	4	17	2,8	1,89	4,37	60	1	0,53	0,69	0,86
169	Venezuela	17	2	2	16	3,52	2,3	4,36	57	6	2,91	1,23	2,07
170	Vietnam	15	2	2	20	2,41	2,6	4,88	71	1	6,57	1,36	1,21
171	Yemen	0	0	0	0	2,55	2,28	4,22	61	3	1,68	11,74	1,29
172	Zambia	0	0	-1	0	2,57	1,83	3,99	76	3	4,19	42,25	33,88
173	Zimbabwe	4	1	0	0	2,81	1,72	4,09	71	3	1,26	10,25	3,92

## Appendix 12

### Event-History Analysis – Data Set

Country	Obs.	Event	Time	Emulation mechanism (EM)					Coercion mech. (CO)		Control variables				
		First treaty	Nb years	CONTACT OECD-1	Neighb.-1	OECD Neighb.	PEER +20%	REGION +20%	WBLOAN -1	IMFLOAN-1	POLLIB -1	GDP 96 (log)	Log (Pop-97)	Religion (1 Christ.)	Language (1 FR & EN)
Afgh.	1	0	11	0	1	0	1	1	0	0	0	2.22	4.29	0	0
Albania	2	1	3	1	1	1	1	0	1	1	0	3.03	3.49	0	0
Algeria	3	1	3	0	1	0	1	1	1	1	0	3.21	4.47	0	0
Andorra	4	0	11	0	0	1	1	1	0	0	1	4.27	1.82	1	0
Angola	5	0	11	0	1	0	0	1	1	0	0	2.71	4.11	1	0
Anguilla	6	0	11	0	0	0	1	0	0	0		3.88	1.04	1	1
Antiga & B.	7	0	11	0	0	0	1	0	0	0	0	3.89	1.86	1	1
Armenia	8	1	5	1	1	1	0	1	1	1	1	2.70	3.50	1	0
Aruba	9	0	11	0	0	0	1	0	0	0		4.21	1.94	1	1
Azerbaijan	10	1	4	1	1	1	1	1	0	0	0	2.61	3.90	0	0
Bahamas	11	0	11	0	0	0	1	0	0	0	1	4.10	2.46	1	1
Bahrain	12	1	5	0	0	0	1	1	0	0	0	4.02	2.78	0	0
Belarus	13	1	4	1	1	1	0	0	0	0	0	3.15	4.01	1	0
Belize	14	0	11	0	0	1	1	0	1	0	1	3.46	2.35	1	0
Bermuda	15	0	11	0	0	0	1	0	0	0		4.64	1.79	1	1
Bhutan	16	0	11	0	1	0	1	1	1	0	0	2.79	2.71	0	0
Bosnia and H.	17	0	11	0	1	0	1	1	1	1	0	2.91	3.54	1	0
Botswana	18	1	4	0	1	0	0	1	1	0	1	3.43	3.21	1	1
Brit. Virgin Isl.	19	0	11	0	0	0	1	0	0	0		4.38	1.28	1	1
Burkina Faso	20	0	11	0	1	0	0	1	1	1	0	2.39	4.04	0	1
Burundi	21	0	11	0	1	0	0	1	1	1	0	2.14	3.80	1	1
Cambodge	22	0	11	0	1	0	1	1	1	1	0	2.48	4.08	0	0
Cape Verde	23	0	11	0	0	0	0	1	1	0	1	3.09	2.62	1	0
Cayman Isl.	24	0	11	0	0	0	1	0	0	0		4.57	1.54	1	1
Central Africa	25	0	11	0	1	0	0	1	1	1	1	2.46	3.56	1	1
Chad	26	0	11	0	1	0	1	1	1	1	0	2.33	3.88	0	0
Colombia	27	0	11	0	1	0	0	0	1	0	0	3.40	4.60	1	0
Comoros	28	0	11	0	0	0	1	1	1	1	0	2.57	2.81	0	0
Congo D. Rep.	29	0	11	0	1	0	0	1	1	1	0	2.09	4.68	1	1
Cook Islands	30	0	11	0	0	0	1	0	0	0		3.72	1.23	1	1
Costa Rica	31	0	11	0	0	0	0	0	1	1	1	3.52	3.56	1	0
Croatia	32	1	4	0	1	0	0	1	0	0	0	3.63	3.66	1	0
Cuba	33	1	11	0	0	0	0	0	0	0	0	3.39	4.04	1	0
Djibouti	34	0	11	0	0	0	1	1	1	1	0	2.89	2.82	0	0
Dominica	35	0	11	0	1	0	1	0	1	1	1	3.54	1.84	1	1
Dom. Republic	36	0	11	0	0	0	0	0	1	1	1	3.32	3.92	1	0
El Salvador	37	0	11	0	0	0	0	0	1	0	1	3.25	3.77	1	0
Equat. Guinea	38	0	11	0	1	0	1	1	0	0	0	2.84	2.60	1	0
Erythree	39	0	11	0	1	0	0	1	1	0	0	2.36	3.52	0	0
Estonia	40	1	3	1	1	0	0	0	0	0	1	3.53	3.15	0	0
Ethiopia	41	1	9	0	1	0	1	1	1	1	0	2.16	4.81	1	0
Fr. Polynesia	42	0	11	0	0	0	0	0	0	0		4.23	2.35	1	1
Georgia	43	1	6	1	1	1	1	1	1	1	0	2.79	3.69	1	0
Ghana	44	1	5	0	1	0	0	1	1	1	0	2.58	4.27	1	0
Grenada	45	0	11	0	0	0	1	0	1	0	1	3.48	2.00	1	1
Guatemala	46	0	11	0	0	1	0	0	1	0	1	3.14	4.02	1	0
Guinea	47	0	11	0	1	0	0	1	1	1	0	2.74	3.89	0	1

Country	Obs.	Event	Time	Emulation mechanism (EM)					Coercion mech. (CO)		Control variables				
		First treaty	Nb years	CONTACT OECD-1	Neighb. -1	OECD Neighb.	PEER +20%	REGION +20%	WB -1	IMF-1	POLLIB -1	GDP 96 (log)	Log (Pop-97)	Religion (1 Christ.)	Language (1 FR & EN)
Guinea-Bissau	48	0	11	0	1	0	0	1	1	1	1	2.34	3.10	0	0
Haiti	49	0	11	0	0	0	0	0	1	1	0	2.53	3.91	1	1
Hondura	50	0	11	0	0	0	0	0	1	1	1	2.93	3.77	1	0
Hong Kong	51	0	11	1	0	0	0	1	0	0		4.40	3.81	0	0
Irak	52	0	11	0	1	1	1	1	0	0	0	2.44	4.36	0	0
Kazakhstan	53	1	3	1	1	0	0	1	0	0	0	3.13	4.19	0	0
Korea (DPKR)	54	1	9	0	1	1	0	1	0	0		2.68	4.35	0	0
Kyrgystan	55	1	6	1	1	0	1	1	1	1	0	2.59	3.67	0	0
Laos	56	1	9	0	1	0	0	1	1	1	0	2.59	3.69	0	0
Latvia	57	1	3	1	1	0	0	0	0	1	1	3.36	3.39	1	0
Lesotho	58	1	7	0	1	0	0	1	1	1	0	2.72	3.25	1	0
Liberia	59	0	11	0	1	0	0	1	1	1	0	1.84	3.39	1	0
Lithuania	60	1	3	1	1	1	0	0	0	1	1	3.36	3.55	1	0
Macau	61	1	11	0	0	0	1	1	0	0		4.20	2.63	0	0
Macedonia	62	1	4	1	1	1	0	1	1	1	0	3.35	3.30	1	0
Maldives	63	0	11	0	0	0	1	1	1	0	0	3.25	2.41	0	0
Mali	64	0	11	0	1	0	0	1	1	1	1	2.49	3.96	0	1
Marshall Isl.	65	0	11	0	0	0	1	0	0	0	1	3.28	1.71	1	1
Mauritania	66	0	11	0	1	0	1	1	1	1	0	2.80	3.37	0	0
Micronesia	67	0	11	0	0	0	1	0	0	0	1	3.27	2.03	1	1
Moldova	68	1	4	1	1	0	1	1	1	1	0	2.59	3.63	1	0
Monaco	69	0	11	0	0	1	0	1	0	0	1	4.42	1.51	1	1
Mongolia	70	1	3	0	1	0	0	1	0	0	0	2.75	3.38	0	0
Montserrat	71	0	11	0	0	0	1	0	0	0		3.72	0.90	1	1
Mozambique	72	1	3	1	1	0	0	1	1	1	0	2.30	4.23	0	0
Myanmar	73	0	11	0	1	0	0	1	0	0		2.28	4.65	0	0
Namibia	74	1	5	0	1	0	0	1	0	0	1	3.31	3.24	1	1
Nauru	75	0	11	0	0	0	1	0	0	0	1	3.36	1.00	1	1
New Caledonia	76	0	11	0	0	0	0	0	0	0		4.26	2.31	1	1
Nicaragua	77	0	11	0	0	0	0	0	1	1	1	2.84	3.69	1	0
Niger	78	0	11	0	1	0	0	1	1	1	0	2.29	4.00	0	1
Panama	79	0	11	0	0	0	0	0	1	1	1	3.53	3.44	1	0
Paraguay	80	0	11	0	1	0	0	0	1	0	0	3.25	3.70	1	0
Peru	81	0	11	0	1	0	0	0	1	1	0	3.36	4.39	1	0
Puerto Rico	82	0	11	0	0	0	0	0	0	0		4.11	3.57	1	0
Qatar	83	1	11	0	1	0	1	1	0	0	0	4.23	2.74	0	0
Russia	84	1	4	1	1	1	0	0	0	0	1	3.42	5.17	0	0
St Kitts and N.	85	0	11	0	0	0	1	0	0	0	1	3.75	1.64	1	1
Saint Lucia	86	0	11	0	0	0	1	0	0	0	1	3.60	2.17	1	1
St Vincent & G.	87	0	11	0	0	0	1	0	0	0	1	3.39	2.06	1	1
Samoa	88	0	11	0	0	0	1	0	1	0	1	3.12	2.24	1	1
San Marino	89	0	11	0	0	1	1	1	0	0	1	4.49	1.41	1	0
Sao Tome	90	0	11	0	0	0	0	1	0	0	1	3.02	2.12	1	0
Seychelles	91	1	10	0	0	0	1	1	1	0	1	3.82	1.89	1	0
Sierra Leone	92	0	11	0	0	0	1	1	1	1	1	2.51	3.62	0	1
Slovenia	93	1	6	1	1	1	1	1	0	0	1	4.02	3.30	1	0
Solomon Isl.	94	0	11	0	0	0	1	0	1	0	1	3.03	2.58	1	0
Somalia	95	0	11	0	1	0	1	1	0	0	0	2.30	3.81	0	0
Suriname	96	0	11	0	1	0	1	0	0	0	1	3.24	2.63	1	0
Tajikistan	97	1	6	1	1	0	0	1	0	0	0	2.25	3.78	0	0
Timor-Leste	98	0	11	0	0	0	0	1	0	0		2.64	2.92	1	0
Togo	99	0	11	0	1	0	0	1	1	1	0	2.53	3.69	0	1
Tonga	100	0	11	0	0	0	1	0	1	0	0	3.28	1.99	1	0
Turkmenistan	101	1	4	1	1	0	0	1	0	0	0	2.75	3.64	0	0

Country	Obs.	Event	Time	Emulation mechanism (EM)					Coercion mech. (CO)		Control variables				
		First treaty	Nb years	CONTACT OECD-1	Neighb. -1	OECD Neighb.	PEER +20%	REGION +20%	WB -1	IMF-1	POLLIB -1	GDP 96 (log)	Log (Pop-97)	Religion (1 Christ.)	Language (1 FR & EN)
Turks & C. Isl.	102	0	11	0	0	0	1	0	0	0	4.13	1.23	1	1	
Tuvalu	103	0	11	0	0	0	0	0	0	0	1	3.10	1.00	0	0
U. Arab Emirats	104	1	4	0	1	0	1	1	0	0	0	4.27	3.44	0	0
Uzbekistan	105	1	3	1	0	0	0	1	0	0	0	2.78	4.37	0	0
Venezuela	106	1	2	0	1	0	0	0	1	1	1	3.48	4.36	1	0
Vietnam	107	1	4	0	1	0	0	1	1	1	0	2.52	4.88	0	0
Yemen	108	0	11	0	1	0	1	1	1	0	0	2.60	4.22	0	0

## Appendix 13

### Variance Inflation Factors

Variable	VIF	1/VIF
Population	3.06	0.327086
WBloan	2.33	0.428724
GDP	2.25	0.444369
IMFloan	2.21	0.451893
Neighbour	2.15	0.464997
REGION BTT	1.75	0.571478
Religion	1.67	0.599210
CONTACTOECD	1.58	0.633381
Language	1.49	0.669772
PEER BTT	1.44	0.695341
OECDNeighbour	1.34	0.747381
Mean	VIF	1.93

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